

COMMINSURE CAPITAL ADEQUACY DISCLOSURE.

Dated: 30 June 2017



CommInsure



Commlnsure

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

- Commonwealth Insurance Limited (CIL)
CIL is a general insurance company offering a range of general insurance products including home and motor insurance products. CIL is regulated by the Australian Prudential Regulation Authority (APRA) under the Insurance Act 1973 (Cth).
- 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 APRA under the Life Insurance Act 1995 (Cth).

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 General Insurance Prudential Standards (GPS) apply to general insurance companies like CIL, the Life Insurance Prudential Standards (LPS) apply to life insurance companies like CMLA and the Cross-Industry Prudential Standards (CPS) apply to both life and general insurance companies.

Purpose

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

The document includes details on the Capital Base, Prescribed Capital Amount and Capital Adequacy Multiple for CIL and CMLA. GPS110 and LPS110 require Commlnsure 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

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 Commonwealth Insurance Limited ABN 96 067 524 216 AFSL 235030 (CIL) and The Colonial Mutual Life Assurance Society Limited ABN 12 004 021 809 AFSL 235035 (CMLA), 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. Commlnsure is a registered business name of CIL and CMLA.

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 2017 and is provided in Figures 1 to 3.

Figure 1: CIL Capital Base (\$'000)

Common Equity Tier 1 Capital	292,758
plus Additional Tier 1 Capital	0
plus Tier 2 Capital	0
Capital Base	292,758
plus Regulatory Adjustments to Common Equity Tier 1 Capital	(1,754)
plus Regulatory Adjustments to Additional Tier 1 Capital	0
plus Regulatory Adjustments to Tier 2 Capital	0
Net Assets	291,004

Figure 2: CIL Prescribed Capital Amount (\$'000)

Insurance Risk Charge	68,468
plus Insurance Concentration Risk Charge	50,000
plus Asset Risk Charge	23,319
plus Asset Concentration Risk Charge	0
plus Operational Risk Charge	23,512
less Aggregation Benefit	(16,553)
plus APRA Prescribed Adjustments	0
Prescribed Capital Amount	148,746

Figure 3: CIL Capital Adequacy Multiple (\$'000)

Capital Base	292,758
divided by	
Prescribed Capital Amount	148,746
Capital Adequacy Multiple	197%

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 2017 and are provided in Figures 4 to 7.

Figure 4: CMLA Capital Base (\$'000)		CMLA
Common Equity Tier 1 Capital		954,523
plus Additional Tier 1 Capital		200,000
plus Tier 2 Capital		0
Capital Base (A)		1,154,523
plus Regulatory Adjustments to Common Equity Tier 1 Capital		526,842
plus Regulatory Adjustments to Additional Tier 1 Capital		0
plus Regulatory Adjustments to Tier 2 Capital		0
Net Assets		1,681,365
Prescribed Capital Amount (B)		731,616
Capital Adequacy Multiple (A) / (B)		158%

Figure 5: CMLA Statutory Funds and General Fund Capital Base (\$'000)							
	SF1	SF1L	SF2L	SF3	SF4	SF5	GF
Net Assets*	501,274	6,960	20,625	110,969	5,575	824,876	211,086
less Regulatory Adjustments to Net Assets	(171,443)	0	0	10,105	0	(515,461)	149,957
Tier 1 Capital	329,831	6,960	20,625	121,074	5,575	309,415	361,043
plus Tier 2 Capital	0	0	0	0	0	0	0
Capital Base	329,831	6,960	20,625	121,074	5,575	309,415	361,043

* Net Assets includes Additional Tier 1 Capital

Figure 6: CMLA Prescribed Capital Amount (\$'000)							
	SF1	SF1L	SF2L	SF3	SF4	SF5	GF
Insurance Risk Charge	134,341	0	0	6,651	0	78,549	0
plus Asset Risk Charge	24,885	40	162	54,180	59	32,888	14,937
plus Asset Concentration Risk Charge	0	0	0	0	0	0	235,684
plus Operational Risk Charge	33,819	2,135	12,356	3,155	1,166	27,736	0
less Aggregation Benefit	(17,791)	0	0	(4,939)	0	(20,415)	0
plus Combined Stress Scenario Adjustment	44,071	0	0	23,289	0	38,310	6,348
Prescribed Capital Amount	219,325	2,175	12,518	82,336	1,225	157,068	256,969

Figure 7: CMLA Capital Adequacy Multiple (\$'000)							
	SF1	SF1L	SF2L	SF3	SF4	SF5	GF
Capital Base	329,831	6,960	20,625	121,074	5,575	309,415	361,043
divided by							
Prescribed Capital Amount	219,325	2,175	12,518	82,336	1,225	157,068	256,969
Capital Adequacy Multiple	150%	320%	165%	147%	455%	197%	141%

Glossary

Term	Reference	Definition
Additional Tier 1 Capital	LPS112 GPS112	Additional Tier 1 Capital comprises high quality components of capital that satisfy the following essential characteristics: <ul style="list-style-type: none"> (a) provide a permanent and unrestricted commitment of funds; (b) are freely available to absorb losses; (c) rank behind the claims of policy owners and other more senior creditors in the event of winding up of the issuer; and (d) provide for fully discretionary capital distributions.
Aggregation Benefit	LPS110 GPS110	The Aggregation Benefit makes an explicit allowance for diversification between asset and insurance risks in the calculation of the Prescribed Capital Amount. This amount is calculated using a prescribed methodology.
APRA		The Australian Prudential Regulation Authority (APRA) oversees banks, credit unions, building societies, general and life insurance companies (including reinsurance companies), friendly societies and most participants in the superannuation industry.
Asset Concentration Risk Charge	LPS117 GPS117	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. This amount is calculated using a prescribed methodology.
Asset Risk Charge	LPS114 GPS114	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. This amount is calculated using a prescribed methodology.
Capital Adequacy Multiple	LPS110 GPS110	The Capital Adequacy Multiple is equal to the Capital Base divided by the Prescribed Capital Amount.
Capital Base	LPS112 GPS112	The Capital Base consists of Common Equity Tier 1 Capital, Additional Tier 1 Capital and Tier 2 Capital. The Capital Base includes deductions for items which APRA does not deem eligible for inclusion, for example Deferred Acquisition Costs and Deferred Tax Assets.
Combined Stress Scenario Adjustment	LPS110	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. This amount is calculated using a prescribed methodology.
Common Equity Tier 1 Capital	LPS112 GPS112	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.
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	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. This amount is calculated using a prescribed methodology.
Insurance Risk Charge	LPS115 GPS115	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. This amount is calculated using a prescribed methodology.
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, foreign currency translation reserves and other equity instruments qualifying as Additional Tier 1 Capital.
Operational Risk Charge	LPS118 GPS118	The Operational Risk Charge relates to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This amount is calculated using a prescribed methodology.

Term	Reference	Definition
Prescribed Capital Amount	LPS110 GPS110	The Prescribed Capital Amount is a measure of the capital requirement of an insurance company. 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.
Regulatory Adjustments	LPS112 GPS112	Regulatory Adjustments are applied to assets using a prescribed methodology for the purposes of calculating the Capital Base.
Statutory Fund	Life Insurance Act 1995	A Statutory Fund of a life insurance company is a fund that: (a) is established in the records of a life company; and (b) relates solely to the life insurance business of the company or a particular part of that business.
Tier 1 Capital	LPS112 GPS112	Tier 1 Capital comprises of Common Equity Tier 1 Capital and Additional Tier 1 Capital. It is net of Regulatory Adjustments.
Tier 2 Capital	LPS112 GPS112	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.

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