

# CommInsure Capital Adequacy Disclosure

30 June 2013



## CommInsure

CommInsure is a business name under which the insurance companies in the Commonwealth Bank Group (the Group) conduct business. The companies are:

- The Colonial Mutual Life Assurance Society Limited (CMLA)

CMLA is a life insurance company offering a range of life insurance products including risk, retirement income and investment products. CMLA is regulated by the Australian Prudential Regulation Authority (APRA) under the Life Insurance Act 1995.

- Commonwealth Insurance Limited (CIL)

CIL is a general insurance company offering home and motor insurance products. CIL is regulated by APRA under the Insurance Act 1973.

## Prudential standards

To protect the interests of policy owners and prospective policy owners, APRA issues prudential standards with which life and general insurance companies must comply. The Life Insurance Prudential Standards (LPS) apply to life insurance companies like CMLA and the General Insurance Prudential Standards (GPS) apply to general insurance companies like CIL.

## Purpose

This document has been prepared for the purpose of satisfying the reporting requirements set out in APRA's prudential standards LPS110 'Capital Adequacy' (LPS110) and GPS110 'Capital Adequacy' (GPS110).

The document includes details on the capital base, prescribed capital amount and capital adequacy multiple for CMLA and CIL. LPS110 and GPS110 require CommInsure to publish these details, at least annually, so they are readily accessible to both policy owners and other market participants. Consistent with this requirement, this document is available on the Group's corporate website [commbank.com.au](http://commbank.com.au).

While this document is unaudited, it has been prepared in accordance with the Board approved Internal Capital Adequacy Assessment Process (ICAAP) and has been compiled based on audited information supplied to APRA.

## Further information

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Important information: This document is issued by The Colonial Mutual Life Assurance Society Limited ABN 12 004 021 809 AFSL 235035 (CMLA) and Commonwealth Insurance Limited ABN 96 067 524 216 AFSL 235030 (CIL), both wholly owned but non-guaranteed subsidiaries of the Commonwealth Bank of Australia ABN 48 123 123 124. The information in this document is factual in nature and is not intended as advice, financial or otherwise.

## The Colonial Mutual Life Assurance Society Limited

LPS110 requires CMLA to disclose the capital adequacy position for each statutory fund (SF), the general fund (GF), and the life insurance company as a whole. These items have been calculated as at 30 June 2013 and are provided in Figures 1 to 4.

**Figure 1: CMLA Disclosures (\$'000)**

Common Equity Tier 1 Capital	858,080
Regulatory Adjustments to Common Equity Tier 1 Capital	781,360
Additional Tier 1 Capital	0
Regulatory Adjustments to Additional Tier 1 Capital	0
Tier 2 Capital	0
Regulatory Adjustments to Tier 2 Capital	0
Capital Base	858,080
Prescribed Capital Amount	519,731

**Figure 2: CMLA Statutory Funds and General Fund Disclosures (\$'000)**

	SF1	SF1L	SF2L	SF3	SF4	SF5	GF
Net Assets after Regulatory Adjustments	346,791	6,383	28,464	58,125	6,363	258,730	153,224
Regulatory Adjustments to Net Assets	144,673	0	0	(14,000)	0	703,025	(52,338)
Tier 2 Capital	0	0	0	0	0	0	0
Regulatory Adjustments to Tier 2 Capital	0	0	0	0	0	0	0
Capital Base	346,791	6,383	28,464	58,125	6,363	258,730	153,224

**Figure 3: CMLA Components of Prescribed Capital Amount (\$'000)**

	SF1	SF1L	SF2L	SF3	SF4	SF5	GF
Insurance Risk Charge	106,100	0	0	4,859	0	0	0
plus Asset Risk Charge	77,975	33	112	18,483	45	75,159	6,030
plus Asset Concentration Risk Charge	0	0	0	0	0	0	118,817
plus Operational Risk Charge	23,730	2,104	15,619	3,468	1,554	26,348	0
less Aggregation Benefit	(40,386)	0	0	(3,314)	0	0	0
plus Combined Stress Scenario Adjustment	41,677	1	1	0	0	38,756	2,560
Prescribed Capital Amount	209,096	2,138	15,732	23,496	1,599	140,263	127,407

**Figure 4: CMLA Capital Adequacy Multiple (\$'000)**

	SF1	SF1L	SF2L	SF3	SF4	SF5	GF
Capital Base	346,791	6,383	28,464	58,125	6,363	258,730	153,224
divided by							
Prescribed Capital Amount	209,096	2,138	15,732	23,496	1,599	140,263	127,407
Capital Adequacy Multiple	166%	299%	181%	247%	398%	184%	120%

## Commonwealth Insurance Limited

GPS110 requires CIL to disclose the capital adequacy position for the general insurance company as a whole. This has been calculated as at 30 June 2013 and is provided in Figures 5 to 7.

