GRF_112_0 Determination of Capital Base

These instructions must be read in conjunction with the general instruction guide.

Instructions for specific items

Section 1: Capital base composition

1. Tier 1 Capital

Tier 1 Capital comprises Common Equity Tier 1 Capital and Additional Tier 1 Capital.

1.1. Common Equity Tier 1 Capital

This is the highest quality component of capital held by the reporting insurer as determined under the eligibility characteristics set out in *Prudential Standard GPS 112 Capital Adequacy: Measurement of Capital* (GPS 112), net of all regulatory adjustments.

It is automatically calculated as the sum of Items 1.1.1, 1.1.2, 1.1.3, 1.1.4, 1.1.5 and 1.1.7 less Item 1.1.6.

1.1.1. Paid-up ordinary shares

This represents paid-up ordinary shares issued by the reporting insurer that meet the criteria for classification as ordinary shares for regulatory purposes in accordance with Attachment A of GPS 112.

1.1.2. Retained earnings

This is the value, as at the end of the reporting period, of retained earnings. This amount should be consistent with the retained earnings reported in *GRF 300.0 Statement of Financial Position* (GRF 300.0), apart from not including the amount of undistributed current year earnings reported in Item 1.1.3.

1.1.3. Undistributed current year earnings

The undistributed current year earnings reported should be consistent with the amount reported in *GRF 310.0 Income Statement* (GRF 310.0).

Reported amounts must account for (where applicable) negative goodwill, expected tax expenses, and dividends when declared in accordance with the Australian Accounting Standards. The declared dividends reported 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 reporting insurer.

1.1.4. Accumulated other comprehensive income and other disclosed reserves

This is the aggregate of all other comprehensive income and disclosed reserves.

1.1.4.1. Unrealised gains or losses recognised on balance sheet

This is the total value of unrealised gains or losses that have been recognised on the balance sheet.

1.1.4.2. Reserves from equity-settled share-based payments

This is the value of reserves from equity-settled share-based payments granted to employees as part of their remuneration package that meets the requirements of GPS 112. Only the reserves relating to the issue of new shares should be reported.

1.1.4.3. Cumulative unrealised gains or losses on hedges offsetting gains or losses in Common Equity Tier 1 Capital

This is the cumulative unrealised gains or losses on hedges offsetting the gains or losses of components of Common Equity Tier 1 Capital.

This includes cumulative unrealised gains or losses on effective cash flow hedges as defined in the Australian Accounting Standards and any fair value gains or losses on derivatives representing effective economic hedges of assets.

1.1.4.4. Foreign currency translation reserve

This is the value of the reserve relating to exchange rate differences arising on translation of assets and liabilities to the presentation currency in accordance with Australian Accounting Standards.

1.1.4.5. General reserve

General reserves are created from the appropriation of profits by the reporting insurer after the payment of all dividends and tax.

1.1.4.6. Other gains and losses in accumulated comprehensive income and other disclosed reserves

This is the value of any other gains and losses in accumulated comprehensive income and other disclosed reserves that may be specified in writing by APRA as per GPS 112.

1.1.5. Net surplus / (deficit) relating to insurance liabilities

This is the total technical provisions in surplus or deficit of those required by *Prudential Standard GPS 320 Actuarial and Related Matters* (GPS 320). Technical provisions refer to both net outstanding claims liabilities and net unearned premium calculated under Australian Accounting Standards.

It is automatically calculated as Item 1.1.5.1 plus Item 1.1.5.2 less Item 1.1.5.3.

1.1.5.1. OCL surplus / (deficit) per GRF 115.0

This is the net outstanding claims liabilities determined under *Australian Accounting Standard AASB 1023 General Insurance Contracts* (AASB 1023) in surplus or deficit to the net outstanding claims liabilities determined under GPS 320.

1.1.5.2. PL surplus / (deficit) per GRF 115.1

This is the net premiums liabilities determined under AASB 1023 in surplus or deficit to the net premiums liabilities determined under GPS 320.

1.1.5.3. Less: Tax effect of net OCL and PL surplus / (deficit)

This is the tax effect of the technical provisions in surplus or deficit of those required under GPS 320.

Do not deduct the tax effect if a deferred tax asset has been recognised in relation to the net surplus / (deficit).

1.1.6. Less: Regulatory adjustments to Common Equity Tier 1 Capital

This is the total of all regulatory adjustments applied to Common Equity Tier 1 Capital specified in Attachment B of GPS 112.

It is automatically calculated as the sum of Items 1.1.6.1 to 1.1.6.15.

1.1.6.1. Holdings of own Common Equity Tier 1 Capital instruments

This is the value, as at the relevant date, of the reporting insurer's holdings of its own Common Equity Tier 1 Capital instruments unless exempted by APRA or eliminated under Australian Accounting Standards.

