Catholic Church Insurances Limited

Celebrating 100 years
Serving Church
1911~2011

ANNUAL REPORT 2011

Contents

"The intent for the viewer is both appropriate and clear, with the apparent gleaming cross form having a symbolic light at its centre."

CCI Cross

It was decided some time ago that the CCI main reception area needed a special piece to make a statement about our company and heritage. A designer was briefed on the idea and he came back with a sketch and an amazing vision for something very special to be mounted to the wall in the Melbourne office reception. The result is a truly spectacular cross design with its many facets reflecting movement and colour from its surroundings.

This piece has great strength, narrative and ability to engage with the viewer. The 'stained glass' oxidised titanium serves to draw attention when seen as you enter the Melbourne office from the lift-well.

The intent for the viewer is both appropriate and clear, with the apparent gleaming cross form having a symbolic light at its centre. A spotlight in the reception ceiling accentuates these essential elements. Although made of metal, the colour and light elements hint at movement and prevent it seeming too 'heavy'.

The metal shards are nickel silver and stainless steel, with a fired titanium wedge on the right hand side. At the foot are three small forms akin to nail heads. The plane of the centre vertical cross panel in nickel silver reaches upward to a panel of light, it is a section of lasered diachronic glass (of approximately 9 by 9cm) which denotes light as the centre of Divinity. This is encased in a triangular sterling silver horizontal support with an ebony trim – a reflection of the artists' feeling that wood should be present in a cross as a reference to the cross' history in Christianity.

This cross piece is fully let into the vertical frame. The feature glass panel fits across two metal sections and, due to dichroism, which means it reflects light from more than one angle, its observed colour varies as you walk past from gold through to red, covering all the "warm" colours of the light spectrum. Glass is normally isotropic (i.e. light travels through it in one direction) however diachronic glass allows at least two directions; this adds great effect and visual interest.

Directory

Catholic Church Insurances Limited
ABN 76 000 005 210
AFSL No. 235415

Registered Office and Principal Place of Business

Level 8
485 La Trobe Street
Melbourne Vic 3000

Tel 03 9934 3000
Fax 03 9934 3460

Directors

Paul A Gallagher – *Chairman*

William R d'Apice
(Retired 23 August 2010)

Sister Clare T Condon

Jo Dawson

Norman E B Griffiths

Richard M Haddock
(Appointed 6 October 2010)

J A (Tony) Killen

Reverend Brian J Lucas

Jane A Tongs

Peter A Rush
(Alternate Director for Reverend Brian J Lucas)

Chief Executive Officer

Peter A Rush

Company Secretary

Dominic P Chila

Executive Group

Peter Rush – *Chief Executive Officer*

John Apter – *Regional Manager NSW/ACT*

Jillian Barrie – *Assistant General Manager, Strategy, Marketing & Sales*

Edd Branigan – *Assistant General Manager, Insurance Operations*

Tania Briganti – *Reinsurance Manager*

Dominic Chila – *Company Secretary and Chief Financial Officer*

Charlie Nettleton – *Human Resources Manager*

Rommie Redlich – *Head of Superannuation (Appointed 6 July 2011)*

Ian Smith – *Chief Investment Officer*

Norman Smith – *Information, Communication and Technology Manager*

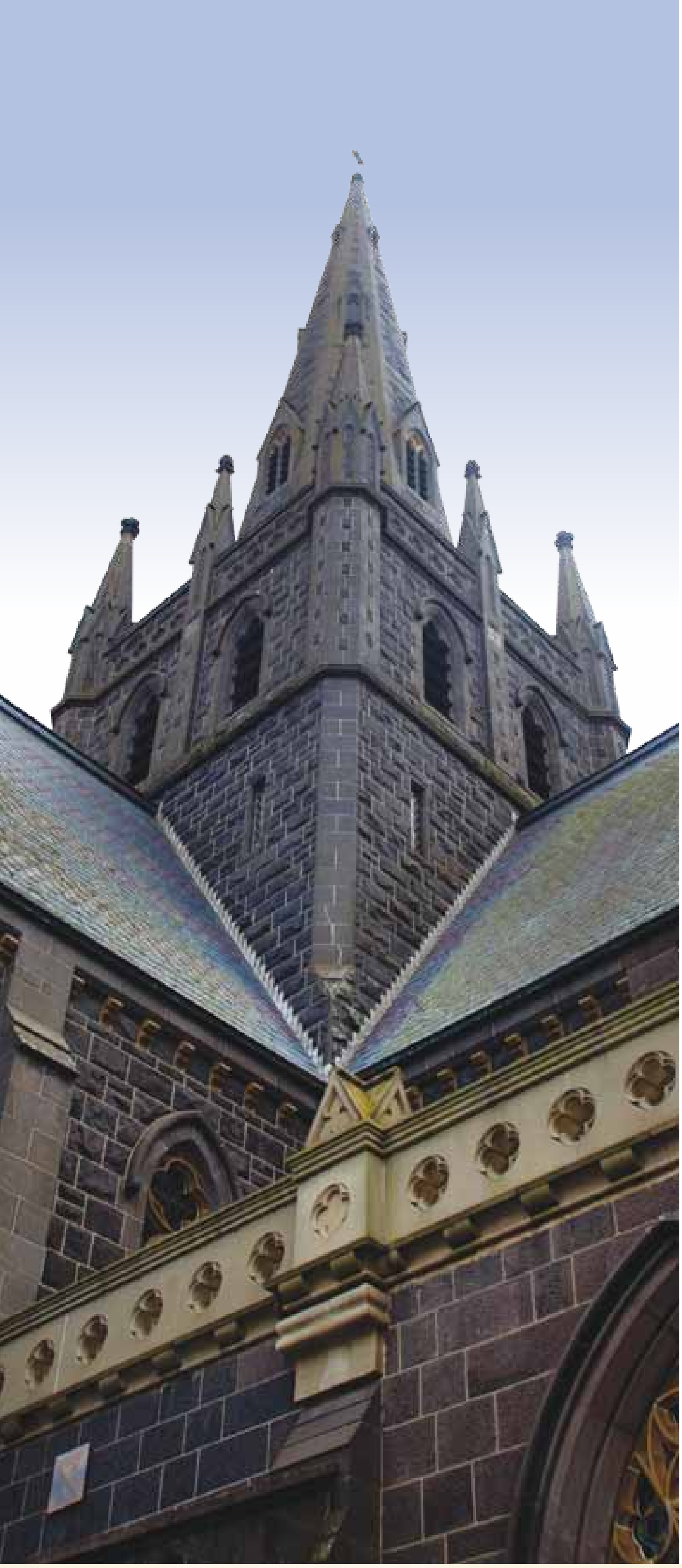
Auditor

Ernst & Young

Ernst & Young Building
8 Exhibition Street
Melbourne Vic 3000

Tel 03 9288 8000

Images: St Mary of the Angels Basilica, Geelong.
Photographer: Dean Phipps



Company Profile

Catholic Church Insurances is celebrating 100 years of protecting the interests of the Catholic Church in Australia. Over the century of service we have developed a reputation for building long term relationships and trust, based on our deep understanding of the Church.

This understanding of the unique needs of the Church community comes from being owned by the Church and existing to serve the Church.

From the beginning, our founding principles have remained constant: to develop specialist products and services which meet the needs of the Church; to control insurance costs; and to retain the surplus within Church.

As we celebrate our 100th anniversary, Catholic Church Insurances both honours its heritage and looks to the future, constantly evolving and introducing new products and services to meet the changing needs of the Church today and tomorrow.

Our history

Catholic Church Insurances has been serving Church in Australia since November 1911, making it one of the oldest national insurance companies.

The company has always been unique among insurance companies. It existed not to make a profit, but to protect the interests of the Church community and to return any surplus made, thus helping to support the mission of the Church.

Since 1911 we have evolved from simple origins as a company offering fire insurance for Church properties into a diversified general insurance and financial services provider.

Today, Catholic Church Insurances provides insurance products to Church and religious institutes, including property, motor vehicle, liability, workers compensation, as well as providing retail products to the broader community.

In 1987, Catholic Church Insurances extended its services to include superannuation administration services. Catholic Church Insurances now provides superannuation administration to Catholic Superannuation Fund.

CCI Timeline

2011 commemorates Catholic Church Insurances' centenary. Take a step back in time to rediscover the past 100 years and some of the key milestones achieved by the company and in the Catholic community.

1910s

1911 On 22 November the company is registered in New South Wales.

1913 The first major fire claims were met by the company.

1917 All authorised shares in the Catholic Church Property Insurance Company of Australasia were allocated.

1920s

1920 Rev Patrick Michael Parker was appointed as the first clerical director of the company.

1928 The 29th International Eucharistic Congress was held in Sydney with more than 20,000 participants.

1929 James Scullin became the first Catholic Prime Minister of Australia.

CCI Investment Management (CCIIM) was established in 2000 as a Church-owned investment service. CCIIM is an unlisted public company limited by shares and is 100 percent owned by Catholic Church Insurances.

In all its operations, Catholic Church Insurances' mission is now, and always has been, to serve Church.

We belong to the Church

Catholic Church Insurances is owned by the Catholic dioceses and religious institutes of Australia, which are represented on the Board of Directors.

Having been formed by the Church for the Church, we share a common passion with our clients. It is our mission to better protect both the business interests of the Church and the communities the Church serves.

Today, as in the past, we are sustained by a prudent leadership team, which operates under the guidance of the Board of Directors and is committed to serving Church.

As a wholly Church owned business, our responsibility to our clients is greater than that of a commercial insurer. Above and beyond meeting the prudential obligations required by governments and regulatory bodies, our responsibility extends to caring for our clients; our Church community.

With state offices Australia-wide and dedicated account executives who travel the length and breadth of the country, we are well equipped to personally deliver our broad range of services to the Church community; no matter where they are.

The result for those we serve is peace of mind.

A different type of insurance company

Throughout its 100 years, Catholic Church Insurances has proven itself to be a truly different type of insurance company – one that has a genuine commitment to caring for its clients.

We actively seek to ensure that all Catholic Church organisations are adequately and fairly insured by providing a diverse range of insurance products to cover all insurable Church risks. Most of our policies come with automatic renewal and we will endeavour to assist Church clients in policy renewals and claims experiences.

Our clients know when they need us, we are there for them, with trusted professional advice and support. In the event of a claim, we act promptly, not only to restore or repair the loss, but to support those who are affected.

As a Church organisation, living Catholic values, our staff understands the importance of fairness, clear communication and caring service, especially when our clients are experiencing times of difficulty or distress.

Our relationship philosophy is simple – to go the extra mile and to be there when it counts. Our service team travels many thousands of kilometres each year, going as far afield as the missions at Cape York and the offshore islands to provide personal service.

Serving the Church and supporting its mission

Catholic Church Insurances is proud to have built a reputation over the last century for actively engaging with the wider Catholic community to help support the Church's mission in pastoral, education, health and welfare work.

We manage a balance between the prudential demands of running an insurance company and being part of the Church community. Each decision is measured against our values of fairness, honesty and commitment to serve.

Operating under mutual principles we are able to put Church interests before company profits. When an operating surplus is achieved, a significant proportion is returned to the Church by way of dividends, distributions to Catholic Church entities and grants. We have returned more than $247.5 million in the last 33 years.

In this way, over the decades many benefits have flowed to the Church community through the operations of Catholic Church Insurances. In addition, CCI has established charitable funds to support sick priests, education programs and social welfare activities.

Catholic Church Insurances is also present at all the milestone events in the life of the Church in Australia. In recent times this has included support for World Youth Day and for diocesan celebrations to mark the Canonisation of Australia's first declared Saint, St Mary of the Cross MacKillop.

1930s

1934 The first National Eucharistic Congress was held in Melbourne.

1937 Archbishops and Bishops of the fourth Plenary Council of Australia and New Zealand published a Joint Pastoral Letter which included a section on the menace of Communism.

1940s

1940 The company introduced war insurance on Church properties through the instigation of the Commonwealth Government.

1946 Archbishop Norman Gilroy became the first Australian born Cardinal.

1948 Company fire policies were extended to include Storm and Tempest Insurance.

1950s

1956 The Schools Provident Fund for the Catholic Archdiocese of Melbourne was established at the instigation of CCI.

1957 The first CCI office for Queensland was opened in Brisbane.

1959 The first Catholic Mass was televised in Brisbane.

Company Profile *(continued)*

We have longstanding relationships of support with organisations including Catholic Health Australia, Catholic Social Services Australia, the Australasian Catholic Press Association and the Catholic Development Funds.

Our products and services – tailored to the Church community

Over a century of service, Catholic Church Insurances has continually responded to the evolving nature of the Catholic community in Australia. This commitment to grow and meet the needs of our clients is reflected in the wide range of insurance and other services now available.

Today, for Church organisations, we offer property, motor vehicle, liability, personal accident and workers' compensation insurances. We insure parishes, schools and other educational facilities, hospitals, nursing homes and other healthcare services, welfare organisations and other Church or religious institutes in Australia.

For individuals, we offer personal insurance products to the broader Church community through our partnership with Allianz Australia Insurance Limited.

We are constantly reviewing our Church clients' insurance programs and also provide specialist services in the following areas:

- Analysis, identification and evaluation of risks
- Planning, implementation and maintenance of insurance programs
- Risk management and loss control – including property, liability and other surveys
- Effective management of claims, and
- Assisting in the evaluation of the insurance component of contracts for construction activities.

In addition, Catholic Church Insurances provides a range of important services at no cost:

- **Free asset assessment service –** CCI provides a free service to estimate replacement value of assets. This saves the cost of expensive property valuations.
- **Subsidised alarm installation –** CCI has allocated more than $12 million to this project over the past 20 years to protect vulnerable schools from burglary and arson loss.
- **Automatic renewal –** CCI provides automatic renewal of all property insurances and most liability covers. This unique practice ensures continuity of cover for your organisations.
- **Free personal accident insurance to religious and clergy –** CCI provides free personal accident insurance for diocesan priests, members of religious institutes and deacons, assisting in parish or other diocesan duties or performing congregational duties.
- **Bishops and religious leaders overseas travel policy –** CCI provides free overseas travel insurance for all archbishops, bishops, whether active or retired, and nominated religious leaders.

Benefits of insuring with the Church's own insurer

We know that Church is not like a business or any other charitable organisation. Its mission is unique and so are its needs. It requires a specialised insurer who, being a part of the Church, truly understands how best to serve its community.

Some of the benefits of insuring with Catholic Church Insurances include:

We guarantee continuity of property cover – There are many benefits to the Church owning its own insurance company, the most important being continuity of cover. Regardless of the size or number of claims, we guarantee to continue property cover. No other insurer in Australia would give such a guarantee.

Confidentiality – Senior Catholic Church Insurances staff regularly liaise with Church authorities and are privy to information of a sensitive nature. Strict confidentiality is always paramount.

Similarly, the confidential manner in which we handle claims against Catholic organisations guards the high reputation enjoyed by Catholic schools, hospitals and other healthcare and welfare agencies of the Church.

Fair settlement of claims – Catholic Church Insurances has an excellent reputation for fair claims settlements. All claims inquiries are judged on their merits and every effort is made to provide assistance to our clients where possible. At Catholic Church Insurances, all third-party claimants are treated with respect and dignity and in a manner that reflects the Church we are a part of.

1960s	1970s	1980s
1964 The first Mass was said in English in Australia. The first company office was opened in Perth.	**1970** Pope Paul VI visited Australia. The company provided Public Liability Insurance cover for this first official papal tour of Australia.	**1982** Professional indemnity policies were extended to cover all teachers and Church counselling agencies.
1968 The Australian Episcopal Conference was established.	**1973** The 40th International Eucharistic Congress was held in Melbourne.	**1983** A Free Travel Insurance Policy was introduced for the hierarchy and leaders of religious congregations.
1969 CCI changed its name from the Catholic Church Property Insurance Company of Australasia to Catholic Church Insurances Limited.	**1978** The new CCI Head Office at 387 St Kilda Road, Melbourne, was blessed and officially opened.	**1987** CCI launched the National Catholic Superannuation Fund.

You deal directly with the underwriter – Catholic Church Insurances is an authorised insurer approved by the Australian Prudential Regulation Authority. Catholic Church Insurances underwrites most classes of general insurance.

Financial security – Catholic Church Insurances' solvency coverage has consistently exceeded the statutory requirements. This ensures that you are dealing with a very secure company.

Peace of mind – The master policies covering property and public/products liability provides immediate protection for newly acquired property. In addition, up to the value specified in the schedule, the motor vehicle policy provides automatic cover on all of your vehicles.

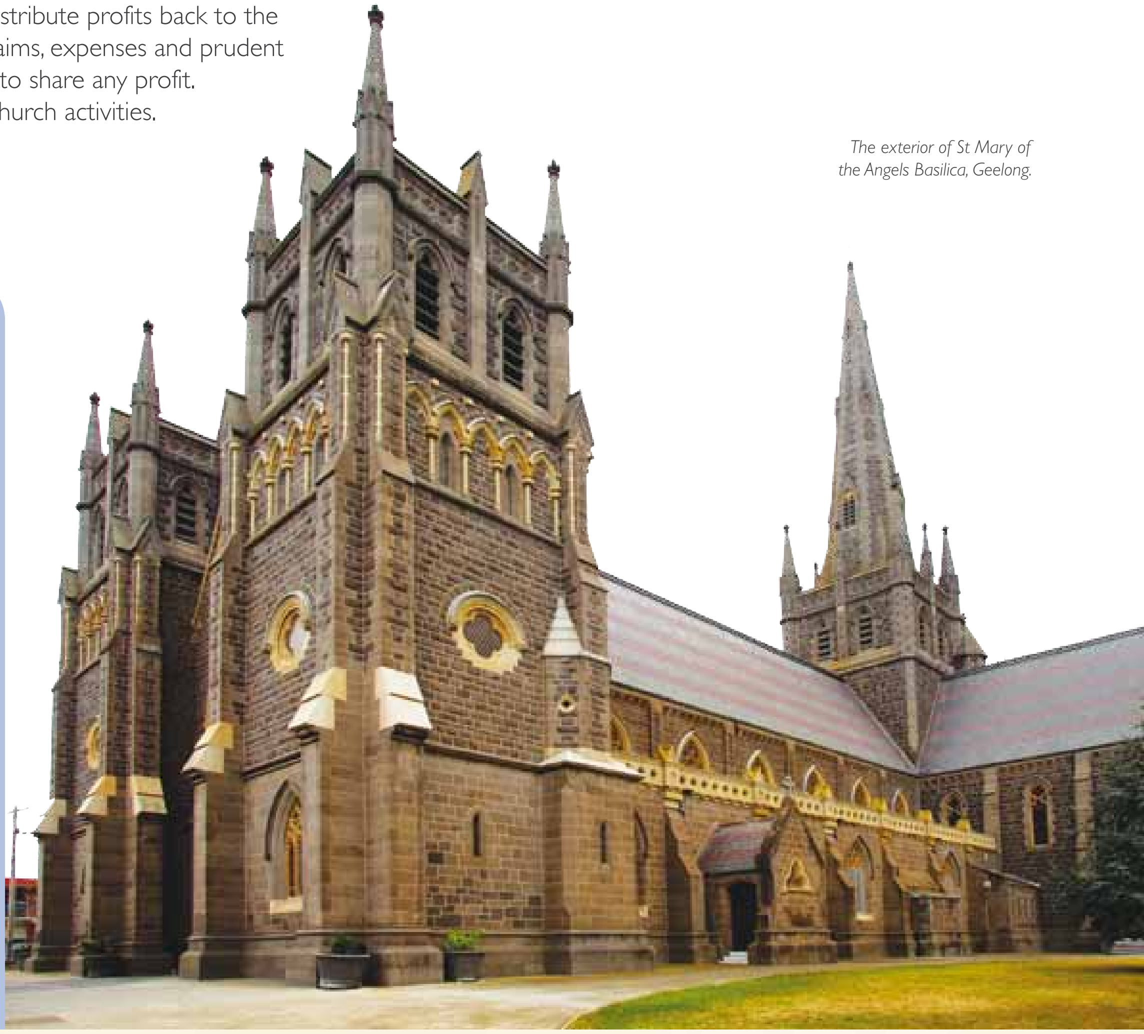
We give back to the Church community – Operating as a mutual company allows us to distribute profits back to the clients of the company. After claims, expenses and prudent reserves, a distribution is made to share any profit.
In this way we support many Church activities.

Our Mission, Vision and Values

Our mission at Catholic Church Insurances today is, at heart, the same mission on which we have built our reputation for a century - to provide ongoing security to the Catholic community by identifying and ethically servicing its insurance and related needs. The vision underlying all our operations is a commitment to serving Church. The values which enable us to achieve our mission and our vision are honesty, fairness and a commitment to serve.

