

# Reporting Form GRF 120.0\_G

## Determination of Capital Base (Level 2 Insurance Group)

### Instruction Guide

#### Introduction

This form collects information required to calculate the capital base of Level 2 insurance groups for the purposes of deriving a capital adequacy measure and to gauge compliance with the Minimum Capital Requirement (MCR) in accordance with *Prudential Standard GPS 111 Capital Adequacy: Level 2 Insurance Group (GPS 111)*.

Prudential standards GPS 111 and *Prudential Standard GPS 112 Capital Adequacy: Measurement of Capital (GPS 112)* specify the methodology for measuring the Level 2 insurance group's capital base. The range of instruments that are eligible for inclusion in the capital base of the Level 2 insurance group are outlined in GPS 112 as read with GPS 111.

#### Audit requirements

The annual return of *GRF 120.0\_G Determination of Capital Base (Level 2 Insurance Group) (GRF 120.0\_G)* required under paragraphs 3 and 5(c) of *Reporting Standard GRS 120.0\_G Determination of Capital Base (Level 2 Insurance Group) (GRS 120.0\_G)* must be subject to a limited assurance<sup>1</sup> review by the Group Auditor (see *Prudential Standard GPS 311 Audit and Actuarial Reporting and Valuation: Level 2 Insurance Groups (GPS 311)*).

The Group Auditor must prepare a review report on the basis of a limited assurance engagement in accordance with the requirements of GPS 311. Assurance in the review report will be provided in the form of negative assurance. To express negative assurance in the review report, the auditor will use limited procedures to obtain sufficient appropriate evidence. Enquiries of the Level 2 insurance group's staff and analytical procedures will be the primary tools used to obtain evidence. These procedures will not provide all the evidence that would be required in an audit.

The scope and nature of audit testing required is outlined in the *Standard on Assurance Engagement ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information* issued by the Auditing and Assurance Standards Board.

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<sup>1</sup> Limited assurance is as defined in *Prudential Standard GPS 001 Definitions (GPS 001)*.

## Reporting entities

GRF 120.0\_G ~~GRF 120.0\_G Determination of Capital Base (Level 2 Insurance Group)~~ is to be completed by the parent entity of a Level 2 insurance group as defined under *Prudential Standard GPS 001 Definitions (GPS 001)*.

Consolidation at Level 2 should cover the Level 2 insurance group as defined under GPS 001.

## Definitions

Definitions for data reporting items required by this form have been provided where possible in the instructions under the section headed 'Specific instructions'. For prudential reporting purposes 'Level 1 Insurer' is as defined in GPS 001.

## Unit of measurement

This form is to be presented in Australian dollars (AUD), rounded to thousands of dollars, with no decimal place.

Amounts denominated in foreign currency are to be converted to AUD in accordance with Australian accounting standards.

Transactions arising under foreign currency derivative contracts at the reporting date must be prepared in accordance with Australian accounting standards.

## Materiality

GRF 120.0\_G ~~GRF 120.0\_G Determination of Capital Base (Level 2 Insurance Group)~~ is to be prepared based on the concept of materiality as applied in Australian accounting standards subject to APRA's discretion. APRA's discretion is likely to apply in instances where the application of materiality criteria is not suitable for prudential reporting purposes.

## Reporting period

Level 2 insurance groups are required to report the information in the reporting form. This information is to be reported on three occasions in a Level 2 insurance group's financial year. A Level 2 insurance group is required to submit:

- semi-annual return which is to be completed in respect of each half year from the start of the financial year of the Level 2 insurance group; and
- an audited annual return which will be based on a limited assurance review by the Group Auditor (see Audit requirements).

The financial information requested in this form is to be reported as at the last day of the reporting period on a financial year to date basis of the Level 2 insurance group.

## Reporting lag

Submission times for Level 2 reporting forms are as follows (in accordance with [GRS 120.0\\_G](#)~~*GRS 120.0\_G Determination of Capital Base*~~):

- The semi-annual return is to be lodged within three months after the end of the reporting period.
- The audited annual return is to be lodged within four months after the end of the reporting period.

## Adjustments

The parent entity of a Level 2 insurance group may apply in writing to APRA to vary the reporting requirements of [GRF 120.0\\_G](#)~~*GRF 120.0\_G Determination of Capital Base (Level 2 Insurance Group)*~~ in relation to that Level 2 insurance group. APRA may, at its discretion, approve such an application in writing.

