July 2011

Reporting Standard GRS 120.0_G (2011)

Determination of Capital Base (Level 2 Insurance Group)

Objective of this reporting standard

This reporting standard is made under section 13 of the *Financial Sector (Collection of Data) Act 2001* (the Collection of Data Act). It requires the parent entity of a Level 2 insurance group to report to APRA, generally on a semi-annual and annual basis, in relation to the capital base of the Level 2 insurance group.

This reporting standard outlines the overall requirements for the provision of this information to APRA. It should be read in conjunction with:

- *Form GRF 120.0_G Determination of Capital Base* (Form GRF 120.0_G) and the associated instructions (which are attached and all form part of this reporting standard); and
- any prudential standards referenced in the attached instructions.

Purpose

1. Data collected in Form GRF 120.0_G is used by APRA for the purpose of prudential supervision including assessing a Level 2 insurance group's compliance with the capital standards.

Application and commencement

2. This reporting standard applies to a parent entity of a Level 2 insurance group for reporting periods commencing on or after 1 July 2011. The parent entity of

a Level 2 group is required to ensure that each requirement in this reporting standard is complied with.

Information required

3. The parent entity of a Level 2 insurance group must provide APRA with the information required by the Form GRF 120.0_G for each reporting period specified in paragraph 5 for the Level 2 insurance group.

Forms and method of submission

4. The information required by this reporting standard must be given to APRA either:

   (a) in electronic form using the 'Direct to APRA' application, applying one of the electronic submission mechanisms under that application; or

   (b) by manually completing Form GRF 120.0_G on paper and mailing the completed form to APRA's head office at Level 26, 400 George Street, Sydney, New South Wales.

   Where the information is submitted on behalf of the Level 2 insurance group by an agent appointed by the parent entity of the Level 2 insurance group, the agent may only provide the information in accordance with subparagraph 4(b) if the agent has contacted APRA and advised that the agent cannot submit the information in electronic form under subparagraph 4(a).

   Note: the Direct to APRA application software and paper forms may be obtained from APRA.

Reporting periods and due dates

5. Subject to paragraph 6, the parent entity of a Level 2 insurance group must provide the information required by this reporting standard:

   (a) in respect of each half year based on the financial year (as defined in *Prudential Standard GPS 001 Definitions* (**GPS 001**)) of the Level 2 insurance group on an unaudited basis; and

   (b) in respect of each financial year (as defined in GPS 001) of the Level 2 insurance group on an audited basis.

   Note: The annual information required by paragraphs 3, 4 and 5(b) together with certain annual information required by other reporting standards, will form part of the Level 2 insurance group's annual accounts within the meaning of GPS 001. *Prudential Standard GPS 311 Audit and Actuarial Reporting and Valuation: Level 2 Insurance Groups* **(GPS 311)** contains the relevant provisions governing audits.

6. APRA may, by notice in writing to the parent entity, change the reporting periods, or specified reporting periods, for a particular Level 2 insurance group to require it to provide the information:

(a) more frequently (if, having regard to the particular circumstances of the Level 2 insurance group, APRA considers it necessary or desirable to obtain information more frequently for the purposes of the prudential supervision of the Level 2 insurance group); or

(b) less frequently (if, having regard to the particular circumstances of the Level 2 insurance group and the extent to which it requires prudential supervision, APRA considers it unnecessary to require the Level 2 insurance group to provide the information as frequently.

7. The information required by paragraph 3 of this reporting standard in respect of a Level 2 insurance group must be provided to APRA by the following times:

(a) in the case of the half yearly information required by subparagraph 5(a) – three months after the end of the reporting period to which the information relates; and

(b) in the case of the audited annual information required by subparagraph 5(b) – four months after the end of the reporting period to which the information relates.

Note: GPS 311 requires a Level 2 insurance group to ensure that its Group Auditor conducts a limited assurance review of the group's annual accounts. Accordingly, the Group Auditor's report(s) as required by GPS 311 (relating to the information required by paragraph 3) must be provided to APRA by the time specified in subparagraph 7(b) of this reporting standard (unless an extension is granted under paragraph 8).

8. APRA may by notice in writing to the parent entity grant a Level 2 insurance group an extension of a due date for the provision of the information, in which case the new due date will be the date on the notice of extension.

9. On the written application of the parent entity of a Level 2 insurance group, APRA may by notice in writing to the parent entity exclude the requirement under subparagraph 5(a) to provide half yearly information.