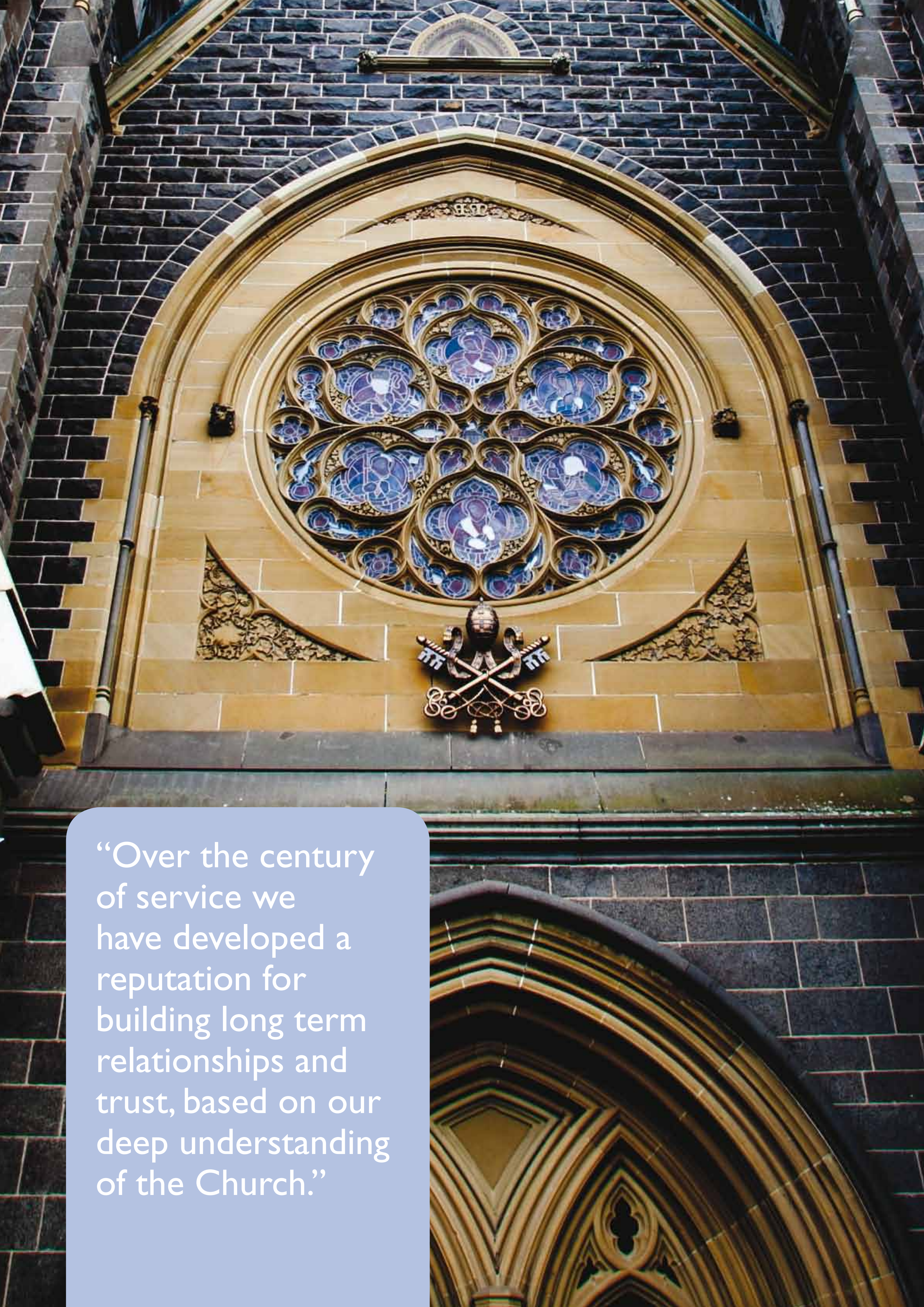
It is our privilege to have been part of the Catholic Church community in Australia for 100 years and we look forward to meeting the unique needs of the Church into the future and to serving the Church in new and exciting ways.

"We know that Church is not like a business or any other charitable organisation. Its mission is unique and so are its needs."



The exterior of St Mary of the Angels Basilica, Geelong.

1990s	2000s	2010s
1992 Sister Angela Ryan, a member of the Brigidine Order, was appointed as the first female director of CCI.	**2007** The Global Financial Crisis negatively impacted CCI's investment portfolio.	**2010** CCI became the official insurance partner for the canonisation of Mary MacKillop. National Catholic Superannuation Fund merged with Catholic Super with CCI continuing as the administrator of the merged entity.
1993 The Australasian Catholic Charities Association was merged with CCI.	**2008** CCI supported World Youth Day through providing insurance during the visit of Pope Benedict XVI, for the main events and for the earlier gatherings associated with Days in the Dioceses around Australia.	**2011** CCI celebrates its centenary on 22 November.
1999 CCI established a specialist investment service for Church clients, CCI Investment Management Limited.		



"Over the century of service we have developed a reputation for building long term relationships and trust, based on our deep understanding of the Church."

Highlights of The Year 2011

- The achievement of an operating surplus of $33.4 million after distributions
- First class reinsurance protection to our policyholders in a period dominated by global catastrophes
- A sound insurance result with an underwriting profit of $18.8 million
- Prudent management of the investment portfolio with investment income of $48.1 million and performance returns above benchmark
- Sound financial security with a solvency coverage of 2.03 times the minimum required by the Australian Prudential Regulation Authority (APRA), nil borrowings and shareholders' equity of more than $302 million
- A recommendation of an ordinary dividend to shareholders of 40 cents per share
- Payment of grants to the Australian Catholic Bishops Conference, Catholic Religious Australia and Catholic entity distributions of $23.8 million, bringing the total distributions in the last 33 years to $247.5 million
- Implementation of strategies to achieve the corporate objectives and strengthen the company's commitment to Serving Church
- The enhancement of the company's corporate governance framework

Vision, Mission, Values

VISION

'Serving Church'

The vision of Catholic Church Insurances is to serve Church. As the Church's own insurer and provider of risk management services, we are an active member of the Church community.

MISSION

'To provide on-going security to the Catholic community by identifying and ethically servicing its insurance and related needs'

The mission of Catholic Church Insurances is to be recognised by Church as the provider of Church-focussed insurances and risk management services.

VALUES

The company's values support our vision and guide our operations and customer service charter. They are:

Honesty

Fairness

Commitment to Serve

"As we celebrate our 100th anniversary, Catholic Church Insurances both honours its heritage and looks to the future, constantly evolving and introducing new products and services to meet the changing needs of the Church today and tomorrow."

Management

Chief Executive Officer – **Peter Rush**

Finance and Administration

Company Secretary and Chief Financial Officer – **Dominic Chila**

Finance Manager, Insurance – **Jenny Slavkovic**
(Maternity leave from 9 March 2011)

Finance Manager, Insurance – **George Christakos**
(Maternity leave replacement from 9 March 2011)

Finance Manager, Superannuation – **Peter Nancarrow**

Corporate Compliance and Governance Manager
– **Robert Halley-Frame** *(until 15 August 2011)*

Corporate Compliance and Governance Manager – **Paul Korte**
(from 15 August 2011)

Internal Audit Manager – **Steven Berizzi**

Human Resources

Human Resources Manager – **Charlie Nettleton**

Information, Communications and Technology

Information, Communications and Technology Manager – **Norm Smith**

Technology and Infrastructure Manager – **Carlo DeFazio**

Applications & Business Analysis Manager – **Julian Ryan**

Insurance Operations

Assistant General Manager, Insurance Operations – **Edd Branigan**

National Claims Manager – **Marita Wright**

Underwriting Operations Manager – **Ray Wilson**

National Risk Management Manager – **Mark Wilson**

Reinsurance Manager – **Tania Briganti**

Workers' Compensation Manager, NSW/ACT – **Chris Wilson**

Portfolio Manager, Liability and Workers' Compensation – **Glenn Stewart**

Portfolio Manager, Property – **Manfred Kurz**

Investments

Chief Investment Officer – **Ian Smith**

CCI Investment Management General Manager – **Peter Rush**

CCI Investment Management Manager – **Ian Smith**

Manager Investment Services – **Shali Lingaretnam**

Strategy, Marketing and Sales

Assistant General Manager, Strategy, Marketing and Sales – **Jillian Barrie**

Marketing Manager – **Judith McCarthy**

Business Development Manager, Personal Lines – **Jane Thorrington**

National Business Development Manager – **Mark Daniels**

Regional Manager VIC/TAS – **Michael Newell**

Regional Manager NSW/ACT – **John Apter**

Client Services Manager NSW – **Jeff Giltinan**

Branch Manager ACT – **Tony Cassar**

State Manager QLD – **Gary Esler**

State Manager SA/NT – **John Lemm**

State Manager WA – **Bob Fragomeni**

Superannuation

Head of Superannuation – **Rommie Redlich**
(appointed 6 July 2011)

Strategic Planning

The financial year ending 30 June 2011 delivered many challenges, including the seven natural disasters of floods, cyclones and bushfires which occurred in quick succession in early 2011 across Australia.

These catastrophes devastated communities and affected our Church clients. The Church itself also faced its own challenges of affordability and changing financial structures.

Changes in the economic and political landscape also created additional pressure on compliance and regulation.

Given these circumstances, the strategic focus for Catholic Church Insurances is on increasing the levels of service to our clients and understanding their current and future needs.

During the year it was therefore our intent to bring the voice of our clients into the business to shape future strategies. To achieve this we undertook:

- A qualitative analysis of our clients' needs
- The *Essential Conversation* client forum series which was launched as a national program to enable us to hear directly from the senior management of our Church clients about how we might serve them better, and
- Enhancements to the delivery of our value added services such as risk management.

Our strong client focus was supported by our deliverables under 5 pillars of strategy.

5 Pillars of Strategy	Deliverables
Retain our current clients through excellent service provision	• Protect and retain our client base through meeting our client needs and providing superior service • Build on our delivery of Risk Management services • Deliver high levels of service to Catholic Super Fund through our Superannuation Administration department • Provide high levels of return on investment to the clients of our CCIIM business
Acquire new business	• Continually seek new clients within our market segments by offering our products and services
Grow the business through channel partners	• Build on our partnership with Allianz to provide our current and potential clients with an additional suite of products as well as access to additional service channels
Focus on our people, profitability and expense management	• Build an "excelling" culture with our people in order to remain an "Employer of Choice" and to service our clients • Manage our expenses responsibly • Increase the efficiencies and effectiveness of our business processes and systems in order to deliver continuous improvement to our clients
Remain part of Church fabric	• Continue to support our clients through sponsorships and partnerships • Work closely with our client base on issues impacting Church with a view to finding solutions and improvements • Refresh our brand, our values and our value proposition to ensure our long term sustainability and our ongoing ability to serve Church

Chairman's Report

Reaching 100 years of continuous service to Church is a milestone for Catholic Church Insurances.

We can proudly look back on the growth and development of the company over the years and see a consistent acknowledgement of the mutual principles on which the company was founded. It is an honour for me to be the Chairman of the company in its centennial year.

Achieving a stable and consistent performance has been a long term objective for the Board of Directors of Catholic Church Insurances.

I am pleased to report another strong result with the company achieving a surplus of $33.4 million, after distributions, for the financial year ended 30 June 2011; this is consistent with the previous year's result of $37.8 million.

The achievement of such a positive outcome is a testament to the prudent investment strategies in place, which have protected the company during a year of higher than usual volatility in investment markets. It also reflects the stability of our insurance operations, especially in a period dominated by natural disasters.

During the financial year, shareholder funds grew from $271 million to $302 million reinforcing the strong asset base for the company. Solvency as at 30 June 2011 was 2.03, which means we maintained a significantly higher solvency margin than the minimum amount required by the Australian Prudential Regulatory Authority (APRA).

Distributions

The strong result has allowed the Board of Directors to recommend a 40c dividend per share payment to shareholders and an allocation of $23.8 million in Catholic entity distributions to be returned to Church policyholders.

Grants

Catholic Church Insurances continues our support of the Australian Catholic Bishops Conference and Catholic Religious Australia with grants to both organisations.

Corporate governance framework

APRA is introducing the next phase of its capital reforms for all general insurers effective in January 2013 with an even greater focus on risk-sensitive assets. Our initial assessment confirms that the company will continue to exceed the minimum level of solvency required by the regulator by a significant margin and further consideration of our position will be made when the final APRA requirements are released in 2012. The Board remains confident that the company will be able to meet any additional capital requirements imposed under the reforms.

Board committee results

Investment returns continue to provide the largest contribution to the company's surplus. The Board's Investment Committee regularly reviews the investment strategies and processes to ensure an appropriate balance between the protection of the company's and shareholder's assets and the maximisation of investment returns is maintained. The current investment strategy has been tested again with higher than normal levels of volatility in investment markets. The strong investment performance achieved in that environment confirms that our investment policies are sound.

The Board's Budget Committee has approved sufficient and modest budget allocations to promote growth and development of the important workers' compensation and superannuation administration projects. Ultimately, these projects will provide operational efficiencies to the business.

The natural disasters which occurred both locally and overseas, during the financial year have driven significant increases in the cost of reinsurance. The renewal and cost of our reinsurance program has been a focus for the Reinsurance Committee. Catholic Church Insurances' excellent relationship with our reinsurers has supported these negotiations, which culminated in a modest increase in the cost of catastrophe reinsurance.

The company fared considerably better than other insurers from the natural disasters and this was reflected in a better-than-most renewal position. A concerted effort was made to reduce company expenses to offset the reinsurance increases, thereby minimising the effect on clients through insurance premiums. Cognisant of the financial pressure on many clients, the Board is committed to exploring all options to manage the affordability of insurance for our Church clients in the future.

Corporate risk management and governance is scrutinised by the Board's Audit, Risk Management and Compliance Committee. The most critical risks are under constant review with strategies developed and implemented within a structured framework to mitigate these risks. Using a best practice approach the Board is confident that management has in place the protocols required to manage corporate risk.

The Remuneration Committee has now implemented the changes to the structure and reporting of executive remuneration required by APRA, and the new requirements are now operational.

Strategic initiatives

The future strategies of the company receive a considerable amount of the Directors' attention and the Board has approved the assessment of a number of strategic projects which will support our corporate objectives.

These include the ongoing assessment of the affordability of insurance for our Church clients, the impacts of changes in the structure and management of Church organisations on our business operations, and the implementation of critical projects to support the business in the medium to long term.

The Board monitors progress of the strategic initiatives including the personal insurances partnership with Allianz, the development of new systems to support workers' compensation and superannuation administration and other corporate initiatives.

Board changes

Bill d'Apice retired from the Board of Directors on 23 August 2010 and we thank him for his outstanding contribution to Catholic Church Insurances, for more than 15 years. Directors welcome Richard Haddock to the Board of Directors. Richard was appointed on 6 October 2010.

Bill d'Apice steps down after 15 years of service

The 2010/11 financial year saw the end of an almost five decades long family association with Catholic Church Insurances, when Bill d'Apice stepped down from the CCI Board.

Bill joined the Board of Catholic Church Insurances in 1995, serving as Chairman from 2000-2009 and retiring from his role as a Non-Executive Director in 2010. His father Hugh, now aged 91, had previously spent 33 years as a CCI Board member.

According to Bill, the long family connection to the CCI Board was not planned, but rather, was simply a consequence of the family's desire to serve the Church.

"It just seemed to happen that way," he says.

In his 15 years on the Board, Bill says he saw Catholic Church Insurances grow and develop in a number of key areas.

"CCI has also responded well to particular challenges for the Church community."

"It certainly grew in sophistication and expertise over those years," he says. "And that was largely a response to a growth in sophistication of the administration of the Church community as a whole.

"CCI has also responded well to particular challenges for the Church community."

These challenges included changes to the insurance market by events such as the World Trade Centre terrorist attacks, as well as the increasing number of laity in leadership positions within the Church.

"During those years we also started to institute a greater focus on risk management in the Church community, rather than just straight provision of insurance products," he says.

Bill nominates the establishment of CCI Investment Management as a significant event in his time on the Board, providing an investment vehicle for Church organisations.

He was an inaugural Director of CCI Investment Management and remained on the CCIIM Board until 2010.

With Catholic Church Insurances celebrating its 100th anniversary in 2011, Bill says it holds a special position in the Church community.

"It is certainly unique within the Church as a national organisation, providing financial services across dioceses and religious organisations," he says.

"It has a rare status in the Church and enjoys a good reputation across the board."

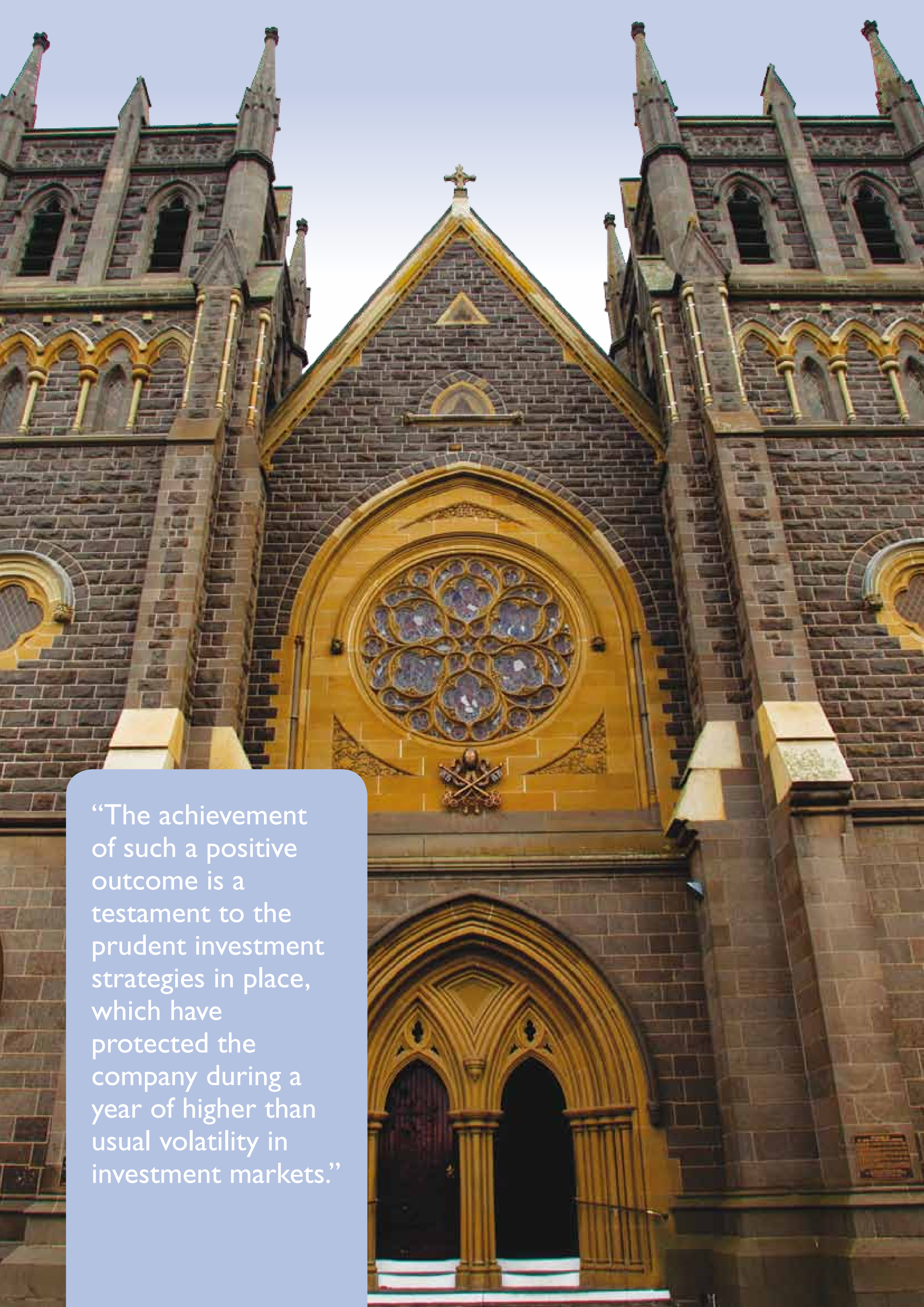
Bill stood down from the CCI Board as part of a planned retirement schedule designed to ensure a regular turnover of the Board members and Chair.

"I really enjoyed my time on the Board," he says. "I will miss it, especially my close working relationship with the CEO, Peter Rush, and the Board."

Life after the CCI Board has offered no let-up for the busy Sydney solicitor.

"No, I thought I'd be able to sit around with my feet up on my desk," he jokes. "But it hasn't worked out that way."

He continues to serve the Church community via a large range of board and committee appointments, including as Chair of Calvary Ministries, a work established by the Little Company of Mary.



"The achievement of such a positive outcome is a testament to the prudent investment strategies in place, which have protected the company during a year of higher than usual volatility in investment markets."

CCI Investment Management (CCIIM)

The following Directors resigned from the Board of CCI Investment Management – Peter Bokeyar, Paula Dwyer and Bill d'Apice. They were replaced by Jo Dawson, Reverend Brian Lucas, Jane Tongs and Richard Haddock. Tony Killen remains as Chairman.

CCI Investment Management achieved positive returns across all investment classes during the financial year. The strategic objectives and operational processes of CCI Investment Management continue to be reviewed to ensure the investment needs of clients are delivered.

Superannuation Administration

It is now more than a year since the merger of National Catholic Superannuation Fund and Catholic Superannuation Fund. The Board is very pleased with the performance of this business unit in managing the consolidation of members' superannuation and working with the Trustees of the new merged fund, Catholic Super, to improve systems and processes for the benefit of members and participating employers.