Figure 5: CIL Capital Base (\$'000)	
Common Equity Tier 1 Capital	222,930
Regulatory Adjustments to Common Equity Tier 1 Capital	3,743
Additional Tier 1 Capital	0
Regulatory Adjustments to Additional Tier 1 Capital	0
Tier 2 Capital	0
Regulatory Adjustments to Tier 2 Capital	0
Capital Base	222,930

Figure 6: CIL Prescribed Capital Amount (\$'000)	
Insurance Risk Charge	44,392
plus Insurance Concentration Risk Charge	50,000
plus Asset Risk Charge	18,598
plus Asset Concentration Risk Charge	0
plus Operational Risk Charge	16,499
less Aggregation Benefit	(13,201)
plus APRA Prescribed Adjustments	0
Prescribed Capital Amount	116,288

Figure 7: CIL Capital Adequacy Multiple (\$'000)	
Capital Base	222,930
divided by	
Prescribed Capital Amount	116,288
Capital Adequacy Multiple	192%

## Glossary

Terms	Reference	Definition
Additional Tier 1 Capital	LPS112 GPS112	<p>Additional Tier 1 Capital comprises high quality components of capital that satisfy the following essential characteristics:</p> <ul style="list-style-type: none"> <li>(a) provide a permanent and unrestricted commitment of funds</li> <li>(b) are freely available to absorb losses</li> <li>(c) rank behind the claims of policy owners and other more senior creditors in the event of winding up of the issuer, and</li> <li>(d) provide for fully discretionary capital distributions.</li> </ul>
Aggregation benefit	LPS110 GPS110	<p>The aggregation benefit makes an explicit allowance for diversification between asset and insurance risks in the calculation of the prescribed capital amount.</p> <p>This amount is calculated using a prescribed methodology.</p>
APRA		<p>The Australian Prudential Regulation Authority (APRA) oversees banks, credit unions, building societies, general insurance and reinsurance companies, life insurance, friendly societies and most members of the superannuation industry.</p>
Asset Concentration Risk Charge	LPS117 GPS117	<p>The Asset Concentration Risk Charge relates to the risk resulting from concentrations in individual assets or large exposures to individual counterparties or groups of related counterparties.</p> <p>This amount is calculated using a prescribed methodology.</p>
Asset Risk Charge	LPS114 GPS114	<p>The Asset Risk Charge relates to the risk of adverse movements in the value of a fund's on-balance sheet and off-balance sheet exposures.</p> <p>This amount is calculated using a prescribed methodology.</p>
Capital Adequacy Multiple	LPS110 GPS110	<p>The Capital Adequacy Multiple is equal to the Capital base divided by the Prescribed Capital Amount.</p>
Capital Base	LPS112 GPS112	<p>The Capital Base consists of paid-up ordinary shares and shareholder retained profits reduced by items which APRA does not deem eligible for inclusion including Deferred Acquisition Costs and Deferred Tax Assets.</p>
Common Equity Tier One Capital	LPS112 GPS112	<p>This is the highest quality of capital available reflecting the permanent and unrestricted commitment of funds that are freely available to absorb losses. It comprises ordinary share capital, retained earnings and reserves less prescribed deductions.</p>
Combined Stress Scenario Adjustment	LPS110	<p>The Combined Stress Scenario Adjustment for CMLA determines to what extent the future shareholder tax benefits and management actions allowed for in determining the Insurance Risk Charge and Asset Risk Charge can be recognised.</p> <p>This amount is calculated using a prescribed methodology.</p>

Terms	Reference	Definition
General Fund	LPS110	The General Fund is the shareholder's fund of a life insurance company.
ICAAP	LPS110 GPS110	The Internal Capital Adequacy Assessment Process is the process by which CMLA and CIL manage the adequacy of their capital base in line with their risk profile and Target Capital requirements.
Insurance Concentration Risk Charge	GPS116	<p>The Insurance Concentration Risk Charge for CIL represents the net financial impact from either a single large event, or a series of smaller events, within a one year period.</p> <p>This amount is calculated using a prescribed methodology.</p>
Insurance Risk Charge	LPS115 GPS115	<p>The Insurance Risk Charge relates to the risk of adverse impacts due to movements in future claims, expenses, lapses and other insurance risks as applicable.</p> <p>This amount is calculated using a prescribed methodology.</p>
Net Assets	LPS112	The Net Assets of a statutory fund or general fund is a reference to the net assets of the fund determined under the life company's prudential reporting to APRA under the Financial Sector (Collection of Data) Act 2001 (Collection of Data Act). It includes shareholders' capital and retained profits, unallocated benefit fund reserves, other reserves and foreign currency translation reserves.
Operational Risk Charge	LPS118 GPS118	<p>The Operational Risk Charge relates to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.</p> <p>This amount is calculated using a prescribed methodology.</p>
Prescribed Capital Amount	LPS110 GPS110	<p>The Prescribed Capital Amount is a measure of the capital requirement of an insurance company.</p> <p>The prescribed capital amount of a fund, as determined using the prescribed methodology, is intended to be sufficient such that if a fund was to start the year with a capital base equal to the prescribed capital amount, and losses occurred at the 99.5 per cent confidence level, then the assets remaining would be at least sufficient to provide for the liabilities of the fund at the end of the year.</p>
Regulatory Adjustments	LPS112 GPS112	Regulatory adjustments are applied to assets using a prescribed methodology for the purposes of calculating the Capital Base.

Terms	Reference	Definition
Statutory Fund	Life Insurance Act 1995	<p>A statutory fund of a life insurance company is a fund that:</p> <ul style="list-style-type: none"> <li>(a) is established in the records of a life company, and</li> <li>(b) relates solely to the life insurance business of the company or a particular part of that business.</li> </ul>
Tier 2 Capital	LPS112 GPS112	<p>Tier 2 Capital includes other components of capital that, to varying degrees, fall short of the quality of Tier 1 Capital but nonetheless contribute to the overall strength of a regulated institution and its capacity to absorb losses.</p>