## Specific instructions

To calculate the eligible capital base, enter a value in the column headed 'Value' for each line item applicable to the Level 2 insurance group. The Eligible Inclusion % column is the percentage of each item that is eligible for inclusion in the capital base, before any application of limitations on the relative size of various categories of capital. The form will calculate the amount eligible for inclusion in the column headed 'Eligible Capital'. In most cases, the 'Eligible Capital' column equals the product of the 'Value' column and the 'Eligible Inclusion %' column (where relevant). For certain line items, this form will apply the limitation on categories of capital and the result will be shown in the 'Eligible Capital' column. These instances are discussed in these instructions when they occur. Total Tier 1, Tier 2 and Total capital base are also calculated.

Refer to GPS 111 and GPS 112 for further information on the method of calculation and definitions.

Note: A Level 2 insurance group must ensure that any 'component of capital'<sup>2</sup> included in the group's capital satisfies, in both form and substance, all applicable requirements of GPS 111 for the particular category of capital in which it is included. A Level 2 insurance group must not incorporate a component of capital as part of its capital base where that component does not meet, or is inconsistent with the requirements of GPS 111.

A Level 2 insurance group must not include a component of capital in a particular category<sup>3</sup> of its capital base if that component, when considered in conjunction with other related transactions that affect its overall economic substance, could be reasonably considered not to satisfy fully the requirements of GPS 111 for components of that category of capital.

### 1. Tier 1 capital

Tier 1 capital comprises the highest quality capital elements, including the proceeds of instruments that are both permanent and non-cumulative in nature. Tier 1 capital (net of required deductions) must constitute at least 50% of the Level 2 insurance group's capital base.

#### 1.1. Fundamental Tier 1 capital

##### 1.1.1. Ordinary shares

This item must correspond to item 22.1 'Ordinary shares' reported in *GRF 300.0\_G Statement of Financial Position (Level 2 Insurance Group)* ([GRF 300.0 G](#)).

<sup>2</sup> Component of capital has the same meaning as in *Prudential Standard GPS 112 Capital Adequacy: Measurement of Capital (GPS 112)*, where it is any form of capital defined in GPS 112 as eligible for inclusion in Tier 1 capital or Tier 2 capital.

<sup>3</sup> Category of capital has the same meaning as in GPS 112. It refers to a group of components of capital, namely Fundamental Tier 1 capital, Residual Tier 1 capital (both Non-innovative Residual Tier 1 capital and Innovative Tier 1 capital), Upper Tier 2 capital and Lower Tier 2 capital, as appropriate.

### 1.1.2. Reserves

This item must correspond to the difference between ~~the~~ items 23.8 'Total Reserves' and 23.3.9 'Total Asset revaluation reserve' reported in [GRF 300.0 G](#)~~GRF 300.0 G~~ *Statement of Financial Position (Level 2 Insurance Group)*. The amounts to be included here may not align with the requirements of the Australian accounting standards and so may be different to those disclosed in the financial statements.

### 1.1.3. Retained earnings

This item must equal item 278 'Retained earnings at end of reporting period' as disclosed in *GRF 310.0\_G Income Statement (Level 2 Insurance Group)*.

### 1.1.4. Technical provisions in excess of liability valuation

This item is calculated as the sum of 'Technical provisions in excess of liability valuation' reported in *GRF 210.0A\_G Outstanding Claims Liability – Insurance Risk Charge – Australia by class of business (Level 2 Insurance Group)* or *GRF 210.0B\_G Outstanding Claims Liability – Insurance Risk Charge – Australia by region (Level 2 Insurance Group)* and 'Total excess technical provisions on premiums liabilities' reported in *GRF 210.1A\_G Premiums Liabilities – Insurance Risk Charge – Australia by class of business (Level 2 Insurance Group)* or *GRF 210.1B\_G Premiums Liabilities – Insurance Risk Charge – Australia by region (Level 2 Insurance Group)*.

Where there is a deficiency in excess technical provisions this is reported as a negative value, ~~in item 1.1.4 of GRF 120.0\_G Determination of Capital Base (Level 2 Insurance Group) – Technical provisions in excess of liability valuation.~~

### 1.1.5. Tax effect of excess technical provision

Any excess of technical insurance provisions added back to (or deducted from) Tier 1 capital must be adjusted for the tax effect. Do not deduct tax effect if a deferred tax asset has been recognised in relation to the excess technical provision. A tax effect which reduces Tier 1 capital should be entered as a positive value.