Outlook

The Board undertakes regular monitoring and reviews of the strategic initiatives and operations of Catholic Church Insurances to ensure that we remain true to our mission of serving Church. The company remains well placed to manage the challenges which lie ahead. Over the next period, we anticipate the two significant issues of APRA reforms and the structural change of many of our clients and shareholders will be demanding on our business and the Board is confident of the company's ability to adapt to and, in some cases, contribute to that redirection. Our principal focus will continue to be the provision of excellent service and maintaining a relevance to the Church we serve.

I would like to thank my fellow Directors for their support, dedication and hard work throughout the year. In particularly, I would like to express our gratitude to our loyal shareholders and policyholders for continuing to place your trust in this company. And finally, thank you to our Chief Executive Officer, Peter Rush, his executive team and the staff of Catholic Church Insurances for their ongoing commitment to serving Church.

Paul Gallagher
Chairman

Directors of the Board of Catholic Church Insurances Limited from left to right:
Paul Gallagher - Chairman, Richard Haddock, Sister Clare Condon, Reverend Brian Lucas, Jane Tongs, Tony Killen, Norman Griffiths and Jo Dawson

Corporate Governance Statement

For the year ended 30 June 2011

This statement sets out the main corporate governance practices in operation throughout the year unless otherwise indicated.

The Board of Directors

The Board of Directors is responsible for the corporate governance practices of the company including:

- The appointment and periodical review of the performance of the Chief Executive Officer
- Setting the strategic direction, reviewing and monitoring progress, and refining the direction where considered appropriate
- Establishing and monitoring the achievement of goals and targets
- Ensuring regulatory compliance and adequate risk management processes, including internal controls and external audit reports
- Nominating and appointing Directors when vacancies occur or when special skills and expertise are required, and
- Reporting to shareholders.

At the date of this statement the Board is comprised of 8 non-executive Directors including the Chairman. The company has no executive Directors.

The Constitution provides:

- For not less than 3 nor more than 8 Directors
- That one third of the Directors retire by rotation at each Annual General Meeting. Retiring Directors may be eligible for re-election, and
- That Directors who have been appointed since the last Annual General Meeting hold office only until the next Annual General Meeting and shall then be eligible for re-election.

Board Committees

To assist in carrying out its responsibilities, the Board has established a number of committees of Directors and other persons co-opted for the purpose who meet regularly to consider various issues. All committees report and make recommendations to the Board.

The Board committees are Audit, Risk Management & Compliance, Budget, Directors' Governance, Investment, Reinsurance and Remuneration.

Audit, Risk Management & Compliance Committee

The committee must have at least 3 members. The Chairman of the Board may be a member of this committee but cannot chair the committee.

The members of this committee must satisfy themselves as to the adequacy and independence of the internal and external audit functions.

The members of this committee must have free and unfettered access to senior management, the internal auditor, the heads of all risk management functions, the company's Appointed Auditor and Appointed Actuary at all times.

This committee must invite the company's Appointed Auditor and Appointed Actuary to meetings of the committee.

This committee must establish and maintain policies and procedures that allow employees of the company to submit, confidentially, information about accounting, internal control, compliance, audit, and other matters about which the employee has concerns.

The role of the Audit, Risk Management & Compliance committee is to:

- Review the company's annual accounts and the external auditor's annual report
- Review the appointment of the external auditor and actuary
- Review the scope of the external and internal audits
- Review the reports of the external and internal auditors to assess internal controls and monitor for suitability, reliability and compliance
- Review the external auditors' management letter and response
- Ensure compliance with the Insurance Act, APRA guidelines and other relevant legislation
- Review the Compliance Plan and assess reports on compliance with relevant legislation, regulations, standards, the insurance industry Code of Practice, the Risk Management Plan (including the Business Continuity Plan) and various company policies
- Review Statement of Integrity of Financial Reporting from Chief Executive Officer and Chief Financial Officer, and
- Review APRA reports and management responses.

Budget Committee

This committee reviews the revenue, expense and capital budgets prepared by management and makes recommendations to the Board.

Directors' Governance Committee

The role of this committee is to make recommendations regarding the size and composition of the Board, the range of skills required, retirement age and maximum term of office.

The committee also monitors Board effectiveness, plans for Directors' retirement and also identifies and recommends suitable candidates for appointment to the Board.

Key Church personnel skilled in particular areas may be co-opted as appropriate to assist the committee in its deliberations.

Investment Committee

The Investment Committee is responsible for the direction and monitoring of the investment portfolio, subject to the objectives, controls and limits approved from time to time. The mandate includes the specific responsibilities to:

- Examine the percentages of the present asset mix in the portfolio and direct management as to any changes to be made, subject always, to the controls and limits specified by the Board
- Engage the services of professional advisers as appropriate to assist in determining the parameters for the different sectors of the portfolio and to set those parameters in consultation with the Board
- Periodically review the appropriateness of selected parameters and recommend to the Board any adjustments considered necessary
- Be available for consultation by management in relation to any matters affecting the portfolio or in selection of any particular investment, and
- Ensure that reports from management are adequate to determine compliance with policy and the performance of the investment operation.

Reinsurance Committee

The role and responsibility of this committee is to make recommendations to the Board regarding:

- Formulation of Reinsurance Management Strategy including reinsurance policy and objectives, and the establishment of controls, retentions and limits
- Empowering management to make reinsurance decisions, consistent with policy and to take advice from external experts as appropriate, and
- Ensuring that reports from management are adequate to determine compliance with the policy which will include compliance with statutory and regulatory requirements.

Remuneration Committee

The responsibility of this committee is to review and make recommendations on the job evaluation, remuneration reward systems and policies of the company using the advice of external consultants as appropriate.

Directors' arrangements with the Company

The Constitution provides that a Director or a firm or company with which a Director is associated may enter into an arrangement with the company. Directors or their firms or companies may act in a professional capacity for the company other than to act as an auditor of the company.

These arrangements are subject to the restrictions of the Corporations Act. Professional services so provided must be conducted under normal commercial terms and conditions.

Disclosure of related party transactions is set out in the notes to the consolidated financial statements.

Directors make an annual declaration as to their suitability to act as a Director in accordance with the company's Fit and Proper Policy, and confirm their status at each meeting of the Board. Any potential conflict of interest is declared and recorded in the Conflicts of Interest Register.

It is the practice of Directors that when a potential conflict of interest may arise, the Director concerned does not receive a copy of the information contained in Board papers, and that Director withdraws from the Board meeting whilst such matter is being considered and subsequently takes no part in discussions nor exercises any influence over other members of the Board.

"We understand Catholic organisations need the protection of robust insurance covers and risk management programs to ensure the continuation of their important mission."

Chief Executive Officer's Review of Operations

"It has been our honour to serve Church for 100 years."
~ Peter Rush, CEO

In November 2011 Catholic Church Insurances (CCI) will reach the significant milestone of 100 years of serving Church.

In this our centennial year, I am pleased to report a strong performance resulting in a surplus of $33.4 million for the financial year ended 30 June 2011. This achievement is testament to the consistent and prudent approach to the management of the Church's funds entrusted to the company and invested by us for the future. This result has allowed the Board of Directors to recommend a 40c dividend per share payment to shareholders and an allocation of $23.8 million in Catholic entity distributions to be returned to Church policyholders.

Catholic entity distributions are unique to CCI and are made possible by the mutual principles under which we operate. Including this year's distributions, CCI will have returned in excess of more than $247.5 million over the past 33 years.

The company prides itself on sound financial management and has achieved solvency coverage of 2.03 times the minimum required by the Australian Prudential Regulation Authority (APRA), nil borrowings and shareholders' equity of more than $302 million.

Insuring Catholic organisations is a complex business where a balance is needed between the collection of sufficient premium to cover claims while being mindful of the affordability of those premiums. We understand Catholic organisations need the protection of robust insurance covers and risk management programs to ensure the continuation of their important mission.

The necessity of insurance protection was strongly demonstrated at the beginning of 2011 by the devastation left by seven natural disasters which affected almost every Australian state. Our Catholic clients, on the whole, were spared from major damage as a result of the storms, floods and cyclone, with claims from all events totalling just $16.8 million. However, in the broader community, the deaths and the widespread damage to property will continue to affect many Australian communities for a long time.

With 100 years experience insuring the Catholic community, CCI has a unique understanding of Church risks. Due to that long relationship with the Catholic Church our insurance covers reflect our depth of understanding of the specific risk factors of Church buildings and operations. This allows us to provide a broad range of insurance products that are tailored to the needs of the Church.

Investment markets and performance

Investment markets exhibited higher than usual levels of volatility throughout the financial year to 30 June 2011, as central banks in the developed world dealt with their respective debt problems. This created a degree of uncertainty among investors with many moving their investments from equities to cash and Government bonds throughout the latter part of the financial year.

CCI manages an investment portfolio through a mix of Australian and international equities, property, cash and fixed interest asset classes. Our considered and flexible approach to investing these assets through policy controls and limits allows for appropriate adjustment to our investment mix in volatile times. By doing so, investment risks are maintained within acceptable parameters at the same time as aiming to achieve our desired returns. This approach has allowed us to achieve investment income of $48.1 million and performance returns above benchmark.

FACTS – OUR LARGEST CLAIMS

Name:	**St Patrick's Cathedral, Parramatta NSW**
Date of loss:	**19/02/1996**
Nature of loss:	**Fire damage to cathedral**
Cost:	**$5.68 million**

At approximately 4pm on 19 February 1996, a fire was deliberately lit in St Patrick's Cathedral, Parramatta. Starting in the northern end of the cathedral on the gallery level the fire spread south along the pitch line of the ceiling. Flaming ceiling material dropping onto the timber floor and other combustible materials then spread the fire to the ground-floor main body of the cathedral, causing the building to cave in.

It is estimated from when smoke was first noticed wafting through the roof it took less than ten minutes for the fire to engulf the building.

One year after the destruction of the cathedral the restoration and design of a new cathedral complex on the same site was commissioned. The new St Patrick's Cathedral is more than the restoration of what was lost in the fire; it is a new creation. Incorporating functional and structural changes, it has seating for 800 people, a new entry plaza, cloister garden, parish hall, and improved parking.

On 29 November 2003, nearly eight years after it was destroyed, the official Dedication Mass was celebrated in the new cathedral.

Through prudent investment management, Catholic Church Insurances has been able to continue to make Catholic entity distributions to the Church through these volatile times. Our investment portfolio for the financial year to 30 June 2011 returned 8.36% which was above the performance benchmark. While this result is not outstanding, it is certainly very pleasing in a difficult environment and reflects the degree of attention which this part of our business receives at management and Board level.

Insurance environment

In the early months of 2011, Australians reeled from the news of seven natural disasters across the nation in unprecedented rapid succession. The immediate effect of the floods, cyclone and bushfires was severe devastation to homes and businesses. Worse was to come with the shocking news of the second Christchurch earthquake, quickly followed by the terrifying Japanese earthquake and tsunami.

Whether it was by good management, good luck or the hand of God, our clients were mostly saved from the level of destruction we witnessed elsewhere. In not underwriting the Church insurance in New Zealand, the company was saved from the huge financial impact of that catastrophe and, of course, we do not transact business in Japan. Nonetheless, we have already witnessed some significant longer term consequences, particularly with reinsurers, which will affect all insurers and their clients in the future. As a result of these catastrophes we experienced a high volume of property and motor vehicle claims, including a significant large flood loss in Western Australia.

The most serious financial outcome from natural disasters is suffered by reinsurers, due to the nature of this global marketplace. As we have seen from similar events previously, reinsurance companies are reeling from the claims on reinsurance policies as insurers exceed their claims thresholds and activate their specific catastrophe reinsurance programs. This has resulted in an immediate review by some reinsurers of their exposures in the Asia Pacific region, resulting in some significant price increases during the renegotiation of those covers. In turn, insurance companies have had to pass on those increases to their clients.

Strategic planning

The planning and implementation of our corporate strategy is an ongoing process. Despite the challenges the company has faced through the economic and natural disasters, the focus has been on strengthening the core business and ensuring there is continuous improvement in all aspects of providing insurance service to the Church, including skills, processes and technology.

Our corporate plan is reflected in the 5 pillars of strategy:

1. **Retention** – Retain our current clients through the provision of excellent customer service
2. **New Business** – Acquire new business to build on our existing base

FACTS – OUR LARGEST CLAIMS

Name:	**Warmun Ngalangangpum School, Warmun WA**
Date of loss:	**14/03/11**
Nature of loss:	**Flood damage to school & surrounding buildings**
Cost:	**Estimated at $7.33 million**

Severe rain hit Warmun in the far north of Western Australia on 14 March 2011 causing the local creek to burst its banks and water to rise up to ten metres. This resulted in severe flooding at the remote aboriginal community and has caused extensive damage to the Warmun Ngalangangpum school area.

The school site includes the administration building, kitchen, convent, pre-school, primary and secondary schools, storage shed, science and manual arts building, two transportable buildings and the pastoral annex.

The first task after the flood was to help the school and Catholic Education Office set up temporary classrooms so it was operational when the children returned after school holidays.

Catholic Church Insurances is continuing to work with the Catholic Education Office and building consultants.

3. **Channel Partners** – Grow our personal insurance offerings by working with our channel partner, Allianz
4. **People, Profitability and Expense Management** – Improve staff skills and leadership, business processes and expense management, and
5. **Part of Church Fabric** – Remain part of Church fabric and continue our 100 year tradition of serving Church.

Our achievements can be grouped under the following headings which support the 5 pillars of strategy:

Retain and grow our core business

- A continued focus on understanding the needs of our clients through a major qualitative research project and client forums in Sydney and Melbourne
- The introduction of new and improved products to meet the needs of our clients, such as the new statutory liability policy and the revised motor fleet policy
- The continued rollout of the *EvalU* program designed to value churches, presbyteries and diocesan schools correctly
- Improved risk management services
- The successful completion of our first year with our personal insurance partner, Allianz and
- The provider of administrative services to more than 70,000 members after the successful merger of National Catholic Superannuation Fund with Catholic Superannuation Fund.

Manage our people, profitability and expense management

- The launch of our internal leadership and management development programs
- Streamlined expenses and reporting processes and the recalibration of profit centres for better accountability and expense management, and
- A strong focus on further improvements in our systems and procedures, including the launch of our new workers' compensation system in NSW.

Remain part of Church fabric

- The ongoing support of our Church organisations through sponsorships and seminars, and
- Working actively with our clients on key Church issues, such as the affordability of insurance premiums for parishes.

Insurance Operations

One of our key objectives is to maintain insurance premiums at competitive and affordable levels, without diminishing the quality of the insurance protection the company provides. During the year, we have been able to achieve this in our major classes of business, with premium increases due only to adjustments to sums insured.

The new statutory liability product, launched in November 2009, which provides protection for clients against penalties imposed by regulators for unintentional breaches of legislation, has proven very popular. In 2009 we also commenced a program, called *EvalU*, to streamline the process of valuing Church properties and we are continuing this work with the revaluation of 46% of churches, presbyteries and diocesan schools now complete. The number and value of buildings within the portfolio increased substantially due to the Federal Government's 'Building Education Revolution' program.

Reinsurance support

Catholic Church Insurances has sought to build strong relationships with our reinsurance partners. While other insurers might look to buy their reinsurance protection at the most competitive price available in the market, we recognise the value of a reinsurance partner is not necessarily price related. In addition to protecting the capital of our business, reinsurers provide expertise in complex matters and recognise the unique nature of our portfolio. Not only have they protected our company from much of the financial impact of this year's natural disasters, they have kept the increase in our reinsurance premiums to a low level, unlike other companies in the market..

We seek to purchase reinsurance covers at attachment points that strongly protect the capital of the company, particularly in the case of large individual and catastrophic losses.

While this year has been a difficult period for Australian insurers and global reinsurers alike, we are grateful to our loyal reinsurers for understanding our business and for continuing to allow us to insure high-value properties and liabilities, which enables us to continue to serve Church.

Managing risk

Providing risk management advice to our clients has been an important service for more than 20 years. During the financial year, in addition to general risk management advice and education, these services included:

- Subsidising the installation of 35 alarm systems in Catholic schools and colleges
- Designing and funding the installation of a Very Early Smoke Detection Apparatus (VESDA) in one cathedral and commencing the design for another
- Conducting risk assessment and profiling workshops for dioceses
- Partnering with the Office of Employment Relations to deliver *'Keeping your Parish Safe'* seminars, and
- Conducting a number of onsite risk control reviews for the parish and education sectors.

Client Services and Marketing

In 2010/11 the Client Services team continued to provide personalised service to our clients on a national basis.

During the year, we undertook a major project analysing the needs of our clients and designed to improve our service models and to ensure those needs are reflected in all levels of corporate planning. The results of the research have strongly influenced the prioritisation of projects for the coming year 2011/12 and include an online strategy and the streamlining of client processes and procedures.

We also introduced our *Essential Conversation* seminars. This series of presentations in Sydney and Melbourne (and subsequently in other states) concentrated on the topic of governance and compliance and offered clients an understanding of our business model. The seminars were well received and will continue to be conducted nationally on an annual basis.

In 2009, and in support of our upcoming centenary celebrations in November 2011, we commissioned the research and writing of the history of the company. This extensive work has continued for the past two years and will result in the launch of a book covering the story of the company in November 2011.

Personal Insurances

The first year of the partnership between CCI and Allianz for personal insurances is now complete. This business model has enabled us to concentrate operational resources on core business while continuing to provide quality products to the Catholic community at competitive prices.

In the first 12 months, our key achievements are:

- An increase of 19% in new business since our partnership commenced
- Over $1.0 million paid in claims to our clients, and
- 74% of existing customers have renewed their policies under the new partnership.

Over the coming year, we will continue to identify and develop opportunities to build new business in this area of the company.

Technology supporting the businesss

The company operations are dependent on reliable computer systems and communication networks. The advances in technology and communication devices has heralded the introduction of iPhones and iPads, enhanced security, upgrades to the internet and the intranet, and other systems upgrades and new applications over the past 12 months.

A strong team effort has enabled the company to deliver projects within timeframes. Specifically, our resources in the technology area assisted to deliver several major projects, including the workers' compensation systems in NSW and the company's new payroll management system.

Our people

The new Human Resource Information System was introduced with the aim of providing greater efficiencies in payroll and human resource practices, and became operational in September 2010. Further enhancements are currently underway.

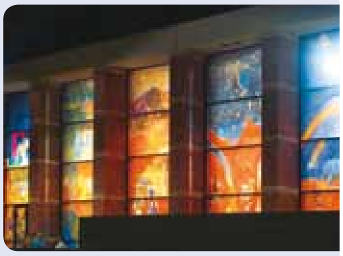
As the business world continues to evolve we need to adapt to changing circumstances which requires leaders and managers to provide strong leadership.

FACTS – OUR LARGEST CLAIMS

Name:	St Patrick's Cathedral, Bunbury WA
Date of loss:	16/05/2005
Nature of loss:	Tornado
Cost:	$5.0 million

In the early hours of 16 May 2005 a tornado struck Bunbury in Western Australia. Cutting a swathe ten kilometres long and 100 metres wide through the town, the tornado caused extensive damage to St Patrick's Cathedral.

Numerous structural assessments were done following the storm but it was clear the cathedral was unable to be salvaged and was subsequently demolished in June 2005. Some valuables, including the original pulpit, more than 100 pews, statues, paintings, vestments, sacred vessels and 20 stained glass windows were saved.



Situated high on a hill overlooking the Bunbury town site and Koombana Bay, St Patrick's is an iconic landmark for the local people. Following much consultation with the community, a design for, and then construction of a new cathedral precinct was undertaken. The new precinct includes the cathedral, diocesan offices, parish centre, presbytery, parish hall and parking.

On 17 March 2011 the new cathedral was consecrated and the cathedral precinct opened and dedicated during a spectacular ceremony attended by more than 800 guests.

Our leadership development program was launched in late 2010 and will conclude in 2011, when the participants will be well equipped to lead the company into the future. The program will provide better leadership skills to all managers in the company.

Superannuation Administration

Since 1 April 2010, CCI has administered the Catholic Superannuation Fund and over that time the superannuation administration team has worked hard to ensure it continues to consolidate and improve administration services to the trustees and members of Catholic Super. With the main focus of the past year being to consolidate the merger of two funds, a number of initiatives have been implemented.

A new department manager, Rommie Redlich, has been appointed. Rommie brings 14 years experience in various aspects of superannuation, compliance, financial literacy, administration and education in this specialised area. He joins as a member of the company's Executive Group.

The superannuation administration team is working in close partnership with Catholic Super to streamline and enhance processes to assist in facilitating its strategic direction. There is ongoing assessment and re-engineering of processes and procedures within the department to ensure continued improvement in service standards and efficiencies across the team.

CCI continues to work diligently to prepare for the changing landscape of superannuation in Australia and to maximise results and benefits for the fund trustee and its members.

CCI Investment Management

CCI Investment Management Ltd (CCIIM) commenced its operations in September 2000 and this year will mark 11 years operating as a specialist investment manager for Church. The CCIIM business was built on the principles of serving Church for its investment and related needs by prudentially managing clients' funds.

The business has grown from offering three investment products to eleven, with a wide range of pre-structured and individualised investment options. The CCIIM investment process is designed to select 'best of sector' managers across a variety of asset classes and investment styles to deliver diversified portfolio options.

