



Notice varying conditions on authorisation to be a NOHC

Insurance Act 1973

SINCE

A. Suncorp Group Limited ABN 66 145 290 124 (the NOHC) holds an authorisation to be a NOHC of a general insurer (the NOHC authorisation) under section 18 of the *Insurance Act 1973* (the Act); and

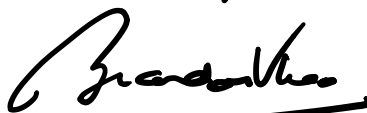
B. Conditions were imposed on the NOHC authorisation on 16 March 2016,

I, Brandon Kong Leong Khoo, a delegate of APRA:

- (i) under paragraph 19(1)(b) of the Act, REVOKE all conditions on the NOHC authorisation; and
- (ii) under paragraph 19(1)(a) of the Act, IMPOSE on the NOHC authorisation the conditions specified in the attached Schedule.

This Notice takes effect on 22 September 2017.

Dated *22 September 2017*


Brandon Kong Leong Khoo
Executive General Manager
Diversified Institutions Division

Interpretation

In this Notice:

APRA means the Australian Prudential Regulation Authority.

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

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

Schedule of conditions

Interpretation

In these conditions:

Act means the *Insurance Act 1973*;

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

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

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

ADI NOHC means SBGH Limited ABN 83 145 980 838, the immediate subsidiary of the Level 3 Head which is the immediate non-operating holding company of the ADI;

AIFRS means the accounting standards made by the Australian Accounting Standards Board on 15 July 2004 (and subsequent revisions) and known as the Australian equivalents to International Financial Reporting Standards;

Allowable Tier 2 Capital means:

- (a) for the ADI Group, the difference between the minimum capital it is required to hold under paragraphs 21 and 22 of APS 110 and the ADI Group capital requirement;
- (b) for the GI Group, the difference between the minimum capital it is required to hold under subparagraph 9(c) of GPS 112 and the GI Group capital requirement; and
- (c) for any Australian life companies in the LI Group, the difference between the minimum capital it is required to hold under subparagraph 11(c) of LPS 112 and part (a) of the LI Group capital requirement;

APS (followed by a number) identifies a specific Prudential Standard under the *Banking Act 1959*, and a reference to a particular Prudential Standard includes a reference to a Prudential Standard that replaces it;

Associate has the same meaning as **Associated entities** under the *Corporations Act 2001*;

Board means board of directors;

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

Group;

Eligible Additional Tier 1 Capital means the sum of:

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

Eligible share capital means the sum of:

- (a) share capital in the Level 3 Head that meets the definition of Common Equity Tier 1 Capital in GPS 112;
- (b) share capital at the ADI Group level that meets the definition of Common Equity Tier 1 Capital in APS 111;
- (c) share capital at the GI Group level that meets the definition of Common Equity Tier 1 Capital in GPS 112;
- (d) share capital at the LI Group level that meets the definition of Common Equity Tier 1 Capital in LPS 112;
- (e) for each Australian life company statutory fund, the difference between
 - i. the capital base calculated in accordance with paragraphs 35, 37 and 38 of LPS 112; and
 - ii. the amount calculated in accordance with paragraph 36 of LPS 112;
- (f) the capital base of each Australian life company general fund calculated in accordance with paragraph 39 of LPS 112; and
- (g) paid-up capital issued by the Other Level 3 Group other than the Level 3 Head to parties external to the Level 3 Group that is recognised as share capital applying ordinary Australian accounting standards, conventions and practices;

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

GI Group capital requirement means the amount in Tier 1 Capital the GI Group is required to hold as Tier 1 Capital as determined under GPS 110 and GPS 112 after

taking into account any adjustment to Tier 1 Capital notified by APRA under paragraph 10 of GPS 112;

GI NOHC means Suncorp Insurance Holdings Limited ABN 99 123 023 334, an authorised NOHC under the Act and the parent entity of the GI Group (as defined in GPS 001);

GPS (followed by a number) identifies a specific Prudential Standard determined under the Act, and a reference to a particular Prudential Standard includes a reference to a Prudential Standard that replaces it;

ICAAP Summary Statement has the meaning set out in GPS 110;

Level 3 Eligible Capital means the sum of:

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

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

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

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

LI Group means the group of companies in the Level 3 Group comprising the LI NOHC and its subsidiaries;

LI Group capital requirement means the sum of the following amounts:

- (a) the amount in Tier 1 Capital each Australian life company is required to hold as Tier 1 Capital as determined under LPS 110 and LPS 112 after taking into account of any adjustment to Tier 1 Capital notified by APRA under paragraph 12 of LPS 112;
- (b) any equivalent amount to (a) that is held for foreign life insurance companies;
- (c) the greatest of the following amounts in respect of each RSE licensee:

- i. the RSE licensee's operational risk financial requirement (ORFR) target amount as determined in accordance with *Prudential Standard SPS 114 Operational Risk Financial Requirement* (SPS 114); or
 - ii. any regulatory capital requirement of the entity;
- (d) the greatest of the following amounts in respect of any other entity engaged in funds management and funds administration activities:
 - i. 0.25 per cent of funds under management and funds under administration on account balances not invested in life insurance policies or bank deposits of a related party or not invested with another fund manager in the Level 3 Group; or
 - ii. any regulatory capital requirement of the entity; or
 - iii. the minimum capital requirement in respect of the entity set in the ICAAP Summary Statement (after this amount is adjusted by removing any diversification benefit included in the calculation);
- (e) the greatest of the following amounts in respect of any other entity in the LI Group:
 - i. any regulatory capital or equivalent requirement of the entity; or
 - ii. the minimum capital requirement of the entity as set out in the ICAAP Summary Statement (after this amount is adjusted by removing any diversification benefit included in the calculation);

LI NOHC means Suncorp Life Holdings Limited ABN 87 064 490 795, the immediate subsidiary of the Level 3 Head which is the non-operating holding company of the LI Group comprising life companies, RSE licensee, and companies engaged in funds management and ancillary business;

LPS (followed by a number) identifies a specific Prudential Standard determined under the *Life Insurance Act 1995*, and a reference to a particular Prudential Standard includes a reference to a Prudential Standard that replaces it;

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

NOHC means non-operating holding company;

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

Other Level 3 Group capital requirement means the minimum capital requirement for the entities in the Other Level 3 Group as defined in the ICAAP Summary Statement (after this amount is adjusted by removing any diversification benefit included in the calculation);

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

Regulatory adjustments mean the sum of:

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

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

Reserves mean the sum of:

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

Retained earnings means the sum of:

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

Capital under GPS 112;

- (d) retained earnings in the LI Group that qualifies as Common Equity Tier 1 Capital under LPS 112; and
- (e) retained earnings in the Other Level 3 Group other than the Level 3 Head that qualifies as Common Equity Tier 1 Capital under GPS 112;

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

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

Conditions

Conditions relating to Capital

1. The Level 3 Head must ensure that Level 3 Eligible Capital held by the Level 3 Group at all times equals or exceeds the Level 3 Prudential Capital Requirement. For this purpose, the **Level 3 Prudential Capital Requirement** of the Level 3 Head is equal to the sum of the dollar value of:
 - (a) the ADI Group capital requirement; and
 - (b) the GI Group capital requirement; and
 - (c) the LI Group capital requirement; and
 - (d) the Other Level 3 Group capital requirement.
2. In calculating the Level 3 Prudential Capital Requirement of the Level 3 Head:
 - (a) where a securitisation special purpose vehicle (SPV) is not considered to be cleanly sold from a Level 3 Group perspective, the assets of the SPV should be included in the required capital calculation of the entity it consolidates into. Capital required to be held elsewhere in the Level 3 Group in respect of transactions and exposures to the SPV can in that case be eliminated. An SPV is considered to be cleanly sold from a Level 3 Group perspective if the criteria in Attachment B of APS 120 are met from the perspective of the Level 3 Group; and
 - (b) transactions between entities within the Level 3 Group, against which capital is required to be held under the Prudential Standards, should be eliminated from the calculation of the Level 3 Prudential Capital Requirement.
3. In calculating Level 3 Eligible Capital:

- (a) where a member of the Level 3 Group issues capital directly to external parties and that capital meets the entity's stand-alone capital requirement, this may be counted towards satisfaction of the Level 3 Prudential Capital Requirement, provided the requirements in these conditions relating to the quality of capital are met;
- (b) the capital impact of transactions internal to the Level 3 Group will be eliminated;
- (c) goodwill and intangible assets not already deducted at ADI Group, GI Group or LI Group level may not be counted towards satisfaction of the Level 3 Prudential Capital Requirement and so must be deducted from Level 3 Eligible Capital;
- (d) to the extent that any benefits under a life insurance policy are contractually linked to the performance of the assets held, and these assets include goodwill and/or intangible assets, these amounts should be excluded from the goodwill and intangible assets referred to in (c). The amount of goodwill and/or intangible assets for which an inadmissible asset reserve is held should also be excluded from (c);
- (e) any capital of a member of the group that is supported by off-balance sheet transactions including, but not limited to, guarantees provided between entities in the Level 3 Group may not be counted towards satisfaction of the Level 3 Prudential Capital Requirement and so must be deducted from Level 3 Eligible Capital;
- (f) dividends when declared in accordance with Australian Accounting Standards and expected tax expenses of the Level 3 Head may not be counted towards satisfaction of the Level 3 Prudential Capital Requirement and so must be deducted from Level 3 Eligible Capital. The declared dividends may be reduced by the expected proceeds, as agreed in writing by APRA, of a dividend reinvestment plan to the extent that dividends are used to purchase new ordinary shares issued by the Level 3 Head;
- (g) any capital generated through structures or methods that, in APRA's view, artificially inflate Level 3 Eligible Capital will be disallowed from being counted towards satisfaction of the Level 3 Prudential Capital Requirement;
- (h) where an APRA-regulated entity chooses to meet its capital requirements at Level 1 or Level 2 with a higher proportion of Tier 1 capital than the required minimum (i.e. the Net Tier 2 Capital of the APRA-regulated entity is lower than its Allowable Tier 2 Capital), an amount equal to the difference between the APRA-regulated entity's Allowable Tier 2