Quality control

10. The information provided by the parent entity of a Level 2 insurance group under this reporting standard must be the product of processes and controls that have been reviewed and tested by the Group Auditor of the Level 2 insurance group. This will require the Group Auditor to review and test the systems, processes and controls supporting the reporting of the information to ensure that they produce accurate data and are otherwise reliable. This review and testing must be done on:

(a) an annual basis to enable the Group Auditor to form an opinion on the accuracy and reliability of the data; and

(b) at least a limited assurance engagement consistent with the professional standards and guidance notes issued by the Auditing and Assurance Standards Board (AUASB) as may be amended from time to time, to the extent that they are not inconsistent with the requirements of *Prudential Standard GPS 311 Audit and Actuarial Reporting and Valuation: Level 2 Insurance Groups*.

11. The information provided by the parent entity of a Level 2 insurance group under this reporting standard must be subject to processes and controls developed by the Level 2 insurance group for the internal review and authorisation of that information. It is the responsibility of the board and senior management of the parent entity of the Level 2 insurance group to ensure that an appropriate set of policies and procedures for the authorisation of data submitted to APRA is in place.

Authorisation

12. If an officer of a parent entity of a Level 2 insurance group provides the information required by this reporting standard:

    (a) under subparagraph 4(a), the officer must digitally sign, authorise and encrypt the information (for which purpose APRA's certificate authority will issue digital certificates, for use with the 'Direct to APRA' application, to officers of the parent entity of the Level 2 insurance group who have authority from the parent entity of the Level 2 insurance group to transmit data to APRA); or

    (b) under subparagraph 4(b), the completed form must be signed in accordance with paragraph 13.

13. If a parent entity of a Level 2 insurance group provides the information required by this reporting standard through an agent under either subparagraphs 4(a) or (b), the agent will not be required to sign or authorise the information. However, the Level 2 insurance group must:

    (a) obtain from the agent a paper copy of the completed form as provided to APRA (whether it was provided under subparagraph 4(a) or (b)); and

    (b) cause the paper copy to be signed in accordance with paragraph 14; and

    (c) lodge the signed paper copy with APRA by mailing the completed form to APRA's head office at Level 26, 400 George Street, Sydney, New South Wales, by the relevant due date (unless APRA, in writing, waives the requirement to lodge the signed paper copy with APRA by varying this reporting standard in relation to the Level 2 insurance group).

    Note: APRA may, for example, determine to waive the requirement under subparagraph 13(c) where a Level 2 insurance group has undertaken to retain the signed copy of the completed form for an agreed period of time.

14. If information under this reporting standard is provided in paper form, it must be signed on the front page of the relevant completed form by either:

(a) the Principal Executive Officer of the parent entity of the Level 2 insurance group; or

(b) the Chief Financial Officer of the parent entity of the Level 2 insurance group (whatever his or her official title may be).

Minor alterations to forms and instructions

15. APRA may make minor variations to the instructions to a form, to clarify their application to the form without changing any substantive requirement in the form or instructions.

16. If APRA makes such a variation it must notify the parent entity of each Level 2 insurance group in writing.

Adjustments

17. 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 Determination of Capital Base (Level 2 Insurance Group)* in relation to that Level 2 insurance group. APRA may in its discretion in writing approve such an application.

Transition

18. The parent entity of a Level 2 insurance group must report in relation to a reporting period ending prior to 1 July 2011 in accordance with the old standard.

Interpretation

19. In this reporting standard (including the attachments):

(a) Unless the contrary intention appears, words and expressions have the meanings given to them in *Prudential Standard GPS 001 Definitions;*

(b) **APRA-authorised reinsurer** means an insurer carrying on reinsurance business. For the purposes of this definition, a Lloyd's underwriter as defined under the Act is an APRA-authorised reinsurer if it carries on reinsurance business;

business days means ordinary business days, exclusive of Saturdays, Sundays and public holidays;

capital standards means the prudential standards which relate to capital adequacy as defined in *Prudential Standard GPS 001 Definitions*;

foreign insurer means a foreign general insurer within the meaning of the Insurance Act;

Note: A reference to a 'branch' or 'branch operation' is a reference to the Australian operations of a foreign insurer.

Group Auditor has the meaning given in *Prudential Standard GPS 311 Audit and Actuarial Reporting and Valuation: Level 2 Insurance Groups*;

Insurance Act means the *Insurance Act 1973*;

insurer means a general insurer within the meaning of the Insurance Act;

Note: In the forms and instructions, a reference to an 'authorised insurer', 'authorised insurance entity' or 'licensed insurer' is a reference to an insurer, and a reference to an 'authorised reinsurance entity' is a reference to an insurer whose business consists only of undertaking liability by way of reinsurance.