Investments across all asset classes posted positive returns over the financial year. The CCIIM trusts have finished the financial year with returns of:

- 10.25% for the Balanced Trust
- 11.02% for the Growth Trust
- 5.90%, for the Catholic Values Trust, and
- The performance of the Income Trust has continued to be strong for the year achieving above benchmark income returns of 9.01% for the period.

Funds under management were $155 million as at 30 June 2011.

Summary and future outlook

It is pleasing the company achieved a sound result in a difficult year. Over the period, we have continued to invest in new systems and programs which, ultimately, will assist us to serve our Church clients better.

The company rose to the challenges brought about by the natural disasters early in the year, with our claims teams working hard to rebuild and refurbish flood and cyclone damaged property in a timely and efficient manner. The risk management and marketing teams met regularly with the claims team and developed client communications to keep clients up to date with advice regarding the risks associated with floods and making the best use of modern technology to deliver messages quickly. This whole-of-company effort to support our clients was one of the positive outcomes from such a devastating series of events.

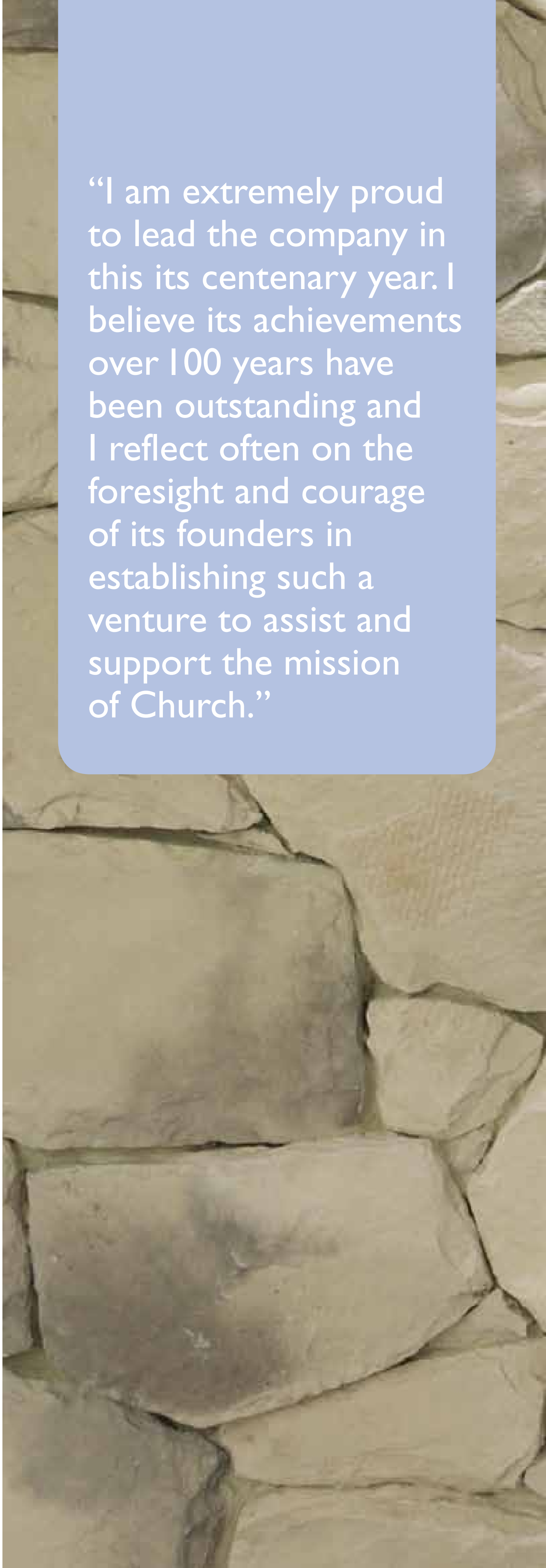
I am extremely proud to lead the company in this its centenary year. I believe its achievements over 100 years have been outstanding and I reflect often on the foresight and courage of its founders in establishing such a venture to assist and support the mission of Church.

I would like to thank the Chairman, Paul Gallagher, and the other Directors of the Board for their wise counsel and support throughout another year. And also to my executive management team, my thanks for their loyalty and innovative thinking as we grow and evolve the company.

But above all we are grateful for the opportunity to serve our Church clients and to be a small part of their important mission. Without the loyalty of our client base CCI could not operate under the mutual principles as it does and the financial benefit to Church would be lost to a commercial enterprise. The company has survived and prospered for 100 years due to the extraordinary level of support which we receive from our Church community and I am constantly grateful for the contribution our clients make to the success of this business.

As we embark on the next part of our company's journey, I commit to maintaining the heritage of Catholic Church Insurances into the future, as my predecessors have done in the past.

Peter Rush
Chief Executive Officer



"I am extremely proud to lead the company in this its centenary year. I believe its achievements over 100 years have been outstanding and I reflect often on the foresight and courage of its founders in establishing such a venture to assist and support the mission of Church."

Directors' Report

The Directors of Catholic Church Insurances Limited have pleasure in presenting their annual financial report on the company and its controlled entity for the financial year ended 30 June 2011. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

Directors

The names and particulars of Directors in office at any time during the year or until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Paul A Gallagher *(Chairman)*

William R d'Apice *(Retired 23 August 2010)*

Sister Clare T Condon

Jo Dawson

Norman E B Griffiths

J A (Tony) Killen

Richard M Haddock *(Appointed 6 October 2010)*

Reverend Brian J Lucas

Jane A Tongs

Peter A Rush *(Alternate Director for Reverend Brian J Lucas)*

Principal activities

The principal activities of the parent entity during the year were to underwrite the property, workers' compensation and liability risks of entities of the Catholic Church in Australia including the investment of funds relating thereto.

The company also provided personal insurance to the Catholic community via the partnership with Allianz Australia Insurance Limited to underwrite such products. In return Allianz continues to pay Catholic Church Insurances, under the terms of the agreement, commission on each contract of insurance business entered into by Allianz which was referred by Catholic Church Insurances.

Catholic Church Insurances also acted as administrator of the Catholic Superannuation Fund (CSF) which is a superannuation fund open to employees of participating Catholic organisations, self-employed people and the general public. CSF operates under the direction of a trustee company, CSF Pty Ltd.

The entity's wholly owned subsidiary, CCI Investment Management Limited acts as Trustee/manager of the CCI Investment Management trusts.

There have been no other significant changes during the year.

Employees

The consolidated entity employed 229 employees as at 30 June 2011 (2010: 227 employees).

Ecclesiatical

Directors note with sadness the deaths of:

Bishop Patrick Dougherty *(retired)*
– Diocese of Bathurst

Bishop Joseph Angelo Grech
– Bishop of Diocese of Sandhurst

Review of operations

The review of operations has been outlined by the Chief Executive Officer on pages 19 to 23.

Results of operations

	2011	2010
	$'000	$'000
Consolidated Profit/(Loss)	33,387	37,766

The economic entity is exempt from the requirements of the Income Tax Assessment Act.

Significant changes in the state of affairs

In the opinion of Directors, there were no significant changes in the state of affairs of the economic entity that occurred during the financial year under review not otherwise disclosed in the financial statements or notes thereto.

Subsequent events after the balance date

There has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year that has significantly affected, or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Likely developments and expected results

In the opinion of Directors, the inclusion of information referring to likely developments in the operations of the economic entity and the expected results of those operations in subsequent years is likely to prejudice its interests. That information has therefore not been disclosed in this report.

Dividends

In respect of the financial year ended 30 June 2011, the Directors recommend the payment of a dividend of $1.176 million final unfranked to the holders of fully paid ordinary shares on 17 November 2011. The dividend has not been provided for in the 30 June 2011 financial statements.

The company operates on the principle of mutuality where Catholic Church policyholders receive distributions depending on the performance of the company. This is in furtherance of the company's policy of providing insurance to the Catholic Church on the most cost effective terms. The payment of a nominal dividend to shareholders is a return on their capital and not directly related to the distribution of profits.

Directors' shareholdings

Each Director, except Mr Griffiths, holds 1,250 shares in Catholic Church Insurances Limited in trust for the Australian Episcopal Conference of the Roman Catholic Church. Mr Griffiths holds 1,000 shares in trust (refer to *note 37*).

Names, qualifications, experience and special responsibilities

Paul A Gallagher

B.COMM, FCA, MAICD

Paul A Gallagher joined the Board in October 2007. He is a partner at BDO (QLD) in the Audit and Assurance Services division. He is responsible for the audit of a significant number of the firm's clients in a broad range of industries. His expertise is in the area of statutory and special purpose audits, special investigations, due diligence and corporate governance. He is currently the chair of the Archdiocesan Services Council and the Archdiocesan Finance Council in Brisbane as well as a member of the Board of St Joseph's College Gregory Terrace.

Special responsibilities held in the company:

Chairman of the Board of Directors, Member of the Board Audit, Risk Management & Compliance Committee and Remuneration Committee.

William R d'Apice

LLB, KCSG, MAICD

William R d'Apice was appointed to the Board in June 1995. He retired as Chairman of the Board 18 November 2009 and as non-executive Director of the board on 23 August 2010. He is a solicitor and a Senior Partner of NSW law firm, Makinson & d'Apice. Mr d'Apice has been a legal adviser to the Australian Catholic Bishops Conference and a number of dioceses, religious institutes, parishes and ecclesiastical organisations of the Church in NSW for many years. He is a chair and/or member of a number of Church Boards and committees for various dioceses and religious congregations. He is also a past Director of CCI Investment Management Limited.

Special responsibilities held in the company:

Member of the Directors' Governance Committee, Budget Committee, Investment Committee and Remuneration Committee.

Sister Clare T Condon

MPS, GRAD DIP ED ADM, BA, MAICD

Sister Clare T Condon joined the Board in October 2004. She is a congregational leader of the religious congregation the Sisters of the Good Samaritan. Sister Clare was President of Catholic Religious Australia from 2008 to 2010. In 1994 Sister Clare was then appointed as a member of the General Council and Trustee of the Sisters of the Good Samaritan – a position she held until 1999. Prior to being elected Congregational leader of the Sisters of the Good Samaritan in 2005 she was Chancellor for Stewardship of the Archdiocese of Adelaide, a member of the Adelaide Diocesan Pastoral Team and the Management Board of Church Resources. From this extensive experience she has a broad knowledge of the needs and concerns of religious institutes.

Special responsibilities held in the company:

Chair of the Remuneration Committee and member of the Board Audit, Risk Management & Compliance Committee, Directors' Governance Committee and Reinsurance Committee.

Jo Dawson

B.COMM, MBA, CA, CFP, MAICD

Jo Dawson joined the Board in October 2006. Jo is a chartered accountant and certified financial planner. She is currently Managing Director of financial planning firm Executive Wealth Strategies Pty Ltd and is an authorised representative of financial services organisation Hillross Financial Services Ltd. She is also a Director of a number of private companies. Jo spent 14 years with chartered accounting firm Deloitte specialising in the financial services industry, and has held a number of senior positions with National Australia Bank within the areas of insurance and funds management. She is also a Board member, and chairperson of the finance and audit committee of the Victorian State Government Agency, Film Victoria.

Special responsibilities held in the company:

Chair of the Board Audit, Risk Management & Compliance Committee and member of the Budget Committee, Investment Committee and Reinsurance Committee. Member of the Board of CCI Investment Management.

Directors' Report *(continued)*

Names, qualifications, experience and special responsibilities

Norman E B Griffiths

B.E. (CIVIL), M.I.E. AUST, AAII, MAICD

Norman E B Griffiths joined the Board in June 2001. He was employed by Munich Reinsurance Company of Australasia Limited from 1972 to 2001, the last 18 years of which he was Regional Manager for Victoria, South Australia and Tasmania. Prior to that Mr. Griffiths was a civil engineer in the Army and in private business. He is also a former Chairman of the Australian Nuclear Insurance Pool and has held various senior positions with the Australian Insurance Institute.

Special responsibilities held in the company:

Chairman of the Reinsurance Committee and Budget Committee. Member of the Board Audit, Risk Management & Compliance Committee and Directors' Governance Committee.

Richard M Haddock

B.A. LL.B, FAICD

Richard M Haddock joined the Board in October 2010. Mr Haddock commenced his professional life as a lawyer with Blake Dawson Waldron then spent a great part of his career with BNP Paribas and was Deputy General Manager at the time of his leaving. He is the Chairman of Commonwealth Managed Investments Ltd, CatholicCare and Australian Catholic Superannuation and Retirement Fund. He is also a Director of Tishman Speyer Australia Ltd and Retirement Villages Group Ltd. He is a council member of Caritas and its treasurer. Previously he was Chairman of Cashcard Australia Ltd and Macarthur Cook Ltd and a Director of Colonial First State Private Capital Ltd. He is a Fellow of the Australian Institute of Company Directors, Fellow of the Australian Institute of Management, Fellow of the Financial Services Institute of Australasia and a member of the Law Society of NSW.

Special responsibilities held in the company:

Member of the Budget Committee, Investment Committee and Remuneration Committee. Member of the Board of CCI Investment Management.

J A (Tony) Killen

B.A., FAIM, FAICD

J A (Tony) Killen joined the Board in April 2003. Mr Killen has extensive experience over a wide range of businesses and financial services including life and general insurance, funds management, investment banking, financial planning, actuarial consulting, non-bank financial institutions and property development and exposure to Asia and New Zealand, the Government and not-for-profit sectors. He was previously Group Managing Director and Chief Executive Officer of AXA Asia Pacific Holdings Limited (formerly National Mutual Holdings Limited) and formerly Chairman of the Sisters of Charity Health Service Limited and the Sisters of Charity Healthcare Australia Limited. He is currently Chairman of Equity Trustees Limited, and also a non-executive Director of Templeton Global Growth Fund Limited. He is also a member of the Diocesan Finance Council of the Archdiocese of Melbourne, and Chairman of both Sisters of Charity Community Care Ltd (SCCC) and CCI Investment Management Limited.

Special responsibilities held in the company:

Chairman of the Investment Committee and member of the Remuneration Committee. Member of the Board of CCI Investment Management.

Reverend Brian J Lucas

LL.M. M.GEN.STUD. S.T.L. DIP.JUR. GRAD.DIP.R.E, GAICD

Reverend Brian J Lucas joined the Board in August 2003. He is the General Secretary of the Australian Catholic Bishops Conference, a position he has held since August 2002. Prior to that he was Archdiocesan Secretary and Financial Administrator of the Archdiocese of Sydney and Assistant Priest in a number of Parishes in the Sydney Archdiocese. He is a co-author of the *Church Administration Handbook* and member of the Charities Consultative Committee of the Australian Taxation Office.

Special responsibilities held in the company:

Chairman of the Directors' Governance Committee and member of the Audit, Risk Management & Compliance Committee and Investment Committee. Member of the Board of CCI Investment Management.

Names, qualifications, experience and special responsibilities

Jane A Tongs

B.BUS (ACTG), EMBA, FCPA, FCA, MAICD

Jane Tongs joined the Board in February 2010. She is presently Chairman of the Net Wealth Group of Companies and the Warakirri Agricultural Trusts and is a Non-Executive Director of Warakirri Asset Management Ltd, Warakirri Dairies Pty Ltd, Run Ltd, LCM Healthcare and Related Subsidiaries and the Australian Energy Market Operator. Her areas of expertise include corporate governance, development of strategically linked audit, risk management and compliance processes and advising on process improvements such as cost reduction and efficiencies.

Special responsibilities held in the company:

Member of the Budget Committee, Investment Committee, Remuneration Committee and Reinsurance Committee. Member of the Board of CCI Investment Management.

Peter A Rush

DIP.BUS, ANZIF, CIP

Chief Executive Officer

Peter Rush was appointed General Manager of Catholic Church Insurances in January 1999. Prior to his appointment he had held the position of Manager – Underwriting, Reinsurance and Risk Management with the company since 1998.
Before joining this company he spent 15 years with Munich Reinsurance Company specialising in fire and casualty reinsurance. He is a Fellow of the Australian Insurance Institute, President of the Australian Insurance Association and has been involved in the insurance industry for over 30 years. Peter was appointed Chief Executive Officer in 2009 and is also the General Manager of CCI Investment Management Limited and Director of the Trustee of the Catholic Superannuation Fund.

Peter Rush acts as alternate Director for Father Brian Lucas.

Dominic P Chila

B.BUS, CPA

Company Secretary and Chief Financial Officer

Dominic Chila was appointed as Company Secretary and Chief Financial Officer in February 2008. He has over 17 years experience in the financial services industry in the areas of general insurance, superannuation and funds management. Dominic commenced his career at Catholic Church Insurances in 1994 and has held various roles in accounting and management including systems accountant, investment accountant and in his last role as the Finance and Administration Manager. He is also the Company Secretary of CCI Investment Management Limited.

Indemnification of officers

During the financial year, the company paid a premium in respect of a contract insuring the Directors of the company, the Company Secretary, and all executive officers of the company and of any related body corporate against a liability incurred as a Director, Company Secretary or executive officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as an officer or auditor.

Remuneration report

This report outlines the remuneration arrangements in place for Directors and executives of Catholic Church Insurances Limited (the company).

Remuneration philosophy

The performance of the company depends upon the quality of its Directors and executives. To prosper, the company must attract, motivate and retain highly skilled Directors and executives.

To this end, the company embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract high calibre executives and Directors
- Link executive rewards to company performance, and
- Establish appropriate and demanding performance hurdles for variable executive remuneration.

Board Remuneration Committee

The Board Remuneration Committee is made up of four of the company's Board members and its meetings are attended by the Chief Executive Officer, Chief Financial Officer and Human Resources Manager. The committee seeks information from the company's management and an independent remuneration specialist and makes recommendations to the full Board on the company's remuneration position and budget. This includes both fixed and variable components of salary.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive Director and executive remuneration is separate and distinct.

Non-executive Director remuneration

Objective

The Board seeks to remunerate at a level that provides the company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

Structure

Remuneration of Directors consists of both a fixed and a variable component and is based on the scope of the Director responsibilities.

Retiring allowances which were accruing have been frozen as at 30 June 2005 and are to be paid out on retirement of each individual Director.

Fixed remuneration

Fixed remuneration includes annual fees, superannuation contributions and any other benefits provided by the company.

Variable remuneration

In addition to the fixed remuneration each Director receives the following:

- An amount for each of the scheduled committee meetings of which a Director is a member
- A loading per meeting for each committee Chairman

Executive remuneration

Objective

The company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the company so as to:

- Reward executives for company, business unit and individual performance against targets set by reference to appropriate benchmarks
- Align the interests of executives with those of policyholders
- Link rewards with the strategic goals and performance of the company, and
- Ensure total remuneration is competitive by market standards.

Structure

The executive remuneration structure comprises a fixed component and a variable component. The proportion of fixed and variable remuneration varies between levels of management, with the proportion of variable remuneration increasing in line with the seniority of the role.

The company reports and calculates salary information as the Total Employment Cost (TEC). TEC includes base salary, employer superannuation contribution and other benefits (such as any other packaged component). It does not include any bonus or incentive payments.

In determining the level and make-up of executive remuneration, the company has adopted the Mercer Job Evaluation System as the methodology to determine the relative worth of positions.

Fixed remuneration

Objective

Fixed remuneration is reviewed annually by the Remuneration Committee. The process consists of a review of company wide, business unit and individual performance, relevant comparative remuneration in the market and internal and where appropriate, external advice on policies and practices. As noted above, the committee has access to external advice independent of management.

Structure

Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans.

Variable remuneration

Objective

Each executive is entitled to receive a cash incentive at the end of each year if certain criteria are met. The amount is determined after consideration of the following:

- Company performance for the year
- The executive's performance against specific objectives

Details of remuneration of executives and non-executive Directors are included in *note 37* to the financial statements.

Directors' meetings

The following table sets out the number of meetings of the company's Directors (including meetings of committees of Directors) held during the year ended 30 June 2011 and the number of meetings attended by each Director.

Number of meetings attended by:	Directors' Meetings		Audit, Risk Management & Compliance		Budget		Directors' Governance		Investment		Reinsurance		Remuneration	
	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended
P A Gallagher	7	7	4	4	1	1	1	1	–	–	–	–	1	1
W R d'Apice	1	1	–	–	–	–	1	–	2	–	–	–	–	–
CT Condon	7	6	4	2	–	–	2	2	–	–	2	1	1	1
J Dawson	7	7	4	4	1	1	–	–	7	7	2	2	–	–
N E B Griffiths	7	7	4	4	1	1	2	2	–	–	2	2	–	–
J A Killen	7	7	–	–	–	–	–	–	7	7	–	–	1	–
B J Lucas	7	7	4	4	–	–	2	2	7	7	–	–	–	–
J A Tongs	7	7	–	–	1	1	–	–	7	7	2	2	1	1
R Haddock	6	6	–	–	1	1	–	–	4	3	–	–	1	1

Directors' benefits

Since the end of the previous financial year, no Director of the company has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in *note 37*). There is a contract made by the company or a related entity with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest other than normal fees for professional services paid to a firm of solicitors of which one Director is a member (see *note 38*), and as outlined under the headings of Indemnification and Insurance.