*Note:* this requirement is not mandating the recognition of a deferred tax asset in [GRF 300.0 G](#)~~GRF 300.0 G~~ *Statement of Financial Position (Level 2 Insurance Group)*.

The adjustment for the tax effect is not required where the excess technical insurance provision has been included in the recognition of a deferred tax asset associated with the recognition of Premiums Liabilities and Outstanding Claims Liabilities in [GRF 300.0 G](#)~~GRF 300.0 G~~ *Statement of Financial Position (Level 2 Insurance Group)*. Deducting the tax effect in this case would constitute double counting, as ~~d~~Deferred ~~t~~Tax ~~a~~Assets (~~DTA~~) are deducted from Tier 1 capital (net of any ~~d~~Deferred ~~t~~Tax ~~l~~Liabilities).

### **1.1.6. Minority interests**

Include any minority interests arising from consolidation at Level 2 of the Tier 1 capital of consolidated subsidiaries.

### **1.1.7. Total Fundamental Tier 1 capital**

This represents the sum of items 1.1.1 – 1.1.6 and will be automatically calculated.

## **1.2. Residual Tier 1 capital**

### **1.2.1. Non-innovative residual Tier 1 capital instruments**

This item includes the perpetual non-cumulative preference shares that satisfy the relevant criteria set out in GPS 112. Any impact of the limitations on the relative size of total residual Tier 1 capital is included in item 1.2.3.

### **1.2.2. Innovative Tier 1 capital instruments**

This item includes all other residual Tier 1 capital instruments that satisfy the relevant criteria set out in GPS 112. The Eligible Capital column also includes any impact of the limitation on the relative size of Innovative Tier 1 Capital. Therefore, the Eligible Capital column may differ to the product of the Value column and the Eligible Inclusion % column.

### **1.2.3. Total Residual Tier 1 capital**

This represents the sum of items 1.2.1 and 1.2.2 and will be automatically calculated. The Eligible Capital column also includes any impact of the limitation on the relative size of Total Residual Capital. Therefore, the Eligible Capital column may differ to the sum of the Eligible Capital columns for items 1.2.1 and 1.2.2.

### **Limitations – in accordance with GPS 111 and the application of other applicable prudential standards**

The amount of Tier 1 capital included in the Level 2 insurance group's capital base is subject to the following limits<sup>4</sup>:

- (a) Fundamental Tier 1 capital must constitute at least 75 percent of net Tier 1 capital, defined as the sum of Fundamental Tier 1 and Residual Tier 1 capital less Tier 1 deductions.
- (b) Residual Tier 1 capital is limited to 25 per cent of net Tier 1 capital. Any excess amount is counted as Upper Tier 2 capital.
- (c) Innovative Tier 1 capital is limited to 15 percent of net Tier 1 capital. Any excess amount is counted as Upper Tier 2 capital.

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<sup>4</sup> See GPS 112 for further details.

### 1.3. Tier 1 capital (before deductions)

This figure is automatically calculated and represents the total Tier 1 capital before deductions (i.e. sum of items 1.1.7 and 1.2.3).

### 1.4. Deductions from Tier 1 capital

The amount of Tier 1 capital to be included in the Level 2 insurance group's capital base will be net of ~~the following~~ deductions as specified in GPS 112 as read with GPS 111.

- ~~— Goodwill;~~
- ~~— Other intangible assets;~~
- ~~— Deferred tax assets (net of any deferred tax liabilities);~~
- ~~— Surplus in defined benefit superannuation fund;~~
- ~~— Deficit in defined benefit superannuation fund;~~
- ~~— Holdings of own Tier 1 capital instruments;~~
- ~~— Net unrealised fair value gains (losses) from changes in the credit worthiness of insurers within the group;~~
- ~~— Net unrealised gains (losses) on effective cash flow hedges;~~
- ~~— Reinsurance recoveries related to reinsurance contracts that do not meet the reinsurance document test;~~
- ~~— Reinsurance assets receivable under reinsurance contracts that do not meet governing law requirements;~~
- ~~— Investments in non-consolidated subsidiaries;~~
- ~~— Deferred reinsurance expense relating to future policies;~~
- ~~— Expected dividends;~~
- ~~— Other deductions; and~~
- ~~— Variation in deduction by other adjustments approved by APRA.~~