Non-APRA authorised reinsurer means any reinsurer that is not an APRA-authorised reinsurer;

old standard means Reporting Standard GRS 120.0_G (2009) Determination of Capital Base made by Financial Sector (Collection of Data) (reporting standard) determination No. 18 of 2009;

Principal Executive Officer means the current principal executive officer of the entity, regardless of title, and whether or not he or she is a member of the governing board of the entity;

reporting period means a period mentioned in subparagraph 5(a) or (b) or, if applicable, paragraph 6.

20. A reference to a prudential standard is a reference to the applicable prudential standard made under section 32 of the Insurance Act, as amended from time to time. If the prudential standard has been revoked and replaced, the reference shall be taken to be to the prudential standard that has replaced it.

GRF_120_0_G Determination of Capital Base (G)

Australian Business Number	
Institution Name	
Reporting Period	
Scale Factor	Thousands of dollars no decimal places
Reporting Consolidation	Level 2 insurance group

Capital instrument	Value	Eligible inclusion %	Eligible capital
1. Tier 1 capital			
1.1 Fundamental Tier 1 capital			
1.1.1 Ordinary shares			
1.1.2 Reserves			
1.1.3 Retained earnings			
1.1.4 Technical provisions in excess of liability valuation			
Less:			
1.1.5 Tax effect of excess technical provision			
Plus:			
1.1.6 Minority interests			
1.1.7 Total Fundamental Tier 1 capital			
1.2 Residual Tier 1 capital			
1.2.1 Non-innovative residual Tier 1 capital instruments			
1.2.2 Innovative Tier 1 capital instruments			
1.2.3 Total Residual Tier 1 capital			
1.3 Tier 1 capital (before deductions)			
1.4 Less Deductions (NOTE: Deductions (except 1.4.7, 1.4.8 and 1.4.15) are to be entered as positive values):			
1.4.1 Goodwill			
1.4.2 Other intangible assets			
1.4.3 Deferred tax assets (net of any deferred tax liabilities)			
1.4.4 Surplus in defined benefit superannuation fund			
1.4.5 Deficit in defined benefit superannuation fund			
1.4.6 Holdings of own Tier 1 capital instruments			
1.4.7 Net unrealised fair value gains (losses) from changes in the credit worthiness of entities within the group			
1.4.8 Net unrealised gains (losses) on effective cash flow hedges			
1.4.9 Reinsurance assets related to reinsurance contracts that do not meet the reinsurance documentation test			
1.4.10 Reinsurance assets receivable under reinsurance contracts that do not meet governing law requirements			
1.4.11 Investment in non-consolidated subsidiaries			
1.4.12 Expected dividends			
1.4.13 Other deductions			
1.4.14 Variation in deduction by other adjustments approved by APRA			
1.4.15 Total deductions from Tier 1 capital			
1.5 Tier 1 capital (net of deductions)			

2. Tier 2 capital			
2.1 Upper Tier 2 capital			
2.1.1 Ineligible Tier 1 capital			
2.1.2 Asset revaluation reserve			
2.1.2.1 Property			
2.1.2.2 Investments in controlled entities			
2.1.2.3 Investments in associates / share of associates			
2.1.3 Other Tier 2 capital approved by APRA			
2.1.4 Perpetual cumulative preference shares			
2.1.5 Perpetual mandatory convertible notes and similar capital instruments			
2.1.6 Perpetual subordinated debt			
2.1.7 Other approved instruments of a permanent nature			
2.1.8 Less Upper Tier 2 Deductions:			
2.1.8.1 Holdings of own Upper Tier 2 capital instruments			
2.1.9 Total Upper Tier 2 capital			
2.2 Lower Tier 2 capital			
2.2.1 Term subordinated debt maturing in:			
2.2.1.1 - More than 4 years			
2.2.1.2 - More than 3 to less than and including 4 years			
2.2.1.3 - More than 2 to less than and including 3 years			
2.2.1.4 - More than 1 to less than and including 2 years			
2.2.1.5 - Less than and including 1 year			
2.2.2 Limited life redeemable preference shares			
2.2.2.1 - More than 4 years			
2.2.2.2 - More than 3 to less than and including 4 years			
2.2.2.3 - More than 2 to less than and including 3 years			
2.2.2.4 - More than 1 to less than and including 2 years			
2.2.2.5 - Less than and including 1 year			
2.2.3 Any other similar limited life capital instrument			
2.2.3.1 - More than 4 years			
2.2.3.2 - More than 3 to less than and including 4 years			
2.2.3.3 - More than 2 to less than and including 3 years			
2.2.3.4 - More than 1 to less than and including 2 years			
2.2.3.5 - Less than and including 1 year			
2.2.4 Less Lower Tier 2 Deductions:			
2.2.4.1 Holdings of own Lower Tier 2 capital instruments			
2.2.5 Total Lower Tier 2 capital			
2.3 Total Tier 2 capital (before deductions)			
2.4 Less Deductions (NOTE: Deductions are to be entered as positive values):			
2.4.1 Investments in non-consolidated subsidiaries			
2.4.2 Other			
2.5 Tier 2 capital (net of deductions)			
3. Total capital base			

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[1] 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.