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

Auditor's Independence Declaration

The Directors have received a declaration from the auditor of Catholic Church Insurances Limited as attached after the Directors' Report.

Signed in accordance with a resolution of the Directors.

P A Gallagher
Director
Melbourne, 6 October 2011

Auditor's Independence Declaration

ERNST & YOUNG

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Auditor's Independence Declaration to the Directors of Catholic Church Insurances Limited

In relation to our audit of the financial report of Catholic Church Insurances Limited for the financial year ended 30 June 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

T M Dring
Partner
6 October 2011

Catholic Church Insurances Limited

Celebrating 100 years Serving Church 1911~2011

FINANCIAL STATEMENTS

Statement of Comprehensive Income

For the financial year ended 30 June

	Note	Economic Entity		Parent Entity	
		2011 $'000	2010 $'000	2011 $'000	2010 $'000
Premium revenue		186,098	184,370	186,098	184,370
Outwards reinsurance expense		(56,906)	(57,787)	(56,906)	(57,787)
Net premium revenue	7	129,192	126,583	129,192	126,583
Claims expense	8	(102,536)	(80,423)	(102,536)	(80,423)
Reinsurance and other recoveries revenue	9	37,971	20,968	37,971	20,968
Net claims incurred	10	(64,565)	(59,455)	(64,565)	(59,455)
Acquisition costs		(157)	(224)	(157)	(224)
Other underwriting expenses	11	(46,025)	(41,430)	(46,025)	(41,430)
Underwriting expenses		(46,182)	(41,654)	(46,182)	(41,654)
Gross movement in unexpired risk liability	12	(776)	(824)	(776)	(824)
Reinsurance recoveries on unexpired risk liability		1,167	478	1,167	478
Net movement in unexpired risk liability		391	(346)	391	(346)
Underwriting result		18,836	25,128	18,836	25,128
Investment income	13	48,125	53,520	48,137	52,550
General and administration expenses	14	(16,976)	(15,436)	(15,753)	(14,276)
Catholic entity distributions		(23,166)	(29,486)	(23,166)	(29,486)
Sundry income		6,568	4,040	5,858	3,314
Profit/(loss) for the period Total comprehensive income attributable to members of Catholic Church Insurances Limited	14	33,387	37,766	33,912	37,230

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Balance Sheet

As at 30 June

		Economic Entity		Parent Entity	
	Note	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Current Assets					
Cash and cash equivalents	16	38,157	48,206	38,014	48,106
Trade and other receivables	17	112,415	100,468	112,234	100,219
Prepaid reinsurance premiums	18	25,723	25,346	25,723	25,346
Deferred acquisition costs	19	–	29	–	29
Financial assets at fair value through profit and loss	20	435,770	404,690	435,770	404,690
Tax assets	21	10,224	4,929	10,224	4,929
Other assets	22	9,339	12,233	9,339	12,233
Total Current Assets		631,628	595,901	631,304	595,552
Non-Current Assets					
Trade and other receivables	23	21,698	27,148	22,198	27,148
Financial assets at fair value through profit and loss	24	231,929	222,281	231,929	222,281
Plant and equipment	25	7,781	8,225	7,781	8,225
Intangibles	26	3,747	1,000	3,747	1,000
Total Non-Current Assets		265,155	258,654	265,655	258,654
Total Assets		896,783	854,555	896,959	854,206
Current Liabilities					
Trade and other payables	27	37,531	34,959	37,531	34,959
Outstanding claims	35	92,651	68,342	92,651	68,342
Unearned premiums	36	120,231	120,061	120,231	120,061
Unexpired risk liability	12	735	1,126	735	1,126
Provisions	28	27,949	30,936	27,949	30,936
Tax liabilities	29	–	48	–	48
Other liabilities	30	1,912	–	1,912	–
Total Current Liabilities		281,009	255,472	281,009	255,472
Non-Current Liabilities					
Outstanding claims	35	311,590	325,969	311,590	325,969
Provisions	31	1,990	1,955	1,990	1,955
Total Non-Current Liabilities		313,580	327,924	313,580	327,924
Total Liabilities		594,589	583,396	594,589	583,396
Net Assets		302,194	271,159	302,370	270,810
Shareholders' Equity					
Contributed equity	33	8,139	8,139	8,139	8,139
Reserves	34	292,650	259,747	292,650	259,747
Retained profit/(loss)		1,405	3,273	1,581	2,924
Total Shareholders' Equity		302,194	271,159	302,370	270,810

The above Balance Sheet should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the financial year ended 30 June

	Contributed Equity $'000	General Reserves $'000	Retained Earnings $'000	Total $'000
Economic Entity				
At 1 July 2009	8,139	257,247	(31,993)	233,393
Net profit/(loss) for the period	–	–	37,766	37,766
Transfer to reserves	–	2,500	(2,500)	–
Dividend for 2009 ($0.00 cents per share)	–	–	–	–
At 30 June 2010	8,139	259,747	3,273	271,159
At 1 July 2010	8,139	259,747	3,273	271,159
Net profit/(loss) for the period	–	–	33,387	33,387
Transfer to reserves	–	32,903	(32,903)	–
Dividend for 2010 ($0.40 cents per share)	–	–	(2,352)	(2,352)
At 30 June 2011	8,139	292,650	1,405	302,194

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

	Contributed Equity $'000	General Reserves $'000	Retained Earnings $'000	Total $'000
Parent Entity				
At 1 July 2009	8,139	257,247	(31,806)	233,580
Net profit/(loss) for the period	–	–	37,230	37,230
Transfer to reserves	–	2,500	(2,500)	–
Dividend for 2009 ($0.00 cents per share)	–	–	–	–
At 30 June 2010	8,139	259,747	2,924	270,810
At 1 July 2010	8,139	259,747	2,924	270,810
Net profit/(loss) for the period	–	–	33,912	33,912
Transfer to reserves	–	32,903	(32,903)	–
Dividend for 2010 ($0.40 cents per share)	–	–	(2,352)	(2,352)
At 30 June 2011	8,139	292,650	1,581	302,370

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Cash Flow Statement

For the financial year ended 30 June

	Note	Economic Entity 2011 $'000	Economic Entity 2010 $'000	Parent Entity 2011 $'000	Parent Entity 2010 $'000
Cash flows from operating activities					
Premiums received		169,273	174,200	169,273	174,200
Outwards reinsurance paid		(55,189)	(58,265)	(55,189)	(58,265)
Claims paid		(92,606)	(84,023)	(92,606)	(84,023)
Reinsurance and other recoveries received		41,547	31,348	41,547	31,348
Acquisition costs paid		(128)	(197)	(128)	(197)
Other underwriting expenses paid		(29,713)	(23,615)	(29,713)	(23,615)
Other operating expenses paid		(15,193)	(20,389)	(14,040)	(19,105)
Other operating income received		5,441	3,967	4,233	3,740
Interest received		15,632	13,289	15,644	13,318
Dividends received		28,879	18,352	28,879	18,352
Total cash flows from operating activities	41	67,943	54,667	67,900	55,753
Cash flows from investing activities					
Investment trading		(44,460)	(10,732)	(44,458)	(11,732)
Payments for plant and equipment		(1,321)	(7,024)	(1,323)	(7,024)
Proceeds from sale of plant and equipment		466	5,557	466	5,557
Payments for intangibles		(3,361)	(1,236)	(3,361)	(1,236)
Total cash flows from investing activities		(48,676)	(13,435)	(48,676)	(14,435)
Cash flows from financing activities					
Dividends paid		(2,352)	–	(2,352)	–
Catholic entity distributions		(26,964)	(3,501)	(26,964)	(3,501)
Total cash flows from financing activities		(29,316)	(3,501)	(29,316)	(3,501)
Net increase/(decrease) in cash held		(10,049)	37,731	(10,092)	37,817
Cash at the beginning of the financial year		48,206	10,475	48,106	10,289
Cash at the end of the financial year	16	38,157	48,206	38,014	48,106

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

For the financial year ended 30 June 2011

1. Corporate Information

The financial report of Catholic Church Insurances Limited (the company) for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the Directors on 6 October 2011.

Catholic Church Insurances Limited is an unlisted public company, incorporated and domiciled in Australia.

2. Statement of significant accounting policies

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with the Australian Accounting Standards and the Corporations Act 2001, including the application of ASIC Class Order 10/654 allowing the disclosure of parent entity financial statements due to Australian Financial Services Licensing obligations. Subject to the exceptions noted in the paragraphs below dealing with the valuation of investments, the financial report has been prepared on an accrual basis and is based on historical costs. Cost is based on the fair values of the consideration given in exchange for assets.

The preparation of financial statements in conformity with Australian International Financial Reporting Standards ('AIFRS') requires the use of critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements have been disclosed in notes 3 and 4.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the class order applies.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS).

(c) Australian Accounting Standards issued but not yet effective

Australian Accounting Standards which have recently been issued or amended but are not yet effective for the annual reporting period ending 30 June 2011 have not been applied in preparing the company's financial statements. The nature of the impact of the application of these standards is disclosed only. The company will apply these standards for the annual reporting periods beginning on or after the operative dates as set out on the following page.

Reference	Title	Summary	Application date of standard	Impact on CCI financial report	Application date for CCI
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement). These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below. a. Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria. b. AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.	1 January 2013	These amendments will have no direct impact on the amounts included in the company's financial statements.	1 July 2013
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	• These amendments arise from the issuance of AASB 9 Financial Instruments that sets out requirements for the classification and measurement of financial assets. The requirements in AASB 9 form part of the first phase of the International Accounting Standards Board's project to replace IAS 39 Financial Instruments: Recognition and Measurement. • This Standard shall be applied when AASB 9 is applied.	1 January 2013	These amendments will have no direct impact on the amounts included in the company's financial statements.	1 July 2013
AASB 124 (Revised)	Related Party Disclosures (December 2009)	The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including: a. The definition now identifies a subsidiary and an associate with the same investor as related parties of each other b. Entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other c. The definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.	1 January 2011	These amendments will have no direct impact on the amounts included in the company's financial statements.	1 July 2011

Reference	Title	Summary	Application date of standard	Impact on CCI financial report	Application date for CCI
AASB 1053	Application of Tiers of Australian Accounting Standards	This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements: a. Tier 1: Australian Accounting Standards b. Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements. The following entities apply Tier 1 requirements in preparing general purpose financial statements: a. For-profit entities in the private sector that have public accountability (as defined in this Standard) b. The Australian Government and State, Territory and Local Governments The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements: a. For-profit private sector entities that do not have public accountability b. All not-for-profit private sector entities Public sector entities other than the Australian Government and State, Territory and Local Governments.	1 July 2013	These amendments are only expected to affect the presentation of the company's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report.	1 July 2013
IFRS 10	Consolidated Financial Statements	IFRS 10 establishes a new control model that applies to all entities. It replaces parts of IAS 27 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. This is likely to lead to more entities being consolidated into the group.	1 January 2013	These amendments will have no direct impact on the amounts included in the company's financial statements.	1 July 2013
IFRS 11	Joint Arrangements	IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC –13 Jointly – controlled Entities – Non-monetary Contributions by Ventures. IFRS 11 uses the principle of control in IFRS 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. This may result in a change in the accounting for the joint arrangements held by the group.	1 January 2013	These amendments will have no direct impact on the amounts included in the company's financial statements.	1 July 2013
IFRS 12	Disclosure of Interests in Other Entities	IFRS 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	These amendments will have no direct impact on the amounts included in the company's financial statements.	1 July 2013

(d) Basis of consolidation

The financial report covers the economic entity of Catholic Church Insurances Limited and its controlled entity CCI Investment Management Limited.

The financial statements of its controlled entity are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

The consolidated financial statements include the information and results of each controlled entity from the date on which the company obtained control and until such time as the company ceases to control such entity.

The following is a summary of the material accounting policies that have been adopted by the economic entity in respect of the general insurance activities. The accounting policies have been consistently applied, unless otherwise stated.

(e) Premium revenue

Direct premium revenue comprises amounts charged to the policyholders, including fire service levies, but excluding taxes collected on behalf of third parties. The earned portion of premiums received and receivable, including unclosed business, is recognised as revenue. Premium on unclosed business is accounted for based upon the pattern of processing renewals and new business.

Premium is earned from the date of attachment of risk, over the indemnity period based on the patterns of risk underwritten. Unearned premium is determined using a daily pro-rata basis.

(f) Revenue recognition

Revenue is recognised to the extent it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods
Control of goods sold has passed to a buyer.

Rendering of services
Services have been rendered to a buyer.

Interest
Control of the right to receive the interest payment.

Dividends
Control of the right to receive the dividend payment.

Other revenue
Other revenue is recognised when the entitlement is confirmed.

(g) Unexpired risk liability

At each reporting date the company assesses whether the unearned premium liability is sufficient to cover all expected future cash flows relating to future claims against current insurance contracts. This assessment is referred to as the liability adequacy test and is performed separately for each group of contracts subject to broadly similar risks and managed together as a single portfolio.

If the present value of the expected future cash flows relating to future claims plus an additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs then the unearned premium liability is deemed to be deficient. The company applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the outstanding claims liability.

The entire deficiency, gross and net of reinsurance, is recognised immediately in the income statement. The deficiency is recognised first by writing down any related intangible assets and then related deferred acquisition costs, with any excess being recorded in the balance sheet as an unexpired risk liability.

(h) Outwards reinsurance

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance premium is treated at the balance date as a prepayment.

Notes to the Financial Statements *(continued)*

(i) Claims

Claims expense and a liability for outstanding claims are recognised in respect of direct business. The liability covers claims reported but not yet paid, incurred but not reported claims (IBNR), and the anticipated direct and indirect costs of settling claims. Outstanding claims are assessed by reviewing individual claim files and actuarially estimating IBNRs and settlement costs based on past experiences and trends. Outstanding claims are the ultimate cost of settling claims including normal and superimposed inflation, discounted to present value using risk free discount rates. A prudential margin is added to the outstanding claims provision net of reinsurance and other recoveries to increase the probability that the net liability is adequately provided for. Risk Margins applied are included in *note 35*.

(j) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid and IBNRs are recognised as revenue. Recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

(k) Deferred acquisition costs

A portion of acquisition costs relating to unearned premium revenue is deferred in recognition that it represents a future benefit. Deferred acquisition costs are measured at the lower of cost and recoverable amount. Deferred acquisition costs are amortised over the financial years expected to benefit from the expenditure.

(l) Investment income

Interest income is recognised on an accruals basis. Dividends are recognised when due. Investment income includes realised and unrealised gains or losses on financial assets which are reported on a combined basis as fair value gains or losses on financial assets. Realised investment gains or losses do not include interest and dividend income.

(m) Taxation

Income tax
The entities are not liable for income tax due to the entities being classified as a charitable institution under Subdivision 50-5 of the *Income Tax Assessment Act 1997*.

Goods and Services Tax (GST)
Revenues, expenses and assets are recognised net of the amount of GST except where the amount of the GST is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables in the balance sheet are shown inclusive of GST.

(n) Fire brigade and other charges

A liability for fire brigade and other charges payable is recognised on business written to the balance date. Levies and charges payable are expensed by the company on the same basis as the recognition of premium revenue. The proportion relating to unearned premium is recorded as a prepayment on the balance sheet.

(o) Unearned premium liabilities

Unearned premiums are determined using the daily pro rata method which apportions the premium written over the policy period from date of attachment of risk to the expiry of the policy term.

(p) Employee benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

If the effect of the time value of money is material, provisions are discounted using a current rate that reflects the risks specific to the liability.

(q) Cash and cash equivalents

For the purposes of the cash flow statement, cash includes:

(i) Cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts

(ii) Investments in money market instruments with less than 14 days to maturity

(r) Reinsurance commission

Outward reinsurance commission is recognised as revenue in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance commission is treated at the balance date as accrued revenue.

(s) Superannuation

The company's contributions to superannuation in respect of employees of the company are charged to the income statement as they fall due.

(t) Financial assets and liabilities

(i) Financial assets

As part of its investment strategy the consolidated entity actively manages its investment portfolio to ensure that investments mature in accordance with the expected pattern of future cash flows arising from general insurance liabilities. With the exception of plant and equipment, the consolidated entity has determined that all assets are held to back general insurance liabilities. All financial assets are managed and performance evaluated on a fair value basis for both external and internal reporting purposes in accordance with a documented risk management strategy.

The consolidated entity invests across a broad range of asset classes that in combination provide for capital growth and income. The diversification benefits derived from investing in both growth and defensive assets allows the consolidated entity to mitigate risk and earn long term returns when combined with a long term investment strategy. The consolidated entity has a prudent investment philosophy which is documented in policy.

(ii) Fair value

All investments are designated as fair value through profit or loss upon initial recognition and are subsequently remeasured to fair value at each reporting date. Any gains or losses arising from changes in fair value are taken directly through profit or loss as realised or unrealised investment gains or losses. Fair value is determined by reference to the closing bid price of the instrument at balance sheet day. Fair value for each type of investment is determined as follows:

Listed securities – by reference to the closing bid price of the instrument at the balance date.

Unlisted securities – the fair value of investments not traded on an active market is determined using valuation techniques including reference to:

- The fair value of recent arm's length transactions involving the same instrument or similar instruments that are substantially the same
- Reference to published financial information including independent property valuation reports and audited financial statements
- For trust securities using redemption prices provided by the trustee
- Cost of acquisition where fair value cannot be measured reliably
- Marked to model

Unlisted securities include investments in private equity and venture capital funds, collateral debt obligations, housing loans and property trusts.

Marked to Model

At 30 June 2011 Catholic Church Insurances Limited's investment portfolio consisted of unlisted investments where actively quoted prices were not available. As an appropriate technique to estimate the fair value of such investments the following valuation models were adopted:

Collateral debt obligation (CDO) investments

The valuation process involved computing the loss distribution of a credit portfolio taking into account asset correlation, recovery rates and risk neutral probability of default of individual reference entities.

Asset default correlation was calibrated using historical default data of investment grade companies from 2002 to 2008. For more recent estimates, the asset default correlation is calibrated by using the historical equity prices of the underlying entities of the most recent iTraxx Europe CDO index from 2008 to 2011. The correlations centre around the 13% mark. In the pricing model, an average correlation of 13.30% is used.

Floating loss given default is modelled via historical recovery rates for senior unsecured bonds assumed to follow a beta distribution with the mean at 45.49% and standard deviation at 34.5% as published by Moody's research papers.

Probabilities of default were derived from the individual observed credit default swap (CDS) spreads as published by Reuters. Where CDS spreads were not observed for a particular reference name, the spread was approximated by referring to the average spread for the rating category to which the reference name belongs.

In addition, four CDO's held have Lehman Brothers as the swap counterparty. On 14 September 2008, Lehman Brothers Holdings Inc. filed a voluntary petition for bankruptcy in the US. As a result, the Scheme has experienced an event of default by the swap counterparty. The Responsible Entity has ceased making any interest payments and quarantined all available funds and collateral.

Whilst the CDO's themselves are not in default, legal arguments are ensuing regarding the return of collateral.

The Trustee of the collateral, BNY Corporate Trustee Services Ltd, a UK subsidiary of the Bank of New York, is governed by UK law, so the above ruling indicates that the Trustee should distribute the collateral in the manner set out for the order of subordination in the notes. However, Lehman is attempting to hear the case in the US Bankruptcy Court and therefore the Trustee is withholding collateral and may wish to indemnify them from future Lehman claims. It is a conflict of law between UK and US laws.

At 30 June 2011, both the US and UK courts have recognised the potential for conflicting judgments from the start of the litigation. All parties to the litigation have been left with conflicting declaratory decisions, but with an indication from the courts from both countries (US and UK) that there should be further coordination to resolve differences. An appeal by Lehman in the English Supreme Court was held in March 2011, with the verdict pending as at 30 June 2011.

To derive a fair value for the CDO collateral we have obtained market quotes for the bonds/swaps used in each series. We have then factored in Responsible Entity costs and withheld indemnity to derive a potential market value that factors in future legal costs for the Responsible Entity. A 50% chance of winning the lengthy appeals process have been adopted to compensate for the uncertainties created due to the conflict between the US and UK court rulings.

The valuation was performed based on the market information available at the time of valuation.

As stated above, fair value is determined by computing the loss distribution of a credit portfolio taking into account asset correlation, recovery rates and risk neutral probability of default of individual reference entities. The potential effect of using reasonable alternative assumptions based on a relevant input by 10% would have the effect of reducing the fair value by up to $153,000 (2010: $153,000) or increase the fair value by $153,000 (2010: $153,000).

Unlisted property assets

The valuation process involved the use of a financial model to determine the price of the security. Prices were based on the net tangible asset value of the security calculated using the most recent financial reports published by the company.

Issues and activities surrounding the investment were taken into consideration prior to formulating the price. The objective was to ensure fair values were achieved based on company's financial reports.

(iii) Hierarchy

The consolidated entity is required to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identifiable assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2)
- Inputs for the asset or liability that are not based on observable market data (level 3)

Note 45 sets out the consolidated entity's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy.

Impairment of financial assets

Financial assets will be tested for impairment when there is observable data indicating that there is a measurable decrease in the assets value. Such factors may include the financial position of the company, prevailing economic conditions or a breach of contract such as a default in payment of interest or principal. As financial assets are subject to ordinary fluctuations in fair value, management will need to exercise judgement in determining whether there is objective evidence of impairment.