~~NOTE: Deductions (except 1.4.7, 1.4.8 and 1.4.15) are to be entered as positive values.~~

~~These are explained further below:~~

#### 1.4.1. Goodwill

The value of goodwill that is to be disclosed in this line item must include:

- The carrying value of goodwill (and other intangible assets) in relation to non-consolidated subsidiaries recognised in accordance with Australian accounting standards and reported in the memo item 2.6.6.4 of [GRF 300.0](#) ~~*GRF 300.0\_G Statement of Financial Position (Level 2 Insurance Group)*~~; plus
- The value of goodwill reported in item 7.1 of [GRF 300.0](#) ~~*GRF 300.0\_G Statement of Financial Position (Level 2 Insurance Group)*~~; plus
- Any other goodwill required to be deducted from the capital base of the Level 2 insurance group in accordance with GPS 111.

#### 1.4.2. Other intangible assets

Disclose the amount reported in item 7.2.3 'Total identifiable intangible assets' of [GRF 300.0](#) ~~*GRF 300.0\_G Statement of Financial Position (Level 2 Insurance Group)*~~.

#### 1.4.3. Deferred tax assets (net of any deferred tax liabilities)

Disclose the value of ~~*d'Deferred tTax aAssets-(DTA)'*~~ recognised in item 5.2 of [GRF 300.0](#) ~~*GRF 300.0\_G Statement of Financial Position (Level 2 Insurance Group)*~~, net of any ~~*d'Deferred tTax lLiabilities (DTL)'*~~ that are also recognised in items 16 of [GRF 300.0](#) ~~*GRF 300.0\_G Statement of Financial Position (Level 2 Insurance Group)*~~. The value disclosed must not be negative (i.e. a net ~~*deferred tax liabilities DTL*~~ balance after deducting ~~*DTA*~~ ~~*deferred tax assets*~~). Accordingly if the balance of ~~*deferred tax liabilities DTL*~~ exceeds ~~*deferred tax assets DTA*~~, zero must be disclosed.

This item should be reported as a positive value.

#### 1.4.4. Surplus in defined benefit superannuation fund

Disclose the value of any surplus, net of deferred tax liabilities, in any defined benefit superannuation fund (or equivalent pension arrangement for international business) of which the parent entity and any of its controlled entities are employer-sponsors. Any excluded surplus must reverse any associated deferred tax liability from Tier 1 capital. The amount reported ~~*in GRF 120.0\_G Determination of Capital Base (Level 2 Insurance Group)*~~ must not be greater than the amount reported in item 4.3 of [GRF 300.0](#) ~~*GRF 300.0\_G Statement of Financial Position (Level 2 Insurance Group)*~~.

This item should be reported as a positive value.

~~*If applicable, deferred tax liabilities DTL*~~ should not be deducted twice in 1.4.3 and ~~*at*~~ 1.4.4.

#### 1.4.5. Deficit in defined benefit superannuation fund

Disclose the value of any deficit in a defined benefit superannuation fund (or equivalent pension arrangement for international business) of which the parent



entity and any of its controlled entities is an employer-sponsor and that is not already reflected in Tier 1 capital.

The amount reported in this item must only include deficits not already disclosed in item 17.2 of GRF 300.0 G~~GRF 300.0\_G Statement of Financial Position (Level 2 Insurance Group)~~.

This item should be reported as a positive value.

#### **1.4.6. Holdings of own Tier 1 capital instruments**

Disclose the value of holdings of own Tier 1 capital instruments of the Level 2 insurance group.

#### **1.4.7. Net unrealised fair value gains (losses) from changes in the credit worthiness of entities within the group**

This item only applies to Level 2 insurance groups that have designated their own debt instruments at fair value under the fair value option in Australian Accounting Standard AASB 139 'Financial Instruments: Recognition and Measurement'.

Deduct/(add back) any unrealised fair value gains/(losses) included in Tier 1 capital (before deductions) arising from changes in the reporting of the credit worthiness of the parent entity or any of the controlled entities consolidated into the level 2 insurance group (e.g. reduction in fair value of the group's outstanding debt due to change in credit rating). Losses are to be reported as negative values.

