



Varying conditions imposed on a NOHC authorisation 2022 – Suncorp Group Limited

Insurance Act 1973

To: Suncorp Group Limited ABN 66 145 290 124 (the NOHC)

Since the NOHC is an authorised NOHC and APRA imposed conditions on its NOHC authorisation on 22 September 2017 under section 19 of the *Insurance Act 1973* (the Act),

I, Sean Carmody, a delegate of APRA:

- (a) revoke, under paragraph 19(1)(b) of the Act, all existing conditions imposed on the NOHC authorisation; and
- (b) impose, under paragraph 19(1)(a) of the Act, the conditions specified in the Schedule on the NOHC authorisation.

This instrument commences on the day it is made.

Dated: 4 October 2022

Sean Carmody
Executive Director
Insurance Division

Interpretation

In this instrument:

APRA means the Australian Prudential Regulation Authority.

authorised NOHC has the meaning given in subsection 3(1) of the Act.

general insurer has the meaning given in section 11 of the Act.

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

NOHC authorisation has the meaning given in subsection 3(1) of the Act.

Notes

A notice of the imposition, variation or revocation of the conditions on an authorisation must be published in the *Gazette*

Part VI – *Review of decisions* under the Act applies to a decision to impose, impose additional or vary conditions on an authorisation.

You may request APRA reconsider the decision in accordance with subsection 63(2) of the Act. The request for reconsideration must be made in writing, must set out the reasons for making the request, and must be given to APRA within 21 days after the day on which you first received notice of this decision, or within such further period as APRA allows. If you are dissatisfied with the outcome of APRA's reconsideration of the decision, you may, subject to the *Administrative Appeals Tribunal Act 1975*, apply to the Administrative Appeals Tribunal for review of the reconsidered decision.

The address where written notice may be given to APRA is Level 12, 1 Martin Place, Sydney NSW 2000.

Schedule

Interpretation

In these conditions:

Act means the *Insurance Act 1973*;

ADI means Suncorp-Metway Limited ABN 66 010 831 722;

ADI Group means the group of companies in the Level 3 Group at Level 2 (as defined in APS 110) of which the ADI is the parent company;

ADI Group capital requirement means the amount in Tier 1 Capital the ADI Group is required to hold as Tier 1 Capital under APS 110 after taking into account any adjustments notified by APRA under paragraph 22 of APS 110;

ADI NOHC means SBGH Limited ABN 83 145 980 838, the immediate subsidiary of the Level 3 Head 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 Group, the difference between the minimum capital it is required to hold under paragraphs 21 and 22 of APS 110 and the ADI Group capital requirement; and
- (b) for the GI Group, the difference between the minimum capital it is required to hold under subparagraph 9(c) of GPS 112 and the GI Group capital requirement;

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*;

Board means board of directors;

Common Equity Tier 1 Capital has the meaning in GPS 112 for the Level 3 Head, APS 111 for the ADI Group and GPS 112 for the GI Group;

Eligible Additional Tier 1 Capital means the sum of:

- (a) Additional Tier 1 Capital in the Level 3 Head that meets the definition of Additional Tier 1 Capital in GPS 112;
- (b) Additional Tier 1 Capital in the ADI Group level that meets the definition of Additional Tier 1 Capital in APS 111; and
- (c) Additional Tier 1 Capital in the GI Group level that meets the definition of Additional Tier 1 Capital in GPS 112;

Eligible share capital means the sum of:

- (a) share capital in the Level 3 Head that meets the definition of Common Equity Tier 1 Capital in GPS 112;

- (b) share capital at the ADI Group level that meets the definition of Common Equity Tier 1 Capital in APS 111;
- (c) share capital at the GI Group level that meets the definition of Common Equity Tier 1 Capital in GPS 112; and
- (d) paid-up capital issued by the Other Level 3 Group other than the Level 3 Head to parties external to the Level 3 Group that is recognised as share capital applying ordinary Australian accounting standards, conventions and practices;

GI Group means the group of companies in the Level 3 Group at Level 2 (as defined in GPS 001) of which the GI NOHC is the parent entity;

GI Group capital requirement means the amount in Tier 1 Capital the GI Group is required to hold as Tier 1 Capital as determined under GPS 110 and GPS 112 after taking into account any adjustment to Tier 1 Capital notified by APRA under paragraph 10 of GPS 112;

GI NOHC means Suncorp Insurance Holdings Limited ABN 99 123 023 334, 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 Summary Statement has the meaning set out in GPS 110;

Level 3 Eligible Capital means the sum of:

- (a) Eligible share capital;
- (b) Reserves;
- (c) Retained earnings;
- (d) Eligible Additional Tier 1 Capital;
- (e) Technical provisions in surplus or deficit of those required by GPS 320; and
- (f) Regulatory adjustments;

Level 3 Group means the group of companies determined by APRA, under *Prudential Standard 3PS 001 Definitions*, to be a Level 3 Group of which Suncorp Group Limited ABN 66 145 290 124 is the Level 3 Head;