When a decline in the fair value of a financial asset has been recognised and there is objective evidence that the asset is impaired, the decline in asset value will be recognised in profit or loss.

Derivative instruments

The company's primary reason for holding derivative financial instruments is to mitigate the risk of changes in interest rates and equity prices. All hedges are classified as economic hedges and do not qualify for hedge accounting under the specific rules in AASB 139 *Financial Instruments: Recognition and Measurement*.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair values are recorded in the income statement.

Trade and other receivables

All receivables are initially recognised at fair value, being the amounts receivable. Collectability of trade receivables is reviewed on an ongoing basis and a provision for impairment of receivables is raised where some doubt as to collection exists. The impairment charge is recognised in the income statement.

Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment.

The carrying amount of plant and equipment is reviewed annually to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

Intangibles

Intangible assets are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be finite and are amortised over their useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired (see *note 2(x)* for methodology). The amortisation period and the amortisation method for an intangible asset with a finite life is reviewed at least at each financial year end. The amortisation expense is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible asset.

(iv) Financial liabilities

Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year that are unpaid and arise when the consolidated entity becomes obliged to make future payments in respect of the purchase of these goods and services.

(v) Recognition and derecognition of financial assets and financial liabilities

All purchases and sales of financial assets that require delivery of the asset within the timeframe established by regulation or market convention ('regular way' transactions) are recognised at trade date, being the date on which the company commits to buy or sell the asset. In cases where the period between trade and settlement exceeds this timeframe, the transaction is recognised at settlement date.

Financial assets are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and the company has transferred substantially all of the risks and rewards of ownership. A financial liability is derecognised when the obligation under the liability is discharged, cancelled or has expired.

(u) Depreciation

Depreciation on fixed assets, comprising motor vehicles, office equipment and fixtures, is calculated on a straight-line basis over the useful life of the asset to the economic entity commencing from the time the asset is held ready for use.

The following estimated useful lives are used in the calculation of depreciation for plant and equipment:

	2011	2010
Computer equipment	3 -10 years	3 -10 years
Office equipment	6 -15 years	6 -15 years
Motor vehicles	5 years	5 years
Leasehold improvements	10 years	10 years

(v) Foreign currency

Foreign currency transactions during the year are converted to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at that date.

(w) Dividends and Catholic entity distributions

Dividends

Dividends are recognised when declared or determined. No provision is made for a proposed dividend.

Catholic entity distributions

A provision is made at balance date for the payment of Catholic entity and grant distributions to Catholic Church policyholders where certain criteria have been met. The amount allocated each year is approved by the Board of Directors.

(x) Impairment of assets

Assets that have an indefinite useful life are tested annually for impairment or more frequently when changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised as the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

(y) Operating leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses on a straight-line basis over the lease term unless another systematic basis is representative of the time pattern in the periods in which they are incurred.

3. Critical accounting estimates and judgements

Significant estimates and judgements are made by the consolidated entity in respect of certain key assets and liabilities which are disclosed in the financial statements. Such estimates are based on actuarial assessments, historical experience and expectations of future events.

The key areas in which critical estimates and judgements are applied are set out below.

(a) Ultimate liability arising from claims made under general insurance contracts

A provision is made at balance date for the estimated cost of claims incurred but not settled. This includes the cost of claims incurred but not reported ('IBNR') and direct expenses that are expected to be incurred in settling those claims. Such estimates are determined by our appointed actuary who has the relevant qualifications and experience. Although the appointed actuary has prepared estimates in conformity with what he considers to be the likely future experience, the experience could vary considerably from the estimates. Deviations from the estimates are normal and to be expected.

The provision for outstanding claims is a highly subjective number, in particular the estimation of IBNR where information may not be apparent to the insured until many years after the events giving rise to the claims have happened. It is therefore likely that the final outcome will prove to be different from the original liability. In particular, there is considerable uncertainty regarding the latent claims under the public liability class. The modelling of these claims is difficult due to the relatively small number of claims and the long delay from date of incident to date of report. The professional indemnity and workers' compensation portfolios also will have variations between initial estimates and the final outcomes due to the nature of the claims where not all details are known at the date of report and it may be many years between reporting and settling of these claims. The short-tail classes do not exhibit such long delays in settlements or level of development of estimates over time. Hence the level of volatility of the estimates is generally much less than that seen for the long-tail classes.

The approach taken to estimate the outstanding liabilities for the different classes reflects the nature of the data and estimates. In general a number of different methods are applied to the data and the selected basis allows for the particular characteristics of the class and the recent experience shown in the data against the previous year's model projections. Provisions are generally calculated at a gross of reinsurance level and an explicit allowance made for expected reinsurance recoveries based on the arrangements in place over past years.

Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in *note 4*.

(b) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the consolidated entity may not receive amounts due to it and these amounts can be reliably measured.

4. Actuarial assumptions and methods

The company is a general insurer underwriting all major classes of general insurance business. For the purpose of disclosures we have grouped the insurance classes into the following:

- Short-tail (includes fire & composite risks property insurance, motor domestic, motor commercial, householders, travel, marine and accident)
- Public liability (includes public and product liability)
- Professional indemnity (includes directors & officers, medical malpractice and professional indemnity), and
- Workers' compensation.

Short-tail

The methodology applied for the short-tail classes was the Incurred Claim Development (ICD) method, since the duration of the liabilities is very short and case estimates tend to be more reliable given the nature of claims and speed of finalisation.

The ICD method estimates the liability by considering the change in the incurred cost from one development period to another. The incurred cost is the total of all past payments plus current case estimates. The ultimate expected cost of claims is projected from the current incurred cost after allowing for the assumed future change in incurred costs based on past experience.

The undiscounted value of outstanding claims is the difference between the ultimate cost and the payments made to valuation date. Due to the short-tail nature of the liabilities we have ignored the impact of investment income on the liability.

Public Liability

Claims estimates for the company's public liability business are derived from analysis of the results of using different actuarial models. Ultimate numbers of claims are projected based on the past reporting patterns using the chain ladder (CL) method. Payments experience is analysed based on averages paid per claim incurred (PPCI) method and averages paid per claim finalised (PPCF) method. Historic case estimate development is also used to develop a model of future payments using the projected case estimate (PCE) method. The results from these models are analysed, along with minimum loss ratios, in order to determine a final estimate of outstanding claims.

Claims inflation is incorporated into the resulting projected payments, to allow for both general economic inflation as well as any superimposed inflation detected in the modelling of payments experience. Superimposed inflation arises from non-economic factors such as developments of legal precedent. Projected payments are discounted to allow for the time value of money.

The public liability class of business is also subject to the emergence of latent claims, due to the long delay from date of incident to date of reporting. A specific allowance is included for this as at the balance sheet date based on an expected number of future claims at an average claim size.

Professional Indemnity

The same methodologies applied to public liability were also used for the professional indemnity class. The selected model applied is the ICD model. However, unlike the other classes that are analysed on an accident year basis, this portfolio is analysed on a report year basis as the policies are written on a claims made basis. The results from the model are analysed, along with minimum loss ratios, in order to determine a final estimate of outstanding claims.

Claims inflation and superimposed inflation are implicitly allowed for in the methodology. However, due to the longer term to settlement the projected payments are discounted to allow for the time value of money.

Workers' Compensation

The same methodologies applied to public liability were also used for the workers' compensation class. Analysis was undertaken at a state level and there was an explicit allowance for latent claims arising from asbestos related diseases.

(a) Actuarial assumptions

The following assumptions have been made in determining the outstanding claims liabilities.

2011	Short-Tail	Public Liability	Professional Indemnity	Workers' Compensation
Average weighted term to settlement (discounted)	Less than 1 year	5.8 years	7.6 years	5.4 years
Inflation	0.00%	3.75%	3.75%	3.75%
Superimposed inflation	0.00%	4.00%	5.00%	3.00%
Discount rate	0.00%	5.00%	5.00%	5.00%
Expense rate	5.00%	5.00%	5.00%	5.00%
Risk margin	9.70%	12.40%	16.00%	9.00%
2010				
Average weighted term to settlement (discounted)	Less than 1 year	6.3 years	5.9 years	6.8 years
Inflation	0.00%	3.75%	3.75%	3.75%
Superimposed inflation	0.00%	4.00%	4.00%	3.00%
Discount rate	0.00%	5.00%	5.00%	5.00%
Expense rate	5.00%	5.00%	5.00%	5.00%
Risk margin	9.50%	12.20%	16.00%	9.00%

(b) Processes used to determine assumptions

The valuations included in the reported results are calculated using the following assumptions:

Average weighted term to settlement
The average weighted term to settlement is calculated separately by class of business based on historic settlement patterns and allowing for the time value of money.

Inflation
Economic inflation assumptions are set by reference to current economic indicators.

Superimposed inflation
An allowance for superimposed inflation is made for each long-tail class to account for increased costs such as claim values increasing at a faster rate than wages or CPI inflation or for those costs that cannot be directly attributed to any specific source under the PPCI method. The levels of superimposed inflation assumed for the PPCI method varies by class.

Discount rate
Discount rates derived from market yields on Commonwealth Government securities as at the balance date have been adopted.

Expense rate
Claims handling expenses were calculated by reference to past experience of the company's claims administration costs as a percentage of past gross payments.

Risk margins
Risk margins have been based on features of the company's portfolios using general industry models to measure the variability of liabilities.

Average claim size
The assumed average claim size and payment patterns are generally based upon the claims experience over the last three financial years.

Number of IBNR claims
The number of IBNR claims has been based on the reporting history of the particular classes over past financial years.

Incurred cost development
The assumed incurred cost development has generally been based on past claims experience of the particular portfolios over the last three financial years.

Minimum loss ratio
To allow for the underdevelopment of the more recent accident years we have applied minimum loss ratios based on past history of claims and premiums for the public liability and professional indemnity classes.

Number and average claim size of latent claims
The number and average claim size of latent claims has been based on the reporting history of these claims over the last 10 to 15 years.

(c) Sensitivity analysis – insurance contracts

The consolidated entity conducts sensitivity analysis to quantify the exposure to the risk of changes in the underlying assumptions used in the financial statements. The movement in any key variable will impact the performance and equity of the company.

The sensitivity of the consolidated entity's profit and equity to key valuation assumptions both gross and net of reinsurance is tabulated below:

		Net profit $'000		Equity $'000	
		Gross	Net	Gross	Net
Variable	Movement in variable	Movement in amount		Movement in amount	
Average weighted term to settlement (years)	+0.5	(5,626)	(5,224)	(5,626)	(5,224)
	-0.5	5,791	5,378	5,791	5,378
Inflation and superimposed assumption	+1%	13,411	13,441	13,411	13,441
	-1%	(12,202)	(12,233)	(12,202)	(12,233)
Discount rate	+1%	(16,470)	(16,042)	(16,470)	(16,042)
	-1%	18,247	17,788	18,247	17,788
Expense rate	+1%	3,866	3,866	3,866	3,866
	-1%	(3,866)	(3,866)	(3,866)	(3,866)
Risk margins	+1%	3,643	3,251	3,643	3,251
	-1%	(3,643)	(3,251)	(3,643)	(3,251)
Average claim size	+10%	14,490	14,490	14,490	14,490
	-10%	(14,490)	(14,490)	(14,490)	(14,490)

5. Risk management

(a) The financial condition and operation of the consolidated entity are affected by a number of key risks including insurance risk, interest rate risk, credit risk, market risk, liquidity risk, financial risk, compliance risk, fiscal risk and operational risk. Notes on the consolidated entity's policies and procedures in respect of managing these risks are set out in this note.

Objectives in managing risks arising from insurance contracts and policies for mitigating these risks

The company is committed to controlling insurance risk thus reducing the volatility of operating profits through identifying, monitoring and managing risks associated with its business activities. In addition to the inherent uncertainty of insurance risk, which can lead to significant variability in the loss experience, profits from insurance business are affected by market factors, particularly competition and movements in asset values.

Risk management framework

In accordance with Prudential Standards GPS 220 Risk Management for General Insurers and GPS 230 Reinsurance Management issued by the Australian Prudential Regulation Authority (APRA), the Board and senior management of the consolidated entity have developed, implemented and maintained a comprehensive Risk Management Strategy (RMS) and a Reinsurance Management Strategy (REMS).

The RMS and REMS identify the consolidated entity's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material financial and non-financial risks, including mitigating controls. The existence and effectiveness of mitigating controls are measured to ensure that residual risks are managed within risk tolerance.

Annually, the Board certifies to APRA that adequate strategies have been put in place to monitor those risks, that the consolidated entity has systems in place to ensure compliance with legislative and prudential requirements and that the Board has satisfied itself as to the company's compliance with the RMS and REMS.

The RMS and REMS have been approved annually by the Board and lodged with APRA. Key aspects of the processes established in the RMS to mitigate risks include:

- Dedicated risk management and compliance function responsible for development and maintenance of the risk management framework
- The maintenance and use of sophisticated management information systems, which provide up to date, reliable data on the risks to which the business is exposed at any point in time
- Actuarial models which use information from the management information systems to calculate premiums and monitor claims patterns. Past experience and statistical methods are used as part of the process
- Documented procedures are followed for underwriting and accepting insurance risks
- Reinsurance is used to limit the consolidated entity's exposure to large single claims and catastrophes
- The mix of assets in which the company invests is driven by the nature and term of insurance liabilities. The management of assets and liabilities is closely monitored to match the maturity dates of assets with the expected pattern of claim payments
- The diversification of business over various classes of insurance and large numbers of uncorrelated individual risks seeks to reduce variability in loss experience

The key areas of risk exposure discussed below are:

- Insurance risk
- Reinsurance counterparty risk
- Operational risk, and
- Capital and regulatory risk.

Financial risks (credit, interest and market risks) are considered in note 6.

(b) Insurance risk

Insurance contracts transfer risk to the insurer by indemnifying the policyholder against adverse events. The risk inherent in the insurance contract is the uncertainty of claims and amounts paid which may exceed amounts estimated at the time the product was designed and priced.

The consolidated entity has developed its underwriting strategy to diversify the type of insurance risks accepted and within each of these categories, to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. The following protocols have been established to manage insurance risk:

Notes to the Financial Statements *(continued)*

Underwriting risks

The pricing and selection of risks for each class of business is controlled by underwriting authorities and limits which reflect underwriting results, expected claims and economic conditions.

Concentration of insurance risk

The company's exposure to concentrations of insurance risk is mitigated by a portfolio diversified into both short-tail and long-tail classes of business across all states in Australia. To manage the risks associated with natural catastrophes (i.e. those properties concentrated in regions susceptible to earthquakes, bushfires, cyclones or hail storms), the company's underwriting strategy requires risks to be differentiated in order to reflect the higher loss frequency in these areas. The company also purchases catastrophe reinsurance protection to limit the financial impact of its exposure to any single event.

The table below demonstrates the diversity of the consolidated entity's operations by class of business.

	2011	2010
Gross earned premium	**$'000**	**$'000**
Commercial property	63,969	59,055
Domestic property	1,961	5,069
Motor	9,182	8,439
Marine and aviation	134	157
Professional indemnity	8,585	7,494
Public liability	34,420	35,642
Workers' compensation	56,324	56,848
Travel	113	102
Other	11,408	11,564
	186,098	184,370

Terms and conditions of insurance contracts

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by the consolidated entity. There are no special terms and conditions in any non- standard contracts that have a material impact on the financial statements.

Claims management and provisioning

The consolidated entity has established systems to capture, review and update claims estimates on a timely basis to ensure the adequacy of its outstanding claims provision.

The consolidated entity's approach to valuing the outstanding claims provision and the related sensitivities are set out in *note 4*.

(c) Reinsurance counterparty risk

The consolidated entity reinsures a portion of the risks it underwrites in order to control exposure to losses, stabilise earnings, protect capital resources and ensure efficient control and spread of underwriting risk. The framework for the selection of reinsurers is determined by the Board Reinsurance Committee. This decision is based on the nominated reinsurers meeting a desired credit rating, credit limits and performance criteria.

(d) Operational risk

Operational risk is the risk of loss arising from inadequate systems and controls, human error or management failure. The consolidated entity controls include recruitment policies, internal audit and system reviews, compliance monitoring, delegated authorities, segregation of duties, access controls, business recovery plans and authorisation and reconciliation procedures.

(e) Capital and regulatory risk

Catholic Church Insurances is subject to extensive prudential regulation and actively monitors its compliance obligations. Prudential regulation is designed to protect policyholders' interests and includes solvency, change in control and capital movement limitations. In addition, the consolidated entity aims to maintain a strong solvency ratio in order to support its business objectives and maximise shareholder wealth.

The consolidated entity manages its capital requirements by assessing capital levels on a regular basis. Its objectives are to maintain an optimal capital structure to reduce the cost of capital whilst providing security for policyholders and continuing to provide returns to shareholders and Church policyholders. Where appropriate, adjustments are made to capital levels in light of changes in economic conditions and risk characteristics of the consolidated entity's activities. In order to maintain or adjust the capital structure, the consolidated entity has the option to adjust the amount of dividends paid to shareholders or adjust the amount of distributions returned to Church policyholders.

6. Financial risk

The operating activities of the consolidated entity expose it to market, credit and liquidity financial risks.

The risk management framework aims to minimise the impact of financial risks and adverse financial market movements on the company's financial performance and position. A key objective of the risk management strategy is to ensure sufficient liquidity is maintained at all times to meet the company's insurance claims and other debt obligations while ensuring investment returns are optimised to improve the consolidated entity's capital adequacy position.

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risk comprises currency risk (due to fluctuations in foreign exchange rates), interest rate risk (due to fluctuations in market interest rates) and price risk (due to fluctuations in market prices).

(i) Currency risk

The consolidated entity and parent entity have limited exposure to net foreign currency risks. The entities operate solely in Australia and have no direct foreign currency holdings.

The parent company invests in international equities via unit trusts using Australian fund managers. The international equities comprise 11% of our total investment portfolio with currency risk managed by the fund manager. Catholic Church Insurances manages foreign currency by asset allocation, diversification and fund manager selection. The selection of fund managers consider the managers' portfolio allocation and currency hedging strategy to minimise foreign currency losses and consequent impact on the unit price valuations.

The impact of foreign currency risks is not disclosed in the sensitivity analysis as the exposure is indirect and unable to be separated from other market risks which impact international trust unit price valuations.

(ii) Interest rate risk

Catholic Church Insurances invests in floating rate and fixed interest financial instruments. Interest rate movements expose Catholic Church Insurances to cash flow risks (income) from floating rate investments and fair value risks (capital) for fixed interest investments.

Interest rate risk is managed by maintaining an appropriate mix between floating and fixed interest bearing deposits.

Catholic Church Insurances has no interest bearing financial liabilities.

The maturity profile of the consolidated entity's financial assets and liabilities and effective weighted average interest rate are set out in *note 44*.

The potential impact of movements in interest rates on the consolidated entity's income statement and equity is shown in the sensitivity analysis.

(iii) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (excluding interest rate or currency risks). Price risk may arise from factors affecting specific financial instruments, issuers, or all similar financial instruments traded on the market.

The consolidated entity is exposed to price risk on its equity investments and uses derivative instruments and industry sector diversification to manage this exposure. The potential impact of movements in the market value of listed equities on the consolidated entity's income statement and equity is shown in the sensitivity analysis.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause financial loss to the other party by failing to discharge an obligation.

The following policies and procedures are in place to reduce Catholic Church Insurances credit risk exposure:

- The investment policy defines net exposure limits for financial instruments and counterparties, minimum credit ratings and terms of net open derivative positions. Compliance with the policy is monitored with exposures and breaches reported to the Board Investment Committee
- The consolidated entity does not expect any investment counterparties to fail to meet their obligations given their strong credit ratings and therefore does not require collateral or other security to support derivatives. The consolidated entity only uses derivatives in highly liquid markets

- Reinsurance receivables credit risk is actively monitored with strict controls maintained over counterparty exposures. Business is transacted with counterparties that have a strong credit rating and concentration of risk is avoided by adherence to counterparty limits
- Premium receivables are principally with Catholic Church organisations. Credit risk is deemed low due to low default rates and relationships with Church leaders and organisations. Catholic Church Insurances actively pursues the collection of premiums by client negotiation and use of Church resources
- The allowance for impairment is assessed by management monthly

(i) Credit exposure

The following tables provide information regarding the aggregate credit risk exposure of the consolidated entity and parent entity at the balance date in respect of the major classes of financial assets. The analysis classifies the assets according to Standard & Poor's counterparty credit ratings. AAA is the highest possible rating. Rated assets falling outside the range of AAA to BBB are classified as speculative grade.

	AAA	AA	A	BBB	Speculative Grade	Not Rated	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2011							
Consolidated							
Cash and cash equivalents	1,000	34,444	–	–	–	2,713	38,157
Interest bearing investments[1]	190,544	20,098	6,843	1,829	321	1,197	223,832
Reinsurance & other recoveries[2]	32,895	–	12,403	216	4,060	–	49,574
Loans receivable[3]	–	–	–	–	–	243	243
2010							
Consolidated							
Cash and cash equivalents	1,437	44,453	–	–	–	2,316	48,206
Interest bearing investments[1]	70,834	115,542	29,248	2,313	29,911	5,038	252,886
Reinsurance & other recoveries[2]	32,802	–	13,888	375	3,639	–	50,704
Financial Asset – Options	–	–	–	–	–	1,214	1,214
Loans receivable[3]	–	–	–	–	–	276	276

[1] Includes government and semi-government bonds, other fixed interest securities and unsecured notes in other corporations (refer *notes 20* and *24*).