#### **1.4.8. Net unrealised gains (losses) on effective cash flow hedges**

Disclose the value of cumulative fair value gains and losses on effective cash flow hedges reflected in retained earnings or reserves included in Tier 1 capital which do not offset gains or losses on revaluations in reserves included in Tier 1 capital. Deduct the gains on hedges and add back the losses. Losses are to be reported as negative values.

#### **1.4.9. Reinsurance ~~recoveries~~ assets<sup>5</sup> related to reinsurance contracts that do not meet the reinsurance documentation test**

Reinsurance assets under each reinsurance arrangement that do not meet the reinsurance documentation test as specified in paragraph 33 of GPS 112 will be deducted from the Tier 1 capital of the insurer. ~~If a Level 1 insurer<sup>6</sup> of a Level 2 insurance group has not complied with the threshold levels of reinsurance~~

<sup>5</sup> Reinsurance assets has the same meaning as in GPS 001 and refers to reinsurance assets net of doubtful debts.

<sup>6</sup> ~~Level 1 insurer means an individual insurer that is authorised under the Act and is part of a Level 2 insurance group. See GPS 001.~~

~~documentation set out paragraph 35(b) of GPS 112, during the first and second transition periods,<sup>7</sup> then all reinsurance assets<sup>8</sup> of the Level 1 insurer are to be deducted from the Tier 1 capital of the Level 2 insurance group. Note the reinsurance documentation test applies at an insurer level. Any deductions required at Level 1, as a result of reinsurance contracts that do not meet the reinsurance documentation test, will also be deducted at Level 2. Hence, the aggregate amount deducted from the Tier 1 capital of the Level 2 insurance group in relation to reinsurance recoveries from reinsurance contracts that do not meet the reinsurance documentation test will be the sum of the corresponding deductions required for Level 1 insurers.~~

This test does not apply to international business. However, APRA expects that similar standards be applied for international business. That is, where any local reinsurance documentation tests are not met by international business and a deduction is required in that jurisdiction, those receivables should be included under [this](#) item ~~1.4.9 of GRF 120.0\_G Determination of Capital Base (Level 2 Insurance Group)~~.

~~Compliance with the transition thresholds for a Level 1 insurer is assessed by calculating the percentage of reinsurance recoveries that are derived from reinsurance arrangements meeting the reinsurance documentation test compared with total reinsurance recoveries of the Level 1 insurer.~~

~~A reinsurance arrangement meets the reinsurance documentation test if it satisfies the requirements in paragraph 36 of GPS 112.~~

~~For Australian business, after the second transition period, reinsurance recoveries receivable under each reinsurance arrangement that does not meet the reinsurance documentation test will be deducted from the Tier 1 capital of the Level 2 insurance group.~~

The figure for Reinsurance recoveries related to reinsurance contracts that do not meet the reinsurance documentation test needs to be manually entered and represents the sum of items 1.7, ~~1.9, 2.5, 2.7, 3.5, 3.7, 4.5~~ and [3.54.7](#) recognised in *GRF 301.0\_G Reinsurance Assets and Risk Charge (Level 2 Insurance Group)* ([GRF 301.0 G](#)).

As this amount is being deducted from capital, a zero percent investment risk capital factor is being applied.

#### **1.4.10. Reinsurance assets receivable under reinsurance contracts that do not meet governing law requirements**

Report all reinsurance assets receivable under each reinsurance contract entered into by the insurer incepting on or after 31 December 2008 that do not meet the requirements of paragraph 31 of *Prudential Standard GPS 230 Reinsurance Management* ([GPS 230](#)) and [paragraph 56 of GPS 111](#).

<sup>7</sup> ~~Refer to paragraph 35(a) of Prudential Standard GPS 112 Capital Adequacy: Measurement of Capital (GPS 112) for transition period dates.~~

<sup>8</sup> ~~Reinsurance assets has the same meaning as in GPS 001 and refers to reinsurance assets net of doubtful debts.~~

This figure needs to be manually entered into this data field ~~in GRF 120.0\_G Determination of Capital Base (Level 2 Insurance Group)~~. The amount should represent the value of item 1.8 plus item 2.6 plus item 3.6 ~~plus item 4.6~~ recognised in ~~GRF 301.0\_G GRF 301.0\_G Reinsurance Assets and Risk Charge (Level 2 Insurance Group)~~.