Level 3 Head means Suncorp Group Limited ABN 66 145 290 124;

Level 3 Prudential Capital Requirement has the meaning specified in condition 1;

Net Tier 2 Capital means total Tier 2 Capital net of all specified regulatory adjustments and amortisation calculated in accordance with APS 111 or GPS 112;

NOHC means non-operating holding company;

Other Level 3 Group means the Level 3 Head and all other companies in the Level 3 Group other than companies in the ADI Group and the GI Group;

Other Level 3 Group capital requirement means the minimum capital requirement for the entities in the Other Level 3 Group, being the greater of:

- (a) any regulatory capital or equivalent requirement of the entity; or

- (b) the minimum capital requirement of the entity as set out in the ICAAP Summary Statement (after this amount is adjusted by removing any diversification benefit included in the calculation);

Prudential Standard means a prudential standard determined under the Act, the *Banking Act 1959*, the *Life Insurance Act 1995*, the *Superannuation Industry (Supervision) Act 1993* or a combination of these Acts;

Regulatory adjustments mean the sum of:

- (a) all regulatory adjustments from Tier 1 Capital in the ADI Group as required under APS 111; and
- (b) all regulatory adjustments from Tier 1 Capital in the GI Group as required under GPS 112;

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

Reserves mean the sum of:

- (a) reserves in the Level 3 Head that qualify as Common Equity Tier 1 Capital under GPS 112;
- (b) reserves in the ADI Group that qualify as Common Equity Tier 1 Capital under APS 111;
- (c) reserves in the GI Group that qualify as Common Equity Tier 1 Capital under GPS 112; and
- (d) the following reserves in the Other Level 3 Group other than the Level 3 Head:
 - i. share based payment reserves, to the extent that they qualify as Common Equity Tier 1 Capital under GPS 112; and
 - ii. foreign currency translation reserves at face value and recognised in accordance with AIFRS, unless otherwise agreed by APRA in writing;

Retained earnings means the sum of:

- (a) retained earnings in the Level 3 Head that qualifies as Common Equity Tier 1 Capital under GPS 112;
- (b) retained earnings in the ADI Group that qualifies as Common Equity Tier 1 Capital under APS 111;
- (c) retained earnings in the GI Group that qualifies as Common Equity Tier 1 Capital under GPS 112; and
- (d) retained earnings in the Other Level 3 Group other than the Level 3 Head that qualifies as Common Equity Tier 1 Capital under GPS 112;

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

Tier 1 Capital has the meaning in APS 111 or GPS 112.

Conditions

Conditions relating to Capital

1. The Level 3 Head must ensure that Level 3 Eligible Capital held by the Level 3 Group at all times equals or exceeds the Level 3 Prudential Capital Requirement. For this purpose, the Level 3 Prudential Capital Requirement of the Level 3 Head is equal to the sum of the dollar value of:
 - (a) the ADI Group capital requirement; and
 - (b) the GI Group capital requirement; and
 - (c) the Other Level 3 Group capital requirement.

2. In calculating the Level 3 Prudential Capital Requirement of the Level 3 Head:
 - (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 Level 3 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 Prudential Standards, should be eliminated from the calculation of the Level 3 Prudential Capital Requirement.

3. In calculating Level 3 Eligible Capital:
 - (a) where a member of the Level 3 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 Prudential Capital Requirement, provided the requirements in these conditions relating to the quality of capital are met;
 - (b) the capital impact of transactions internal to the Level 3 Group will be eliminated;
 - (c) goodwill and intangible assets not already deducted at ADI Group or GI Group level may not be counted towards satisfaction of the Level 3 Prudential Capital Requirement and so must be deducted from Level 3 Eligible Capital;
 - (d) 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 the Level 3

Prudential Capital Requirement and so must be deducted from Level 3 Eligible Capital;

- (e) dividends when declared or determined in accordance with Australian Accounting Standards and expected tax expenses of the Level 3 Head may not be counted towards satisfaction of the Level 3 Prudential Capital Requirement and so must be deducted from Level 3 Eligible Capital. The declared or determined dividends may be reduced by the expected proceeds, as agreed in writing by APRA, of a dividend reinvestment plan to the extent that dividends are used to purchase new ordinary shares issued by the Level 3 Head;
 - (f) any capital generated through structures or methods that, in APRA's view, artificially inflate Level 3 Eligible Capital will be disallowed from being counted towards satisfaction of the Level 3 Prudential Capital Requirement;
 - (g) 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 Level 3 Eligible Capital; and
 - (h) 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 Level 3 Eligible Capital.
4. The Level 3 Head must put in place a rigorous process to measure the Level 3 Prudential Capital Requirement and Level 3 Eligible Capital held by the Level 3 Group at all times. Regular reports of these matters must be given to the Board of the Level 3 Head 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 Level 3 Head must ensure that the process is set out in its ICAAP Summary Statement and includes timeframes for responding to material events.