[2] Includes reinsurance and other recoveries on outstanding claims and reinsurance commissions receivable (refer *notes 17* and *23*). The BBB and speculative credit rating's associated with reinsurance and other recoveries is based on the historic recoverability associated with defunct reinsurers or reinsurers in run-off and does not reflect the actual grading of reinsurers in our reinsurance program where the majority have a security rating of A or above.

[3] The loans receivable are interest bearing and secured by first ranking mortgages over real estate. The loan portfolio is in run-off and no new loans are being advanced. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable. No change in the fair value of loans receivable has been recorded.

The only difference between the consolidated and parent entity relates to cash and cash equivalents. The AA rating for the parent entity reduces by $148,000 for the current year and $100,000 for the prior year.

(ii) Asset carrying value

The carrying amount of the relevant asset classes in the balance sheet represents the maximum amount of credit exposure. The fair value of derivatives shown on the balance sheet represents the current risk exposure but not the maximum risk exposure that could arise in the future as a result of changing values.

The following tables provide information regarding the carrying value of the consolidated entity's and parent entity's financial assets and the ageing of those that are past due but not impaired at balance date.

		Past Due				
	Fully Performing	Less than 3 months	3 to 6 months	6 months to 1 year	Greater than 1 year	Total
	$'000	$'000	$'000	$'000	$'000	$'000
2011						
Consolidated						
Premiums receivable	71,233	1,384	751	–	–	73,368
Reinsurance & other recoveries[1]	37,760	6,461	703	143	644	45,711
Loans receivable	243	–	–	–	–	243
Tax assets	10,177	–	–	–	–	10,177
Other receivables[2]	15,023	–	–	11	–	15,034
2010						
Consolidated						
Premiums receivable	69,561	486	608	–	–	70,655
Reinsurance & other recoveries[1]	39,666	8,353	963	222	312	49,516
Loans receivable	276	–	–	–	–	276
Tax assets	4,929	–	–	–	–	4,929
Other receivables[2]	7,436	–	–	9	–	7,445

[1] Includes reinsurance and other recoveries on outstanding claims, reinsurance commission's receivable and provision for doubtful debts reinsurance recoveries (refer *notes 17* and *23*).

[2] Includes investment income accrued and sundry debtors (refer *note 17*).

The only difference between the consolidated and parent entity relates to Other receivables. The "Fully Performing" category for the parent entity reduces by $181,000 for the current year and $249,000 for the prior year.

Catholic Church Insurances has no possessed collateral, impaired or renegotiated agreements in respect of impaired financial assets.

(c) Liquidity risk

Liquidity risk is the risk that Catholic Church Insurances will encounter difficulties in meeting its obligations with financial liabilities.

The investment policy requires a minimum percentage of investments be held in cash and short- term deposits to ensure sufficient liquid funds are available to meet insurance and other liabilities as they fall due for payment. Catholic Church Insurances has a strong liquidity position with no interest bearing debt.

At 30 June 2011, the mean term to maturity of fixed interest securities was 3.4 years (2010: 2.4 years).

Catholic Church Insurances limits the risk of liquidity shortfalls resulting from mismatch in the timing of claim payments and receipt of claim recoveries by negotiating cash call clauses in reinsurance contracts and seeking accelerated settlements for large claims.

The following tables summarise the maturity profile of financial liabilities of the consolidated entity and parent entity based on the remaining undiscounted contractual obligations.

	Less than 3 months	3 months to 1 year	1 to 5 years	Greater than 5 years	Total
	$'000	$'000	$'000	$'000	$'000
2011					
Consolidated & Parent					
Trade and other payables	–	37,531	–	–	37,531
Financial liabilities – Options	1,912	–	–	–	1,912
2010					
Consolidated & Parent					
Trade and other payables	–	34,959	–	–	34,050

The consolidated and parent entity has no significant concentration of liquidity risk.

(d) Sensitivity

The following table outlines the net profit and equity sensitivities to changes in interest rates and investment markets. These sensitivities are indicative only as they assume that the movement in a particular variable is independent of the other variables. The percentage movement in variables has been derived by taking into consideration the likelihood of these events occurring both in the context of the company's business and the environment in which it operates. This same level of testing is used by the company in determining a targeted solvency ratio.

		Financial Impact +/-			
		2011 Net profit (loss)	2011 Equity	2010 Net profit (loss)	20109 Equity
Market risk	Movement in variable	$'000	$'000	$'000	$'000
Interest rate	2%+/-	14,584/(14,584)	14,584/(14,584)	11,635/(11,635)	11,635/(11,635)
Equities	10%+/-	29,646/(29,646)	29,646/(29,646)	20,643/(20,643)	20,643/(20,643)
	20%+/-	45,756/(45,756)	45,756/(45,756)	41,285/(41,285)	41,285/(41,285)
	30%+/-	61,565/(61,565)	61,565/(61,565)	61,928/(61,928)	61,928/(61,928)

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
7. Net premium revenue				
Direct	173,798	171,203	173,798	171,203
Fire service levies	12,300	13,167	12,300	13,167
Premium revenue	186,098	184,370	186,098	184,370
Outwards reinsurance premiums	(56,906)	(57,787)	(56,906)	(57,787)
Net premium revenue	129,192	126,583	129,192	126,583
8. Claims expense				
Direct	102,536	80,423	102,536	80,423
9. Reinsurance and other recoveries revenue				
Reinsurance and other recoveries	37,971	20,968	37,971	20,968

10. Net claims incurred

Current period claims relate to risks borne in the current reporting period. Prior period claims relate to a reassessment of the risks borne in all previous reporting periods.

	2011			2010		
	Current Year	Prior Years	Total	Current Year	Prior Years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Direct business						
Gross claims incurred and related expenses – undiscounted	120,564	(36,729)	83,835	108,843	2,047	110,890
Reinsurance and other recoveries – undiscounted	(33,298)	(4,244)	(37,542)	(25,750)	5,252	(20,498)
Net claims incurred – undiscounted	87,266	(40,973)	46,293	83,093	7,299	90,392
Discount and discount movement – gross claims incurred	(17,632)	36,333	18,701	(23,572)	(6,898)	(30,470)
Discount and discount movement – reinsurance and other recoveries	5,846	(6,275)	(429)	6,417	(6,884)	(467)
Net discount movement	(11,786)	30,058	18,272	(17,155)	(13,782)	(30,937)
Net claims incurred	75,480	(10,915)	64,565	65,938	(6,483)	59,455

The balance of net claims incurred for the economic entity is the same as the parent entity.

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
11. Underwriting and other operating expenses				
Expenses by function:				
Investment expenses	842	669	842	669
Marketing expenses	555	509	555	509
Underwriting expenses	46,025	41,430	46,025	41,430
Lease expenses	1,673	4,680	1,644	4,653
Other expenses	13,906	9,578	12,712	8,445
Total expenses	63,001	56,866	61,778	55,706
Expenses by nature:				
Depreciation charges (note 25)	1,647	2,211	1,647	2,211
Employee benefits expense	312	1,043	312	1,043
Other expenses	61,042	53,612	59,819	52,452
Total expenses	63,001	56,866	61,778	55,706

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
12. Unexpired risk liability				
a) Unexpired risk liability				
Unexpired risk liability as at 1 July	(965)	(141)	(965)	(141)
Recognition of additional unexpired risk liability in the period	(776)	(824)	(776)	(824)
Gross unexpired risk liability as at 30 June	(1,741)	(965)	(1,741)	(965)
b) Deficiency recognised in the statement of comprehensive income				
Gross unexpired risk liability	(1,741)	(965)	(1,741)	(965)
Reinsurance recoveries (expense) on unexpired risk liability	1,006	(161)	1,006	(161)
Net unexpired risk liability	(735)	(1,126)	(735)	(1,126)
Total deficiency recognised in the statement of comprehensive income	(735)	(1,126)	(735)	(1,126)

c) Deficiency recognised in the statement of comprehensive income

		Commercial Motor	Domestic Motor	Travel	Total
Year ended 30 June 2011		$'000	$'000	$'000	$'000
Unearned premium liability relating to insurance contracts		5,143	261	83	5,487
Related reinsurance asset		(2)	–	–	(2)
	(A)	5,141	261	83	5,485
Central estimate of present value of expected future cash flows arising from future claims on insurance contracts issued		6,151	335	86	6,572
Risk margin		624	19	11	654
Present value of expected future cash inflows arising from reinsurance recoveries on future claims on insurance contracts issued		(947)	(59)	–	(1,006)
	(B)	5,828	295	97	6,220
Net deficiency	(B) - (A)	687	34	14	735
Add back reinsurance element of present value of expected future cash flows for future claims		(947)	(59)	–	(1,006)
Gross (surplus)/deficiency		1,634	93	14	1,741

The liability adequacy test has identified a surplus for other portfolios of contracts that are subject to broadly similar risks that are managed together as a single portfolio.

The process for determining the overall risk margin, including the way in which diversification of risks has been allowed for, is discussed in *note 35*. As with outstanding claims, the overall risk margin is intended to achieve a 75% probability of sufficiency.

Year ended 30 June 2010		Commercial Motor $'000	Domestic Motor $'000	Professional Indemnity $'000	Marine $'000	Total $'000
Unearned premium liability relating to insurance contracts		4,904	238	3,995	91	9,228
Related reinsurance asset		(8)	–	(1,313)	(37)	(1,358)
	(A)	4,896	238	2,682	54	7,870
Central estimate of present value of expected future cash flows arising from future claims on insurance contracts issued		6,227	376	2,400	68	9,071
Risk margin		618	21	474	7	1,120
Present value of expected future cash inflows arising from reinsurance recoveries on future claims on insurance contracts issued		(1,076)	(83)	(26)	(10)	(1,195)
	(B)	5,769	314	2,848	65	8,996
Net deficiency	(B) - (A)	873	76	166	11	1,126
Add back reinsurance element of present value of expected future cash flows for future claims		(1,069)	(83)	1,286	27	161
Gross (surplus)/deficiency		1,942	159	(1,120)	(16)	965

The liability adequacy test has identified a surplus for other portfolios of contracts that are subject to broadly similar risks that are managed together as a single portfolio.

The process for determining the overall risk margin, including the way in which diversification of risks has been allowed for, is discussed in *note 35*. As with outstanding claims, the overall risk margin is intended to achieve a 75% probability of sufficiency.

	Economic Entity		Parent Entity	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
13. Investment income				
Dividend income	33,728	17,864	33,728	17,864
Interest income	16,834	14,441	16,846	14,471
Changes in fair value				
– Unrealised gains/(losses) on investments	10,657	11,363	10,657	11,363
– Realised gains/(losses) on investments	(13,094)	9,852	(13,094)	8,852
	48,125	53,520	48,137	52,550

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
14. Operating profit/(loss)				
Gross written premiums	186,351	187,687	186,351	187,687
Unearned premium movement	(253)	(3,317)	(253)	(3,317)
Gross earned premium	186,098	184,370	186,098	184,370
Outward reinsurance expense	(56,906)	(57,787)	(56,906)	(57,787)
Net earned premium	129,192	126,583	129,192	126,583
Gross claims incurred	(102,536)	(80,423)	(102,536)	(80,423)
Reinsurance and other recoveries	37,971	20,968	37,971	20,968
Net claims incurred	(64,565)	(59,455)	(64,565)	(59,455)
Acquisition costs	(157)	(224)	(157)	(224)
Net movement in unexpired risk liability	391	(346)	391	(346)
Underwriting expenses	(46,025)	(41,430)	(46,025)	(41,430)
	(110,356)	(101,455)	(110,356)	(101,455)
Underwriting profit	18,836	25,128	18,836	25,128
Dividends received	33,728	17,864	33,728	17,864
Interest income	16,834	14,441	16,846	14,471
Changes in net market value of investments:				
– Realised	(13,094)	9,852	(13,094)	8,852
– Unrealised	10,657	11,363	10,657	11,363
Other income	6,568	4,040	5,858	3,314
Investment and other income	54,693	57,560	53,995	55,864
General and administration expenses	(16,976)	(15,436)	(15,753)	(14,276)
Catholic entity distributions	(23,166)	(29,486)	(23,166)	(29,486)
Profit/(loss) from ordinary activities	33,387	37,766	33,912	37,230
15. Dividends paid and proposed				
Declared and paid during the year:				
Dividends on ordinary shares: Final unfranked dividend for 2010: $0.80 cents (2009: $0.00 cents)	2,352	–	2,352	–
Proposed for approval at AGM (not recognised as a liability as at 30 June):				
Dividends on ordinary shares: Final unfranked dividend for 2011: $0.40 cents (2010: $0.80 cents)	1,176	2,352	1,176	2,352
16. Cash and cash equivalents				
Cash balance comprises:				
– Cash on hand	3	3	2	2
– Cash at call	38,154	48,203	38,012	48,104
	38,157	48,206	38,014	48,106
Reconciliation of cash Cash at the end of the financial year as shown in the Cash Flow Statement is reconciled to items in the Balance Sheet as follows:				
– Cash	38,157	48,206	38,014	48,106
	38,157	48,206	38,014	48,106

The economic entity has a combined bank overdraft facility of $150,000. This facility was unused at 30 June.

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
17. Trade and other receivables (current)				
Premiums receivable (i)	73,368	70,655	73,368	70,655
Reinsurance commissions receivable (ii)	(176)	149	(176)	149
Reinsurance and other recoveries on outstanding claims (iii)	28,052	23,407	28,052	23,407
Provision for doubtful debts on reinsurance recoveries	(3,863)	(1,188)	(3,863)	(1,188)
	24,189	22,219	24,189	22,219
Investment income accrued (iv)	6,495	5,608	6,495	5,608
Sundry debtors (v)	8,539	1,837	8,358	1,588
	112,415	100,468	112,234	100,219

The current period balance of premiums receivable includes $48.115 million (2010: $48.199 million) for workers' compensation premiums expiring at 4pm 30 June 2011.

(i) Premiums receivable are contracted on normal terms and conditions. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired.

(ii) Reinsurance commissions receivable are settled in accordance with the terms and conditions of the contract.

(iii) Reinsurance and other recoveries on outstanding claims are settled in accordance with the terms of the contract. These amounts are normally settled within twelve months.

(iv) Investment income is recognised when the consolidated entities right to receive the payment is established.

(v) Sundry debtors are recognised when the consolidated entities right to receive the payment is established.

18. Prepaid reinsurance premiums				
Prepaid reinsurance premium asset as at 1 July	25,346	27,398	25,346	27,398
Reinsurance premiums paid during the year	67,643	65,038	67,643	65,038
Reinsurance premiums charged to the statement of comprehensive income	(67,266)	(67,090)	(67,266)	(67,090)
Prepaid reinsurance premium asset as at 30 June	25,723	25,346	25,723	25,346

The current period balance of the prepaid reinsurance premiums includes $6.466 million (2010: $7.175 million) for workers' compensation premiums expiring at 4pm 30 June 2011.

19. Deferred acquisition costs				
Deferred acquisition costs as at 1 July	29	55	29	55
Acquisition costs deferred	–	77	–	77
Amortisation charged to income	(29)	(103)	(29)	(103)
Deferred acquisition costs as at 30 June	–	29	–	29

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
20. Financial assets (current)				
Listed on a prescribed stock exchange (fair value through profit and loss)	4,327	4,059	4,327	4,059
– Other fixed interest securities	293,731	245,050	293,731	245,050
– Shares in other corporations	6,162	11,903	6,162	11,903
– Property	–	1,214	–	1,214
– Financial asset-options	304,220	262,226	304,220	262,226
Unlisted (fair value through profit and loss)	–	47,290	–	47,290
– Government and semi-government bonds	10,034	–	10,034	–
– Other fixed interest securities	2,360	2,333	2,360	2,333
– Shares in other corporations	83,224	74,942	83,224	74,942
– Units in unit trust	35,932	17,899	35,932	17,899
– Property	131,550	142,464	131,550	142,464
Total current investments	435,770	404,690	435,770	404,690
21. Tax assets				
Imputation credits	8,554	3,389	8,554	3,389
Deferred GST refund	1,670	1,540	1,670	1,540
	10,224	4,929	10,224	4,929
22. Other current assets				
Prepaid statutory charges	5,888	6,273	5,888	6,273
Other assets	3,451	5,960	3,451	5,960
	9,339	12,233	9,339	12,233
23. Trade and other receivables (non-current)				
Reinsurance and other recoveries on outstanding claims	21,698	27,148	21,698	27,148
Loan to subsidiary	–	–	500	–
	21,698	27,148	22,198	27,148

Reinsurance and other recoveries on outstanding claims are settled in accordance with the terms of the contract. These amounts are normally settled after twelve months.

	Economic Entity 2011 $'000	Economic Entity 2010 $'000	Parent Entity 2011 $'000	Parent Entity 2010 $'000
24. Financial assets (non-current)				
Listed on a prescribed stock exchange (fair value through profit and loss)				
– Shares in other corporations	–	145	–	145
	–	145	–	145
Unlisted (fair value through profit and loss)				
– Government and semi-government bonds	106,071	26,738	106,071	26,738
– Other fixed interest securities	103,400	174,799	103,400	174,799
– Units in unit trust	22,215	20,323	22,215	20,323
– Loans – secured	243	276	243	276
	231,929	222,136	231,929	222,136
Total non-current investments	231,929	222,281	231,929	222,281

25. Plant and equipment

	Economic Entity				
	Motor Vehicles	Office Equipment	Computer Equipment	Leasehold Improvements	Total
Year ended 30 June 2011	$'000	$'000	$'000	$'000	$'000
Gross carrying amount					
Balance at 1 July 2010	2,180	4,941	8,456	4,141	19,718
Additions	632	48	278	363	1,321
Disposals	(425)	–	(19)	–	(444)
Balance at 30 June 2011	2,387	4,989	8,715	4,504	20,595
Accumulated depreciation					
Depreciation charge for the year	(493)	(238)	(475)	(441)	(1,647)
Accumulated depreciation	(570)	(3,176)	(7,392)	(29)	(11,167)
Balance at 30 June 2011	(1,063)	(3,414)	(7,867)	(470)	(12,814)
Net carrying amount at 30 June 2011	1,324	1,575	848	4,034	7,781

There has been no change to depreciation rates or useful lives at 30 June 2011.
Leasehold improvements is a new category introduced in 2010.
The balance of plant and equipment for the economic entity is the same as the parent entity.

Year ended 30 June 2010	Motor Vehicles	Office Equipment	Computer Equipment	Leasehold Improvements	Total
Gross carrying amount					
Balance at 1 July 2009	1,991	4,141	12,068	–	18,200
Additions	650	956	1,278	4,141	7,025
Disposals	(461)	(156)	(4,890)	–	(5,507)
Balance at 30 June 2010	2,180	4,941	8,456	4,141	19,718
Accumulated depreciation					
Depreciation charge for the year	(424)	(521)	(1,231)	(35)	(2,211)
Accumulated depreciation	(446)	(2,656)	(6,180)	–	(9,282)
Balance at 30 June 2010	(870)	(3,177)	(7,411)	(35)	(11,493)
Net carrying amount at 30 June 2010	1,310	1,764	1,045	4,106	8,225

There has been no change to depreciation rates or useful lives at 30 June 2010.
Office equipment includes a higher depreciation expense in relation to office fit-out that will not be transferred across to the new premises.
The balance of plant and equipment for the economic entity is the same as the parent entity.

	Economic Entity
	Computer Software
	$'000
26. Intangible assets	
Year ended 30 June 2011	
(a) Reconciliation of carrying amounts at the beginning and end of the period	
Gross carrying amount	
Balance at 1 July 2010 net of accumulated amortisation	1,236
Additions	3,361
Disposals	–
Balance at 30 June 2011	4,597
Accumulated amortisation	
Amortisation charge for the year	(615)
Accumulated amortisation	(235)
Balance at 30 June 2011	(850)
Net carrying amount at 30 June 2011	3,747

The balance of intangible assets for the economic entity is the same as the parent entity.
A description of the intangible asset is provided in section (b) of this note.

(b) Description of the economic entity's intangible assets

Computer Software

Software that is not integral to the operation of hardware and includes externally purchased software, internally generated software and licenses.

Year ended 30 June 2010	
(a) Reconciliation of carrying amounts at the beginning and end of the period	
Gross carrying amount	
Balance at 1 July 2009 net of accumulated amortisation	–
Additions	1,236
Disposals	–
Balance at 30 June 2010	1,236
Accumulated amortisation	
Amortisation charge for the year	(235)
Accumulated amortisation	–
Balance at 30 June 2010	(235)
Net carrying amount at 30 June 2010	1,000

The balance of intangible assets for the economic entity is the same as the parent entity.
A description of the intangible asset is provided in section (b) of this note.

(b) Description of the economic entity's intangible assets

Computer Software

Software that is not integral to the operation of hardware and includes externally purchased software, internally generated software and licenses.