This item must also include:

- capital instruments the reporting insurer could be contractually obliged to purchase; and
- unused portion of the limits agreed with APRA as per paragraph 15 of GPS 112.

1.1.6.2. Cash flow hedge reserves relating to hedging of items not recorded at fair value

This is the value of cash flow hedge reserves that relate to the hedging items that are not recorded at fair value on the balance sheet (including projected cash flows).

1.1.6.3. Excess of deferred tax assets over deferred tax liabilities

This is the amount of deferred tax assets in excess of deferred tax liabilities of the reporting insurer.

Where the deferred tax liabilities exceed the deferred tax assets, this value should be reported as zero. Note that the netting of deferred tax assets and deferred tax liabilities must only be applied where the reporting insurer has a legally enforceable right to set-off deferred tax assets against deferred tax liabilities.

1.1.6.4. Fair value gains and losses from changes in own credit worthiness

This is the net unrealised gains (or losses) from changes in the fair values of the liabilities that arise due to changes in creditworthiness of the reporting insurer.

This amount is to be reported as a positive value where there are unrealised gains or a negative value for unrealised losses.

1.1.6.5. Goodwill

This is the value of goodwill, as per Attachment B of GPS 112, net of adjustments to profit or loss reflecting changes arising from any impairment. The amounts reported in this item must be net of any associated deferred tax liability that would be extinguished if the assets involved become impaired or derecognised under Australian Accounting Standards.

This item also includes the goodwill attributable to certain categories of subsidiaries, associates and joint ventures of the reporting insurer as per GPS 112.

1.1.6.6. Other intangible assets

This is the value of intangible assets, other than goodwill, as per Attachment B of GPS 112, net of adjustments to profit or loss reflecting changes arising from any impairment and amortisation. The amounts reported must be net of any associated deferred tax liability that would be extinguished if the assets involved become impaired or derecognised under Australian Accounting Standards.

This item also includes the intangible assets attributable to certain categories of subsidiaries, associates and joint ventures of the reporting insurer as per GPS 112.

1.1.6.7. Surplus in defined benefit superannuation fund

This is the amount of surplus (if any) in defined benefit superannuation funds where the reporting insurer is an employer-sponsor, net of any associated deferred tax liabilities that would be extinguished if the assets involved become impaired or derecognised under Australian Accounting Standards. Any excluded surplus must reverse any associated deferred tax liability from Common Equity Tier 1 Capital.

Where the extinguished deferred tax liability of the defined benefit superannuation fund exceeds the reported surplus, this value should be reported as zero.

1.1.6.8. Deficit in defined benefit superannuation fund

This is the amount of deficit (if any) in a defined benefit superannuation fund where the reporting insurer is an employer-sponsor.

This item only needs to be reported where the deficit is not already reflected in Common Equity Tier 1 Capital.

The deficit (if any) should be reported as a positive number.

1.1.6.9. Reinsurance assets related to reinsurance contracts that do not meet the reinsurance documentation test

This is the value of the reinsurance assets in relation to each reinsurance arrangement that does not meet the reinsurance document test as per *Prudential Standard GPS 230 Reinsurance Management* (GPS 230).

1.1.6.10. Reinsurance assets receivable under reinsurance contracts that do not meet governing law requirements

This is the value of all reinsurance assets reported in relation to each reinsurance contract entered into by the reporting insurer incepting on or after 31 December 2008 that does not meet the governing law requirements in GPS 230.

1.1.6.11. Regulatory capital requirement of investments in subsidiaries, JVs and associates

This is the deduction for investments in subsidiaries, joint ventures and associates that are subject to regulatory capital requirements as detailed in Attachment B of GPS 112.

The amount of the deduction is the lesser of the reporting insurer's share of the regulatory capital requirements and the value of the investment that is recorded on the reporting insurer's balance sheet after adjustment for any intangibles reported in Items 1.1.6.5 and 1.1.6.6.

If the investment subject to this deduction is a non-operating holding company, a look-through approach must be applied.

This amount should correspond to the deduction reported in *GRF 112.3 Related Party Exposures*.

1.1.6.12. Assets under a fixed or floating charge

This is the value of assets of the reporting insurer that are under a fixed or floating charge, mortgage or other security to the extent of the indebtedness secured on those assets. This deduction may be reduced by the amount of any liability for the charge that is recognised on the reporting insurer's balance sheet.

Where the security exclusively supports a reporting insurer's insurance liabilities (valued in accordance with GPS 320), the deduction only applies to the amount by which the fair value of the charged assets exceeds the reporting insurer's supported insurance liabilities.

