

# COMMINSURE CAPITAL ADEQUACY DISCLOSURE.

Dated: 30 June 2015



## Commlnsure

Commlnsure is a registered 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 a range of general insurance products including 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, the General Insurance Prudential Standards (GPS) apply to general insurance companies like CIL, 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 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 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](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

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. Commlnsure is a registered business name of CMLA and CIL.

## 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 2015 and is provided in Figures 1 to 3.

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

Common Equity Tier 1 Capital	241,212
plus Additional Tier 1 Capital	0
plus Tier 2 Capital	0
<b>Capital Base</b>	<b>241,212</b>
plus Regulatory Adjustments to Common Equity Tier 1 Capital	4,939
plus Regulatory Adjustments to Additional Tier 1 Capital	0
plus Regulatory Adjustments to Tier 2 Capital	0
<b>Net Assets</b>	<b>246,151</b>

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

Insurance Risk Charge	63,747
plus Insurance Concentration Risk Charge	50,000
plus Asset Risk Charge	21,082
plus Asset Concentration Risk Charge	0
plus Operational Risk Charge	20,953
less Aggregation Benefit	(15,071)
plus APRA Prescribed Adjustments	0
<b>Prescribed Capital Amount</b>	<b>140,711</b>

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

Capital Base	241,212
divided by	
Prescribed Capital Amount	140,711
<b>Capital Adequacy Multiple</b>	<b>171%</b>

## 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 2015 and are provided in Figures 4 to 7.

Figure 4: CMLA Disclosures (\$'000)		CMLA
	Common Equity Tier 1 Capital	1,024,612
plus	Additional Tier 1 Capital	0
plus	Tier 2 Capital	0
	<b>Capital Base (A)</b>	<b>1,024,612</b>
plus	Regulatory Adjustments to Common Equity Tier 1 Capital	603,155
plus	Regulatory Adjustments to Additional Tier 1 Capital	0
plus	Regulatory Adjustments to Tier 2 Capital	0
	<b>Net Assets</b>	<b>1,627,767</b>
	Prescribed Capital Amount (B)	608,233
	Capital Adequacy Multiple (A) / (B)	168%

Figure 5: CMLA Statutory Funds and General Fund Capital Base (\$'000)		SF1	SF1L	SF2L	SF3	SF4	SF5	GF
	Common Equity Tier 1 Capital	302,306	7,686	27,044	71,070	5,274	235,662	375,570
plus	Additional Tier 1 Capital	0	0	0	0	0	0	0
plus	Tier 2 Capital	0	0	0	0	0	0	0
	<b>Capital Base</b>	<b>302,306</b>	<b>7,686</b>	<b>27,044</b>	<b>71,070</b>	<b>5,274</b>	<b>235,662</b>	<b>375,570</b>
plus	Regulatory Adjustments to Common Equity Tier 1 Capital	168,554	0	0	(12,867)	0	641,734	(194,266)
plus	Regulatory Adjustments to Additional Tier 1 Capital	0	0	0	0	0	0	0
plus	Regulatory Adjustments to Tier 2 Capital	0	0	0	0	0	0	0
	<b>Net Assets</b>	<b>470,860</b>	<b>7,686</b>	<b>27,044</b>	<b>58,203</b>	<b>5,274</b>	<b>877,396</b>	<b>181,304</b>

Figure 6: CMLA Prescribed Capital Amount (\$'000)		SF1	SF1L	SF2L	SF3	SF4	SF5	GF
	<b>Insurance Risk Charge</b>	<b>113,839</b>	<b>0</b>	<b>0</b>	<b>5,244</b>	<b>0</b>	<b>19,862</b>	<b>0</b>
plus	Asset Risk Charge	28,017	19	149	15,139	46	50,048	14,561
plus	Asset Concentration Risk Charge	0	0	0	0	0	0	278,090
plus	Operational Risk Charge	28,790	2,197	15,049	2,748	1,415	26,925	0
less	Aggregation Benefit	(19,300)	0	0	(3,399)	0	(12,491)	0
plus	Combined Stress Scenario Adjustment	6,245	0	0	3,133	0	25,692	6,215
	<b>Prescribed Capital Amount</b>	<b>157,591</b>	<b>2,216</b>	<b>15,198</b>	<b>22,865</b>	<b>1,461</b>	<b>110,036</b>	<b>298,866</b>

Figure 7: CMLA Capital Adequacy Multiple (\$'000)		SF1	SF1L	SF2L	SF3	SF4	SF5	GF
	Capital Base	302,306	7,686	27,044	71,070	5,274	235,662	375,570
	divided by							
	Prescribed Capital Amount	157,591	2,216	15,198	22,865	1,461	110,036	298,866
	Capital Adequacy Multiple	192%	347%	178%	311%	361%	214%	126%

## Glossary

Term	Reference	Definition
<b>Additional Tier 1 Capital</b>	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>
<b>Aggregation Benefit</b>	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>
<b>APRA</b>		<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>
<b>Asset Concentration Risk Charge</b>	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>
<b>Asset Risk Charge</b>	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>
<b>Capital Adequacy Multiple</b>	LPS110 GPS110	<p>The Capital Adequacy Multiple is equal to the Capital Base divided by the Prescribed Capital Amount.</p>
<b>Capital Base</b>	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>
<b>Combined Stress Scenario Adjustment</b>	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>
<b>Common Equity Tier 1 Capital</b>	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>
<b>General Fund</b>	LPS110	<p>The General Fund is the shareholder's fund of a life insurance company.</p>
<b>ICAAP</b>	LPS110 GPS110	<p>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.</p>

Term	Reference	Definition
<b>Insurance Concentration Risk Charge</b>	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.
<b>Insurance Risk Charge</b>	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.
<b>Net Assets</b>	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.
<b>Operational Risk Charge</b>	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.
<b>Prescribed Capital Amount</b>	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.
<b>Regulatory Adjustments</b>	LPS112 GPS112	Regulatory Adjustments are applied to assets using a prescribed methodology for the purposes of calculating the Capital Base.
<b>Statutory Fund</b>	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.
<b>Tier 1 Capital</b>	LPS112 GPS112	Tier 1 Capital comprises of Common Equity Tier 1 Capital and Additional Tier 1 Capital. It is net of Regulatory Adjustments.
<b>Tier 2 Capital</b>	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.