#### 1.4.11. Investments in non-consolidated subsidiaries

Paragraph ~~59~~<sup>57</sup> of GPS 111 requires equity exposures and other capital investments in non-consolidated subsidiaries or controlled entities, whether regulated or unregulated, to be deducted<sup>9</sup> 50 per cent from Tier 1 capital and 50 per cent from Tier 2 capital.<sup>10</sup>

Report 50 per cent of the value of equity and other capital investments in non-consolidated subsidiaries or controlled entities. The value disclosed must be net of goodwill and any other intangible component of the investment in non-consolidated subsidiaries. This value will be deducted from the Tier 1 capital of the Level 2 insurance group. The remaining 50 per cent will be deducted from Tier 2 capital under item 2.4.1 of this form.

Other capital investments include debt capital instruments held and provision of any credit support of a capital nature (e.g. provision of a first loss guarantee).

#### ~~1.4.12. Deferred reinsurance expense related to future policies~~

~~Report the amount of deferred reinsurance expense which relates to future policies. This item is to be disclosed irrespective of which option the Level 2 insurance group has chosen to report premium liabilities in GRF 210.1\_G Premiums Liabilities Insurance Risk Charge (Level 2 Insurance Group). Deferred reinsurance expense relating to future policies is to be reported inclusive of tax.~~

#### 1.4.12. Expected dividends

Expected dividends are required to be deducted from capital in accordance with GPS 112 as read with GPS 111. Report the amount of expected but not declared dividends which are expected, but not declared. ~~This amount should only be net of the proceeds of any dividend reinvestment plan if this adjustment has been agreed with APRA in accordance with paragraph 59 of GPS 111, which are expected, but not declared.~~

<sup>9</sup> This deduction will only be required for material entities. Materiality is to be determined in consultation with APRA.

<sup>10</sup> This deduction does not apply to a controlled entity, where it acts as a holding company for pass-through of equity exposures and other capital investments in Level 1 insurers or equivalent overseas entities carrying on insurance business. In the event that a controlled entity holds equity exposures and other capital investments in controlled entities not eligible for consolidation, the Level 2 insurance group must deduct its equity exposures and other capital investments in the holding company net of the value of the holding company's investment in any Level 1 insurer or equivalent overseas entities carrying on insurance business.

1.4.13. Other deductions

Disclose any other Tier 1 capital deductions (refer to GPS 112 and GPS 111) including:

- Undistributed profit or loss in an associate

Disclose any portion of current year earnings or retained earnings which represents any amounts deriving from the Level 2 insurance group's share of undistributed profits or loss in an associate, under equity accounting. This amount must be included in Upper Tier 2 capital;

- Negative movement over the amount available in the revaluation reserve

Disclose any deficit after taking into account adjustments in the amount available in the respective revaluation reserves for the following items, to the extent not already accounted for in current year earnings or retained earnings;

- Property not held at fair value;
- Investments in subsidiaries not held at fair value;
- Investment in associates, including any excess of the share of losses in associates under equity accounting; or
- Identified impairment of certain assets.

Disclose any identified impairment of an asset where the impairment has not already been taken into account in profit or loss or the impairment has been incorporated in fair value changes captured in an asset revaluation reserve included in Upper Tier 2 capital. This will include the value of any deficit in asset revaluation reserves included in Upper Tier 2 capital after taking into account all adjustments.

- Revaluation reserves included in Upper Tier 2 capital

Disclose any amounts included in revaluation reserves in Upper Tier 2 capital which would otherwise have been included in Tier 1 capital.

- Shortfalls in Tier 2 capital

Disclose an amount equivalent to the shortfall in the insurer's Tier 2 capital, where the insurer does not hold sufficient capital to absorb required deductions from Tier 2 capital in accordance with [GPS 112 as read with](#) GPS 111.

- Undercapitalisation of non-consolidated subsidiaries;

Disclose 50 per cent of any deduction determined by APRA (under GPS 111) to cover the undercapitalisation of a non-consolidated subsidiary of the parent entity of the Level 2 insurance group.

~~Premium receivables deduction~~

~~Disclose any premium receivables deduction on any portfolio of proportional reinsurance treaties for inwards reinsurance in accordance with GPS 111.~~

#### 1.4.14. Variation in deduction by other adjustments approved by APRA

Include any additions to Tier 1 capital or reduction in deductions that have been approved by APRA, including transition amounts affecting Tier 1 capital. Deductions to Tier 1 capital are to be reported as negative values. Additions to Tier 1 capital are to be reported as positive values.