Capital and Net Tier 2 Capital must be deducted from Level 3 Eligible Capital; and

- (i) where, in APRA's view, the quality of any capital has been artificially upgraded or improved through structures and methods, such structures and methods will be disregarded in calculating Level 3 Eligible Capital.
4. The Level 3 Head must put in place a rigorous process to measure the Level 3 Prudential Capital Requirement and Level 3 Eligible Capital held by the Level 3 Group at all times. Regular reports of these matters must be given to the Board of the Level 3 Head to enable Board oversight of compliance against condition 1. At the same time, the Board must implement plans and strategies to ensure continuing compliance with condition 1 and to review these on a regular basis. This process must include, at a minimum, clear definition of materiality and trigger events for Board approvals or other interventions. The Level 3 Head must ensure that the process is set out in its ICAAP Summary Statement and includes timeframes for responding to material events.

Condition relating to Quality of Capital

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

Condition relating to Reductions in Capital

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

Conditions relating to Prudential Standards

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

Conditions relating to Level 3 Head Activities

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

agreed to by APRA.

10. In respect of subsidiaries or associates of the Level 3 Head:
 - (a) shares held in any Australian or overseas banking subsidiary or associate that may be established or acquired by the Level 3 Group, to the extent of the holdings, must be owned, directly or indirectly, by the ADI NOHC unless otherwise approved by APRA in writing.
 - (b) shares held in any Australian or overseas insurance or reinsurance subsidiary or associate that may be established or acquired by the Level 3 Group, to the extent of the holdings, must be owned, directly or indirectly, by the GI NOHC unless otherwise approved by APRA in writing.
 - (c) shares held in any Australian or overseas life insurance subsidiary or associate (including any superannuation entity, RSE licensee, or any funds management, custodial or investment services business) that may be established or acquired by the Level 3 Group other than shares held on behalf of a life insurance subsidiary's statutory funds or funds management operations, to the extent of the holdings, must be owned, directly or indirectly, by the LI NOHC unless otherwise approved by APRA in writing.

Condition relating to ADI NOHC Activities

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

Conditions relating to certain intra-group activities

12. The Level 3 Head must ensure that where the Level 3 Group raises capital or funds externally and the capital or funds are transferred within the Level 3 Group, the nature and quality of the capital or funds within the Level 3 Group is not upgraded to a higher category of capital than the external capital or funds.

Condition relating to LI NOHC Activities

13. The Level 3 Head must cause the activities of the LI NOHC to be:

- (a) limited to holding equity or capital investments in subsidiaries and acquiring and disposing of such subsidiaries; and
- (b) funded by equity or capital investments issued from the Level 3 Head of at least the equivalent quality.

Conditions relating to Reporting

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

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

15. The CEO of the Level 3 Head must provide APRA with an attestation no later than 3 months after the end of each financial year of the Level 3 Head that the requirements of these conditions in relation to the amount and quality of capital have been complied with at all times during the financial year to which the attestation relates. At the same time, the Level 3 Head's appointed auditor must provide APRA with a report as to:
- (a) whether the capital methodology as specified in the ICAAP Summary Statement has been applied at all times; and
 - (b) the reliability of the quarterly reporting,

to the standard required by GPS 310.

Note 1: The Level 3 capital framework outlined in conditions 1 to 15 is an interim arrangement pending the development and implementation by APRA of industry-wide capital components of the Level 3 conglomerates prudential framework. APRA does not propose that the interim

arrangements set out in these conditions be grandfathered. That is, at the inception of such Prudential Standards, the Suncorp Group will not be exempted from complying with such Prudential Standards. But APRA may impose transitional arrangements to enable the Suncorp Group to transition from the interim arrangement to such Prudential Standards.