Condition relating to Quality of Capital

5. The Level 3 Head must ensure that the Level 3 Group's:
- (a) Level 3 Group Eligible share capital, retained earnings, reserves, technical provisions in surplus or deficit of those required by GPS 320 and any relevant regulatory adjustments to Common Equity Tier I Capital as a percentage of Level 3 Eligible Capital is not less than the required minimum percentage of Common Equity Tier 1 Capital to Tier 1 Capital as determined under subparagraphs 9(a) and (b) of GPS 112; and
 - (b) Level 3 Group Eligible Additional Tier 1 Capital and any relevant regulatory adjustments to Additional Tier 1 Capital as a percentage of Level 3 Eligible Capital is not more than the maximum percentage of Additional Tier I Capital to Tier 1 Capital as determined under subparagraphs 9(a) and (b) of GPS 112.

Any excess amount is not counted as Level 3 Eligible Capital.

Condition relating to Reductions in Capital

6. The Level 3 Head is required to comply with paragraphs 44-47 of GPS 110 as if it were, for the purposes of GPS 110, a parent entity of a Level 2 insurance group.

Conditions relating to Prudential Standards

7. The Level 3 Head must comply with paragraphs 8 to 16 of GPS 110 as if it were, for the purposes of GPS 110, a parent entity of a Level 2 insurance group.

Conditions relating to Level 3 Head Activities

8. The Level 3 Head activities are limited to
 - (a) providing executive leadership across the Level 3 Group;
 - (b) holding investments in subsidiaries;
 - (c) holding properties used by Level 3 Group companies;
 - (d) raising funds to invest in or provide support to subsidiaries;
 - (e) investing funds (all capital held within the Level 3 Head other than investment in subsidiaries) on behalf of the Level 3 Group;
 - (f) conducting financial activities limited to activities on its own account;
 - (g) undertaking a “corporate centre” role for the Level 3 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;
 - (h) raise funds to conduct its own limited activities; and
 - (i) any activities that must be undertaken by a Level 3 Head to meet its obligations under APRA’s Prudential Standards.
9. The Level 3 Head is not permitted to
 - (a) trade in financial instruments (other than for hedging purposes for itself and the consolidated Level 3 Group, and managing its costs of capital and funding);
 - (b) provide material guarantees of the obligations of Level 3 Group entities without APRA’s approval in writing;
 - (c) utilise its investment in subsidiaries as security without APRA’s approval in writing; or
 - (d) undertake any activities other than those outlined in condition 8 unless agreed

to by APRA.

10. In respect of subsidiaries or associates of the Level 3 Head:
 - (a) shares held in any Australian or overseas banking subsidiary or associate that may be established or acquired by the Level 3 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 Level 3 Group, to the extent of the holdings, must be owned, directly or indirectly, by the GI NOHC unless otherwise approved by APRA in writing.

Condition relating to ADI NOHC Activities

11. The Level 3 Head must cause the activities of the ADI NOHC to be:
 - (a) limited to holding equity or capital investments in subsidiaries and acquiring and disposing of such subsidiaries; and
 - (b) funded by equity or capital investments issued from the Level 3 Head of at least the equivalent quality.

Conditions relating to Reporting

12. The Level 3 Head must report to APRA on a quarterly basis, in a form acceptable to APRA, on:
 - (a) the Level 3 Prudential Capital Requirement and Level 3 Eligible Capital;
 - (b) the liquidity position of the Level 3 Head;
 - (c) intra-group support arrangements including, but not limited to, specific guarantees of the obligations of an entity in the Level 3 Group;
 - (d) the balance sheet of the Level 3 Head and of the consolidated Level 3 Group;
 - (e) the off-balance sheet exposures of the Level 3 Head and the Other Level 3 Group; and
 - (f) the profit and loss of the Level 3 Head and of the consolidated Level 3 Group.

Each report must be provided within 25 business days of the end of the quarter to which it relates, or within such further time as APRA may approve in writing.

13. The CEO of the Level 3 Head must provide APRA with an attestation no later than 3 months after the end of each financial year of the Level 3 Head 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 Level 3 Head's appointed auditor must provide APRA with a report as to:
 - (a) whether the capital methodology as specified in the ICAAP Summary Statement has been applied at all times; and

(b) the reliability of the quarterly reporting,
to the standard required by GPS 310.

Note 1: The Level 3 capital framework outlined in conditions 1 to 13 is an interim arrangement pending the development and implementation by APRA of industry-wide capital components of the Level 3 conglomerates prudential framework. APRA does not propose that the interim arrangements set out in these conditions be grandfathered. That is, at the inception of such Prudential Standards, the Suncorp Group will not be exempted from complying with such Prudential Standards. But APRA may impose transitional arrangements to enable the Suncorp Group to transition from the interim arrangement to such Prudential Standards.