#### 1.4.15. Total deductions from Tier 1 capital

This item represents the sum of items 1.4.1 to 1.4.14~~5~~ and is automatically calculated by the form.

### **1.5. Tier 1 capital (net of deductions)**

This figure is automatically calculated and represents item 1.3 ~~‘Tier 1 capital (before deductions)’~~ less item 1.4.15~~6~~. ~~‘Total Deductions from Tier 1 capital’.~~

Net Tier 1 capital must constitute at least 50 per cent of a Level 2 insurance group’s eligible capital base.

## **2. Tier 2 capital**

### **Limitations – in accordance with GPS 111 and the application of other applicable prudential standards**

Tier 2 capital is divided into Upper Tier 2 and Lower Tier 2 capital. Total Tier 2 capital, net of all specified deductions and amortisation, is limited to a maximum of 100 per cent of a Level 2 insurance group’s net Tier 1 capital.

Total Lower Tier 2 capital, net of all specified deductions and amortisation, is limited to a maximum of 50 per cent of a Level 2 insurance group’s net Tier 1 capital.

A Level 2 insurance group that does not hold sufficient capital to absorb required deductions from Tier 2 capital must deduct an amount equivalent to the shortfall in its Tier 2 capital from its Tier 1 capital.

### **2.1. Upper Tier 2 capital**

#### **2.1.1. Ineligible Tier 1 capital**

This item includes any capital amounts otherwise meeting APRA’s requirements for Tier 1 capital instruments (specified in GPS 112 as read with GPS 111) that are ineligible for inclusion as Tier 1 capital due to the limits specified in GPS 112 as read with GPS 111. This amount is calculated automatically.

#### **2.1.2. Asset revaluation reserve**

Upper Tier 2 capital includes:

45 per cent of pre-tax revaluation reserves of:

2.1.2.1 Property not held at fair value;

2.1.2.2 Investments in non-consolidated controlled entities not held at fair value. This amount excludes any reserve recognised from the revaluation of the goodwill component of investments in subsidiaries not held at fair value – these amounts are deductible from Tier 1 capital as part of the deduction of goodwill; and

2.1.2.3 Post-acquisition reserves of associates ([as defined in Australian accounting standards](#)).<sup>++</sup> This includes, under equity accounting, a group's share of undistributed profits, plus any share of asset revaluations in associates or any other revaluation of investments in associates. The amount recognised must be net of fair value gains and losses and any gains or losses on hedges offsetting revaluation of investment in associates included in reserves.

The amount of these reserves to be included in Upper Tier 2 is limited to 45 [per cent](#)% of pre-tax revaluation reserves. The amount entered in the 'Value' column should be the full value of the reserves. The 45 [per cent](#)% limit will be applied by the form via the Eligible Inclusion % column.

The pre-tax revaluation reserve as described above includes cumulative unrealised gains or losses on effective cash flow hedges. Where a revaluation is calculated net of hedges, the amount of hedges concerned must be excluded from reported Tier 1 capital, that is, the gains or losses on hedges must be deducted from or added back to Tier 1 capital.

The amount recognised in Upper Tier 2 capital must be net of fair value gains and losses and any gains or losses on hedges offsetting revaluation of investment in associates included in reserves.

### **2.1.3. Other Tier 2 capital approved by APRA**

Include any other item specified in GPS 112 [as read with GPS 111](#) eligible for inclusion in Upper Tier 2 capital.

### **2.1.4. Perpetual cumulative preference shares**

Perpetual cumulative preference shares must satisfy the relevant criteria set out in GPS 112 [as read with GPS 111](#) for inclusion as Upper Tier 2 capital.

### **2.1.5. [Perpetual m](#)Mandatory convertible notes and similar capital instruments**

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<sup>++</sup> ~~Associates as defined in the Australian Accounting Standards.~~

Perpetual cumulative mandatory convertible notes must satisfy the relevant criteria set out in GPS 112 [as read with GPS 111](#) for inclusion as Upper Tier 2 capital.

#### **2.1.6. Perpetual subordinated debt**

Perpetual cumulative subordinated debt must satisfy the relevant criteria set out in GPS 112 [as read with GPS 111](#) for inclusion as Upper Tier 2 capital.