1.1.6.13. Fair value adjustments

A reporting insurer must deduct any amount required by APRA in writing where APRA considers that fair values on the balance sheet are not prudent or reliable.

1.1.6.14. Adjustments to Common Equity Tier 1 Capital due to shortfall in Additional Tier 1 Capital

This is the value, as at the relevant date, of any deductions (refer to Attachment B of GPS 112) from Common Equity Tier 1 Capital due to a shortfall in Additional Tier 1 Capital to absorb required deductions from this category of capital.

Where the amount of Tier 2 Capital as defined in GPS 112 is insufficient to cover the amount of deductions required to be made from this category of capital, the shortfall must first be deducted from Additional Tier 1 Capital and, if Additional Tier 1 Capital is insufficient to cover the amount of deductions required, the remaining amount must be deducted from Common Equity Tier 1 Capital.

1.1.6.15. Other Common Equity Tier 1 Capital adjustments

This is the value of deductions from Common Equity Tier 1 Capital that the reporting insurer must make as required under any prudential standards other than GPS 112.

1.1.7. Adjustments and exclusions to Common Equity Tier 1 Capital

This is the amount of adjustments applied to the Common Equity Tier 1 Capital that are specific to the application of the requirements in paragraph 34 of GPS 112.

Adjustments that would result in an increase to Common Equity Tier 1 Capital should be reported as a positive value.

1.2. Additional Tier 1 Capital

This is the value of instruments issued by the reporting insurer that meet the criteria for inclusion in Additional Tier 1 Capital in accordance with the GPS 112, and which are not included in Common Equity Tier 1 Capital. This is net of regulatory adjustments specified in GPS 112.

This is automatically calculated as Item 1.2.1 less Item 1.2.2 less Item 1.2.3 plus Item 1.2.4 plus Item 1.2.5.

1.2.1. Additional Tier 1 Capital instruments

This is the total amount of capital instruments issued by the reporting insurer that meet the eligibility criteria for Additional Tier 1 Capital but not the criteria for the higher quality capital, i.e. Common Equity Tier 1 Capital.

1.2.2. Less: Holdings of own Additional Tier 1 Capital instruments

This is the total effective own holdings of Additional Tier 1 Capital instruments issued by the reporting insurer unless exempted by APRA or eliminated under Australian Accounting Standards.

1.2.3. Less: Adjustments to Additional Tier 1 Capital due to shortfall in Tier 2 Capital

This is the value of any deductions (refer to Attachment B of GPS 112) from Additional Tier 1 Capital due to a shortfall in Tier 2 Capital to absorb required deductions from this category of capital.

1.2.4. Adjustments and exclusions to Additional Tier 1 Capital

This is the amount of adjustments applied to the Additional Tier 1 Capital that is specific to the application of the requirements in paragraph 34 of GPS 112.

Adjustments that would increase the amount of Additional Tier 1 Capital recognised should be reported as a positive value.

1.2.5. Transitional Additional Tier 1 Capital

This is the value of capital instruments that have been temporarily recognised and approved as Additional Tier 1 Capital for transition purposes.

1.3. Tier 1 Capital

Tier 1 Capital comprises of Common Equity Tier 1 Capital and Additional Tier 1 Capital.

It is calculated automatically as the sum of Items 1.1 and 1.2.

2. Tier 2 Capital

This is the total amount of capital instruments that meet the eligibility criteria for Tier 2 Capital but not the criteria for the higher quality capital, net of all regulatory adjustments.

It is automatically calculated as Item 2.1 less Item 2.2 plus Item 2.3 plus Item 2.4.

2.1. Eligible Tier 2 Capital instruments

This is the value of capital instruments issued by the reporting insurer that meet the eligibility criteria for Tier 2 Capital in GPS 112.

It should be reported net of any amortisation required under GPS 112.

2.2. Less: Holdings of own Tier 2 Capital instruments

This is the total effective holdings of own eligible Tier 2 Capital instruments that were issued by the reporting insurer unless exempted by APRA or eliminated under Australian Accounting Standards.

This item is to be reported as a positive amount where the insurer has holdings of its own issued Tier 2 instruments.

2.3. Adjustments and exclusions to Tier 2 Capital

This is the amount of adjustments applied to the Tier 2 Capital that are specific to the application of the requirements in paragraph 34 of GPS 112.

Adjustments that would increase the amount of Tier 2 Capital recognised should be reported as a positive value.

2.4. Transitional Tier 2 Capital

This is the value of capital instruments that have been temporarily recognised and approved as Tier 2 Capital for transition purposes

3. Capital base

The capital base relates to the amount of capital eligible for the purpose of meeting the Prudential Capital Requirement as set out in *Prudential Standard GPS 110 Capital Adequacy*.

This is automatically calculated as the sum of Items 1.3 and 2.