[1] Limited assurance is as defined in *Prudential Standard GPS 001 Definitions* (**GPS 001**).

Reporting entities

GRF 120.0_G 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 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):

- 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 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'[2] 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[3] 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**).

2 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.

3 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 items 23.8 ‘Total Reserves’ and 23.3.9 ‘Total Asset revaluation reserve’ reported in GRF 300.0_G. 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 27 ‘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 or deficit 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.

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.

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 Premium Liabilities and Outstanding Claims Liabilities in GRF 300.0_G. Deducting the tax effect in this case would constitute double counting, as deferred tax assets (DTA) are deducted from Tier 1 capital (net of any deferred tax 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 through to 1.1.6 and will be automatically calculated by the form.

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 as read with GPS 111. 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 as read with GPS 111. 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 by the form. 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[4]:

(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.

1.3. Tier 1 capital (before deductions)

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

[4] See GPS 112 for further details.

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 deductions as specified in GPS 112 as read with GPS 111.

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 'Value of goodwill (and other intangible assets) in relation to non-consolidated subsidiaries' of GRF 300.0_G; plus

- The value of goodwill reported in item 7.1 'Goodwill' of GRF 300.0_G; 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_G.

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

Disclose the value of deferred tax assets (DTA) recognised in item 5.2 'Deferred tax assets' of GRF 300.0_G, net of any deferred tax liabilities (DTL) that are also recognised in item 16 'Deferred tax liability' of GRF 300.0_G. The value disclosed must not be negative (i.e. a net deferred tax liabilities balance after deducting deferred tax assets). Accordingly if the balance of deferred tax liabilities exceeds deferred tax assets, 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 must not be greater than the amount reported in item 4.3 'Surplus in defined benefit superannuation fund' of GRF 300.0_G.

This item should be reported as a positive value.

If applicable, deferred tax liabilities should not be deducted twice in 1.4.3 and 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 'Deficit in defined benefit superannuation fund' of GRF 300.0_G.

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 assets[5] related to reinsurance contracts that do not meet the reinsurance documentation test

Reinsurance assets of any Level 1 insurer under each reinsurance arrangement that do not meet the reinsurance documentation test as specified in paragraph 33 of GPS 112 will be deducted from 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

[5] Reinsurance assets has the same meaning as in GPS 001 and refers to reinsurance assets net of doubtful debts.

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.

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, 2.5, and 3.5 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 a Level 1 insurer within the Level 2 insurance group incepting on or after 31 December 2008 that do not meet the requirements of paragraph 31 of *Prudential Standard GPS 230 Reinsurance Management*.

This figure needs to be manually entered into this data field. The amount should represent the value of item 1.8 plus item 2.6 plus item 3.6 recognised in GRF 301.0_G.

1.4.11. Investments in non-consolidated subsidiaries

Paragraphs 59 and 60 of GPS 111 requires equity exposures and other capital investments in non-consolidated subsidiaries or controlled entities, whether regulated or unregulated, to be deducted[6] 50 per cent from Tier 1 capital and 50 per cent from Tier 2 capital.[7]

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-

6 This deduction will only be required for material entities. Materiality is to be determined in consultation with APRA.

7 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.

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. 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 dividends which are expected, but not declared.

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 Level 2 insurance group's Tier 2 capital, where the Level 2 insurance group does not hold sufficient capital to absorb required deductions from Tier 2 capital in accordance 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.

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 are to be reported as negative values.

1.4.15. Total deductions from Tier 1 capital

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

1.5. Tier 1 capital (net of deductions)

This figure is automatically calculated by the form and represents item 1.3 less item 1.4.15.

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 automatically calculated by the form.

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): 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 mandatory convertible notes and similar capital instruments

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 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 as read with GPS 111 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 item 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 and item 2.2.5 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 by the form and represents item 2.3 less item 2.4.1 less item 2.4.2 .

3 Total capital base

This represents the sum of item 1.5 and item 2.5 and is automatically calculated by the form.