#### **2.1.7. Other approved instruments of a permanent nature**

Disclose the value of any other hybrid capital instruments of a permanent nature approved by APRA.

#### **2.1.8. [Upper Tier 2](#) Deductions**

##### **2.1.8.1 Holdings of own Upper Tier 2 capital instruments**

Disclose the value of own holdings of Upper Tier 2 capital instruments.

#### **2.1.9. Total Upper Tier 2 capital**

This item represents the total of items 2.1.1 [through to](#) 2.1.7 less ~~deductions reported in item~~ [2.1.8.1](#) and is automatically calculated by the form.

### **2.2. Lower Tier 2 capital**

#### **Limitations – in accordance with GPS 111 and the application of other applicable prudential standards**

Total Lower Tier 2 capital, net of all specified deductions and amortisation, is limited to a maximum of 50 per cent of a Level 2 insurance group's net Tier 1 capital. This limit is automatically calculated by the form.

#### **2.2.1. Term subordinated debt**

Term subordinated debt must satisfy the relevant criteria set out in GPS 112 [as read with GPS 111](#) for inclusion as Lower Tier 2 capital.

#### **2.2.2. Limited life redeemable preference shares**

Limited life redeemable preference shares must satisfy the relevant criteria set out in GPS 112 [as read with GPS 111](#) for inclusion as Lower Tier 2 capital.

#### **2.2.3 Any other similar limited life capital instrument**

These instruments must satisfy the relevant criteria set out in GPS 112 for inclusion as Lower Tier 2 capital.

The amount of the instrument eligible for inclusion in Lower Tier 2 capital is to be amortised on a straight line basis at a rate of 20 per cent per annum over the last four years to maturity as follows:

Years to maturity	Amount eligible for inclusion in Lower Tier 2 capital
More than 4	100%
Less than and including 4 but more than 3	80%
Less than and including 3 but more than 2	60%
Less than and including 2 but more than 1	40%
Less than and including 1	20%

The amount entered in the 'Value' column should be the full amount of the instrument. The straight line amortisation will be applied by the form via the 'Eligible Inclusion %' column.

#### 2.2.4. Lower Tier 2 Deductions

##### 2.2.4.1 Holdings of own Lower Tier 2 capital instruments

Disclose the value of own holdings of Lower Tier 2 capital instruments.

##### 2.2.5. Total Lower Tier 2 capital

Represents the total of items 2.2.1 ~~through to~~ 2.2.3 less deductions reported in 2.2.4.1. The impact of the limitation relating to the relative size of categories of capital is automatically calculated by the form and will notify where it has been breached.

#### 2.3 Total Tier 2 capital (before deductions)

Represents the total of items 2.1.9 ~~'Total Upper Tier 2 capital'~~ and item 2.2.5 ~~'Total Lower Tier 2 Capital'~~ and is automatically calculated by the form.

#### 2.4. Deductions from Tier 2 capital

The amount of Tier 2 capital to be included in the Level 2 insurance group's capital base will be net of the following deductions:

##### 2.4.1. Investments in non-consolidated subsidiaries

Report 50 per cent of the value of equity and other capital investments in non-consolidated subsidiaries or controlled entities. The value disclosed must be net of goodwill and any other intangible component of the investment in non-consolidated subsidiaries.

Other capital investments include debt capital instruments held and provision of any credit support of a capital nature (e.g. provision of a first loss guarantee).

##### 2.4.2. Other

Disclose any other Tier 2 capital deductions. This will include:



- Undercapitalisation of non-consolidated subsidiaries;

Disclose 50 per cent of any deduction determined by APRA (under GPS 111) to cover the undercapitalisation of a non-consolidated subsidiary of the parent entity of the Level 2 insurance group.

## **2.5 Tier 2 capital (net of deductions)**

This figure is automatically calculated and represents item 2.3 ~~'Tier 2 capital (before deductions)'~~ less item 2.4.1 ~~'Investments in non-consolidated subsidiaries'~~ less item 2.4.2 ~~'Other'~~ and is automatically calculated by the form.

## **3 Total capital base**

This represents the sum of item 1.5 ~~'Tier 1 capital (net of deductions)'~~ and item 2.5 ~~'Tier 2 capital (net of deductions)'~~. ~~This is an~~ and is automatically calculated ~~field~~ by the form.