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
27. Trade and other payables (current)				
Trade creditors	27,739	27,241	27,739	27,241
Accrued expenses	1,604	2,855	1,604	2,855
Sundry creditors	8,188	4,863	8,188	4,863
	37,531	34,959	37,531	34,959

The current period balance of the trade creditors includes $6.466 million (2010: $7.175 million) for reinsurance premiums payable for workers' compensation premiums expiring at 4pm 30 June 2011.

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
28. Provisions (current)				
Catholic entity distributions	23,804	27,049	23,804	27,049
Risk management	37	54	37	54
Employee benefits	4,108	3,833	4,108	3,833
	27,949	30,936	27,949	30,936

Catholic entity distributions

Catholic Church Insurances Limited operates under mutual principles and at the end of each year returns surpluses, after expenses and prudential reserves, back to the Catholic Church in the form of distributions and grants. The amount allocated each year is approved by the Board of Directors.

All of these costs will be incurred in the next financial year.

Risk management

Catholic Church Insurances Limited undertakes programs to minimise risk and control losses by encouraging and assisting our clients in adopting better risk management practices.

This provision has been set aside to cover the costs associated with the Cathedral Fire Safety program and to assist NSW Workers' Compensation clients in establishing Loss Management Programs.

All of these costs are expected to be incurred in the next financial year.

Employee entitlements

Provision is made for benefits accruing to employees in respect of wages and salaries, performance based incentives, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

29. Tax liabilities				
GST provision	–	48	–	48
30. Other current liabilities				
Financial liability – options	1,912	–	1,912	–
31. Provisions (non-current)				
Employee benefits	755	720	755	720
Make good of premises	1,235	1,235	1,235	1,235
	1,990	1,955	1,990	1,955

Make good of premises

This provision is required as part of the company's occupancy contract which requires all leased premises to be returned to a vacant shell upon expiry or termination of the lease.

This amount represents the present value of the Directors best estimate of the future sacrifice of economic benefits that will be required to return the premises to a vacant shell.

32. Provisions

	Economic Entity				
	Catholic Entity Distributions	Risk Management	Employee Entitlements	Make Good Premises	Total
	$'000	$'000	$'000	$'000	$'000
Year ended 30 June 2011					
Carrying amount at 1 July 2010	27,049	54	4,552	1,235	32,890
Additional provisions	24,167	–	226	–	24,393
Amounts utilised during the year	(26,957)	(5)	11	–	(26,951)
Reversal of unused provision	(455)	(12)	74	–	(393)
Carrying amount at 30 June 2011	23,804	37	4,863	1,235	29,939
Current (note 28)	23,804	37	4,108	–	27,949
Non-current (note 31)	–	–	755	1,235	1,990
	23,804	37	4,863	1,235	29,939
Year ended 30 June 2010					
Carrying amount at 1 July 2009	524	98	3,510	759	4,891
Additional provisions	30,039	–	1,491	699	32,229
Amounts utilised during the year	(3,524)	(20)	–	(223)	(3,767)
Reversal of unused provision	10	(24)	(448)	–	(462)
Carrying amount at 30 June 2010	27,049	54	4,553	1,235	32,891
Current (note 28)	27,049	54	3,833	–	30,936
Non-current (note 31)	–	–	720	1,235	1,955
	27,049	54	4,553	1,235	32,891

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
33. Contributed equity				
Ordinary shares issued & paid-up 2,939,676 (2010: 2,939,676)	8,139	8,139	8,139	8,139

There has been no change to the ordinary shares issued from the prior year to the current year.

Terms and conditions of contributed equity

Fully paid ordinary shares carry one vote per share and carry the right to dividends. In the event of winding up the company shareholders have the right to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

		Economic Entity		Parent Entity	
		2011	2010	2011	2010
		$'000	$'000	$'000	$'000
34. Reserves					
(a) Composition					
General reserve		292,650	259,747	292,650	259,747
		292,650	259,747	292,650	259,747
(b) Movements					
General reserve					
Opening balance		259,747	257,247	259,747	257,247
Transfers to and from retained profits		32,903	2,500	32,903	2,500
Closing balance		292,650	259,747	292,650	259,747

Nature and purpose of reserves

General reserve

The general reserve contains amounts transferred from retained profits by Directors.
It is used for general purposes only and there is no policy of regular transfer.

		Economic Entity 2011 $'000	Economic Entity 2010 $'000	Parent Entity 2011 $'000	Parent Entity 2010 $'000
35. Outstanding claims					
(a) Outstanding claims liability					
Central estimate	(A)	464,889	475,867	464,889	475,867
Discount to present value		(115,156)	(133,909)	(115,156)	(133,909)
		349,733	341,958	349,733	341,958
Claims handling costs	(B)	17,346	16,992	17,346	16,992
		367,079	358,950	367,079	358,950
Risk margin	(C)	37,162	35,361	37,162	35,361
Gross outstanding claims liability		404,241	394,311	404,241	394,311
Gross claims incurred – undiscounted	(A)+(B)+(C)	519,397	528,220	519,397	520,220
Current		92,651	68,342	92,651	68,342
Non-current		311,590	325,969	311,590	325,969
Total		404,241	394,311	404,241	394,311

(b) Risk margin

Process for determining risk margin

Risk margins have been based on features of each of the portfolios using general industry models to measure the variability of liabilities.

Theoretical undiversified and diversified risk margins are determined based on industry models. A diversification discount is then derived based on actual experience in regard to the individual classes loss ratios compared to the company as a whole for the last six accident years.

The implied diversification discount is then compared with the discount derived from the industry models and "rounded" percentage risk margins are selected for each line of business having regard to modelling results.

The final selected dollar margin must be at least equal to the 75% level of sufficiency.

Risk margins applied

	2011	2010
	%	%
Short-tail	9.7	9.5
Professional indemnity	16.0	16.0
Public liability	12.4	12.2
Workers' compensation	9.0	9.0

(c) Reconciliation of movement in discounted outstanding claims liability

	Gross	Reinsurance	Net
	$'000	$'000	$'000
2011			
Brought forward	394,311	40,818	353,493
Effect of changes in assumptions	(7,860)	4,331	(12,191)
Increase in claims incurred/recoveries anticipated over the year	109,243	27,827	81,416
Incurred claims recognised in the statement of comprehensive income	101,383	32,158	69,225
Claim payments/recoveries during the year	(91,453)	(30,951)	(60,502)
Carried forward	404,241	42,025	362,216
2010			
Brought forward	397,911	54,296	343,615
Effect of changes in assumptions	(12,511)	(4,259)	(8,252)
Increase in claims incurred/recoveries anticipated over the year	92,181	17,978	74,203
Incurred claims recognised in the statement of comprehensive income	79,670	13,719	65,951
Claim payments/recoveries during the year	(83,270)	(27,197)	(56,073)
Carried forward	394,311	40,818	353,493

(d) Claims development tables – long-tail classes

The following tables show the development of gross and net undiscounted outstanding claims relative to the ultimate expected claims for the six most recent accident years.

The insurance classes included in long-tail business are professional indemnity, public liability & workers' compensation.

(i) Gross

Accident year	2005	2006	2007	2008	2009	2010	2011	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Estimate of ultimate claims cost:								
At end of accident year	420,335	68,496	72,572	69,164	65,810	63,115	53,792	813,284
One year later	418,151	64,502	62,183	60,892	58,928	50,881	–	715,537
Two years later	401,645	55,005	53,005	54,732	46,657	–	–	611,044
Three years later	417,834	42,398	47,403	41,170	–	–	–	548,805
Four years later	403,189	39,334	41,320	–	–	–	–	483,843
Five years later	412,321	31,761	–	–	–	–	–	444,082
Current estimate of cumulative claims cost	488,375	31,761	41,320	41,170	46,657	50,881	53,792	753,956
Cumulative payments	(240,905)	(21,145)	(25,128)	(20,418)	(18,632)	(15,051)	(7,633)	(348,912)
Outstanding claims – undiscounted	247,470	10,616	16,192	20,752	28,025	35,830	46,159	405,044
Discount								(98,166)
Outstanding claims								306,878
Short-tail outstanding claims								38,491
Claims handling expenses								17,346
Risk margins								41,526
Total gross outstanding claims as per the Balance Sheet								404,241

(ii) Net

Accident year	2005	2006	2007	2008	2009	2010	2011	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Estimate of ultimate claims cost:								
At end of accident year	358,221	65,228	68,152	65,752	64,301	62,918	54,182	738,754
One year later	340,883	60,983	59,827	58,596	57,827	49,720	–	627,836
Two years later	326,547	52,763	51,755	52,841	45,965	–	–	529,871
Three years later	334,696	39,932	46,258	39,216	–	–	–	460,102
Four years later	327,305	37,396	39,562	–	–	–	–	404,263
Five years later	331,567	29,305	–	–	–	–	–	360,872
Current estimate of cumulative claims cost	415,254	29,305	39,562	39,216	45,965	49,720	54,182	673,204
Cumulative payments	(182,268)	(19,438)	(24,264)	(19,575)	(18,484)	(14,961)	(7,628)	(286,618)
Outstanding claims – undiscounted	232,986	9,867	15,298	19,641	27,481	34,759	46,554	386,586
Discount								(95,665)
Outstanding claims								290,921
Short-tail outstanding claims								16,787
Claims handling expenses								17,346
Risk margins								37,162
Total net outstanding claims as per the Balance Sheet								362,216

	Economic Entity		Parent Entity	
	2011	**2010**	**2011**	**2010**
	$'000	$'000	$'000	$'000
36. Unearned premium liability				
Unearned premium liability as at 1 July	120,061	124,322	120,061	124,322
Deferral of premiums on contracts written in the period	145,893	139,282	145,893	139,282
Earning of premiums written in previous periods	(145,723)	(143,543)	(145,723)	(143,543)
Unearned premium liability as at 30 June	120,231	120,061	120,231	120,061

The current period balance of the unearned premium liability includes $48.115 million (2010: $48.199 million) for premiums expiring at 4pm 30 June 2011.

37. Director and executive disclosures

(a) Details of key management personnel

(i) Directors

The names of persons who were Directors of Catholic Church Insurances Limited at any time during the year or until the date of this report are as follows:

P A Gallagher	Chairman (non-executive)
W R d'Apice	Director (non-executive) – *Retired 23 August 2010*
C T Condon	Director (non-executive)
J Dawson	Director (non-executive)
N E B Griffiths	Director (non-executive)
R M Haddock	Director (non-executive) – *Appointed 6 October 2010*
J A Killen	Director (non-executive)
B J Lucas	Director (non-executive)
J A Tongs	Director (non-executive)
P A Rush	Alternate Director for B J Lucas

(ii) Executives

P Rush	Chief Executive Officer
J Apter	Regional Manager NSW/ACT
J Barrie	Assistant General Manager – Strategy, Marketing & Sales
E Branigan	Assistant General Manager – Insurance Operations
T Briganti	Reinsurance Manager
S Stella	Manager Project Office – Appointed 11 October 2010, Resigned 27 April 2011
D Chila	Company Secretary and Chief Financial Officer
C Nettleton	Human Resources Manager
I Smith	Chief Investment Officer
N Smith	Information, Communication and Technology Manager
R Redlich	Head of Superannuation – Appointed 6 July 2011

(b) Compensation of key management personnel

(i) The compensation policy is disclosed in the Directors' Report.

(ii) Compensation of key management personnel by category is as follows:

	Economic Entity		Parent Entity	
	2011 $	2010 $	2011 $	2010 $
Directors				
Short-term	375,343	410,719	295,993	318,495
Post employment	25,350	26,624	19,680	19,428
	400,693	437,343	315,673	337,923

The short-term category includes salary, fees and cash bonuses.
The post employment category includes superannuation and retirement benefits.

	Economic Entity		Parent Entity	
	2011 $	2010 $	2011 $	2010 $
Executives				
Short-term	3,156,052	2,691,142	3,156,052	2,691,142
Post employment	180,055	152,600	180,055	152,600
Other long-term	177,899	155,580	177,899	155,580
	3,514,006	2,999,322	3,514,006	2,999,322

The short-term category includes salary, fees and cash bonuses.
The post employment category includes superannuation and retirement benefits.

(c) Shareholdings of key management personnel

Each Director of the parent entity holds ordinary shares in Catholic Church Insurances Limited in trust for the Australian Episcopal Conference of the Roman Catholic Church.

Executives are not eligible to hold shares in the company.

Year ended 30 June 2011	Balance at Beginning	Net Change Other	Balance at End
Directors			
W R d'Apice	1,250	(1,250)	–
P A Gallagher	1,250	–	1,250
C T Condon	1,250	–	1,250
J Dawson	1,250	–	1,250
N E B Griffiths	1,000	–	1,000
J A Killen	1,250	–	1,250
B J Lucas	1,250	–	1,250
R M Haddock	–	1,250	1,250
J A Tongs	1,250	–	1,250
Total	9,750	–	9,750

Year ended 30 June 2010	Balance at Beginning	Net Change Other	Balance at End
Directors			
W R d'Apice	1,250	–	1,250
C T Condon	1,250	–	1,250
J Dawson	1,250	–	1,250
P A Gallagher	1,250	–	1,250
N E B Griffiths	1,000	–	1,000
J A Killen	1,250	–	1,250
B J Lucas	1,250	–	1,250
C R O'Malley	1,250	(1,250)	–
J Tongs	–	1,250	1,250
Total	9,750	–	9,750

(d) Loans to key management personnel

There are no loans to key management personnel.

	Economic Entity		Parent Entity	
	2011 $	2010 $	2011 $	2010 $
38. Related parties				
Wholly owned group transactions				
The entities within the wholly owned group are Catholic Church Insurances Limited (parent entity), and CCI Investment Management Limited (subsidiary). Catholic Church Insurances Limited is the ultimate parent entity.				
The parent entity provided a loan to its subsidiary totalling $500,000 (2010: $1,000,000) with no fixed repayment date. During the financial year ended 30 June 2010 the parent entity agreed to forgive the balance of all loans totalling $1,000,000.				
Balance of loan to subsidiary	–	–	500,000	–
The Directors have also provided a guarantee of continued financial support to CCI Investment Management Limited up until 31 August 2012 in the amount of $2,500,000 (2010: $2,500,000).				
Catholic Church Insurances Limited has invested funds into the investment trusts of its subsidiary under normal terms and conditions.				
Market value of investment	–	–	22,214,988	20,322,676
Other related party transactions				
Transactions with Director related entities				
A Director of the parent entity, Mr W R d'Apice, is a partner in the firm Makinson & d'Apice, Solicitors. Makinson & d'Apice has provided legal services to the company on normal commercial terms and conditions.				
A Director of the subsidiary company, Ms P J Dwyer, is a Director of the firm Roble & Co. Roble & Co. has provided investment consultancy services to the company on normal commercial terms and conditions.				
The aggregate amount of these transactions with Directors and their Director-related entities were as follows:				
– Makinson & d'Apice	311,548	243,800	311,548	243,800
– Roble & Co.	11,250	15,000	11,250	15,000

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	$	$	$	$
39. Auditors' remuneration				
Amounts received or due and receivable by Ernst & Young Australia for:				
(a) an audit or review of the financial report of the entity and any other entity in the consolidated entity	173,300	171,119	161,300	159,459
(b) other services in relation to the entity and any other entity in the consolidated entity				
– Taxation services	4,200	2,480	4,200	2,480
– Other services	31,500	24,000	31,500	24,000
Total other services	35,700	26,480	35,700	26,480

	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
40. Expenditure commitments				
Operating lease expenditure commitments:				
– Within one year	3,821	3,837	3,821	3,837
– After one year but not more than five years	12,159	12,871	12,159	12,871
– More than five years	9,409	12,266	9,409	12,266
	25,389	28,974	25,389	28,974
Lease payments recognised as an expense in the period				
Minimum lease payment	2,123	1,893	2,095	1,866
Contingent rents	(451)	2,787	(451)	2,787
	1,673	4,680	1,644	4,653

Leasing arrangements

Leased offices

The economic entity leases offices under operating leases expiring from 1 to 10 years. Leases generally provide the economic entity with a right to renew at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria.

Equipment

The economic entity leases photocopiers and faxes under operating leases expiring from 1 to 5 years. Each time a machine is upgraded the contract starts again for a further 5 years. Lease payments comprise a base amount plus an additional rental based on usage.

	Economic Entity		Parent Entity	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
41. Statement of cash flows				
Reconciliation of cash flow from operations with profit/(loss) from ordinary activities				
Profit/(loss) from ordinary activities	33,387	37,766	33,912	37,230
Changes in net market value of investments	(3,614)	(21,880)	(3,614)	(20,880)
Depreciation of assets	(1,647)	(2,211)	(1,636)	(2,202)
Profit/(loss) on sale of assets	(22)	(50)	(22)	(50)
Changes in assets and liabilities				
(Increase)/decrease in unearned premium	170	(4,261)	170	(4,261)
Increase/(decrease) in premiums receivable	(2,713)	7,037	(2,713)	7,037
Increase/(decrease) in reinsurance and other recoveries receivable on outstanding claims	3,480	10,784	3,480	10,784
Increase/(decrease) in reinsurance payables	645	(1,360)	645	(1,360)
(Increase)/decrease in outstanding claims	9,930	(3,600)	9,930	(3,600)
Increase/(decrease) in acquisition costs	29	26	29	26
(Increase)/decrease in statutory charge liability	385	(703)	385	(703)
(Increase)/decrease in GST tax provision	(179)	(250)	(179)	(250)
(Increase)/decrease in other provisions and sundry debtors	28,092	33,369	27,512	33,982
Cash flow from operating activities	67,943	54,667	67,899	55,753

42. Controlled entities

Name of entity	Country of incorporation	Ownership interest		Investment	
		2011	2010	2011	2010
		%	%	$'000	$'000
Parent entity					
Catholic Church Insurances Limited	Australia				
Controlled entity					
CCI Investment Management Limited	Australia	100	100	–	–

The shares held in CCI Investment Management Limited of $1,004,099 were written down to zero in the financial year ended June 2006.

43. Capital adequacy

The Australian Prudential Regulation Authority's (APRA's) prudential standards set out the basis for calculating the minimum capital requirement (MCR) of licensed insurers. The MCR assumes a risk-based approach in calculating a company's solvency and is determined as the sum of the insurance, investment, investment concentration and catastrophe risk capital charges.

The consolidated entity has at all times during the current and prior financial year complied with the externally imposed capital requirements to which they are subject.

The MCR of Catholic Church Insurances Limited applying consolidation principles to the prudential standards is as follows:

	Economic Entity	
	2011	2010
	$'000	$'000
Tier 1 capital		
Paid-up ordinary shares	8,139	8,139
General reserves	292,650	259,747
Retained earnings at end of reporting period	25,238	25,687
Net tier 1 capital	326,027	293,573
Less net intangible assets	3,747	1,000
Total capital base	322,280	292,573
Minimum capital requirement	158,672	142,957
Solvency coverage	2.03	2.05

The consolidated entity does not hold any tier 2 capital.

44. Additional financial instruments disclosure

(a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 of the financial statements.

(b) Interest rate risk

The following table details the economic entity's exposure to interest rate risk at the reporting date.

	Fixed Interest Rate Maturity – Consolidated						
2011	Average Interest Rate %	Variable Interest $'000	Less than 1 Year $'000	1 to 5 Years $'000	More than 5 Years $'000	Non-Interest Bearing $'000	Total $'000
Financial assets							
Cash assets	5.80	38,154				3	38,157
Receivables and other						134,113	134,113
Government and semi-government loans	6.72			69,277	36,794		106,071
Other fixed interest securities	5.38		14,361	96,852	6,548		117,761
Loans	5.00			44	199		243
Shares, options & trusts						443,078	443,078
Preference shares			546				546
Convertible notes							
Exchange traded options							
Total		38,154	14,907	166,173	43,541	577,194	839,969
Financial liabilities							
Bank overdraft						–	–
Trade and sundry creditors						37,531	37,531
Exchange traded options						1,912	1,912
Total						39,443	39,443

	Fixed Interest Rate Maturity – Parent						
2011	Average Interest Rate %	Variable Interest $'000	Less than 1 Year $'000	1 to 5 Years $'000	More than 5 Years $'000	Non-Interest Bearing $'000	Total $'000
Financial assets							
Cash assets	5.80	38,011				3	38,014
Receivables and other						134,432	134,432
Government and semi-government loans	6.72			69,277	36,794		106,071
Other fixed interest securities	5.38		14,361	96,852	6,548		117,761
Loans	5.00			44	199		243
Shares, options & trusts						443,078	443,078
Preference shares			546				546
Convertible notes							
Exchange traded options							
Total		38,011	14,907	166,173	43,541	577,513	840,145
Financial liabilities							
Bank overdraft							
Trade and sundry creditors						37,531	37,531
Exchange traded options						1,912	1,912
Total						39,443	39,443

2010	Average Interest Rate %	Variable Interest $'000	Less than 1 Year $'000	1 to 5 Years $'000	More than 5 Years $'000	Non-Interest Bearing $'000	Total $'000
	Fixed Interest Rate Maturity – Consolidated						
Financial assets							
Cash assets	3.43	48,203				3	48,206
Receivables and other						127,616	127,616
Government and semi-government loans	6.09		47,290	26,738			74,028
Other fixed interest securities	6.11		4,059	166,621	8,179		178,858
Loans	5.00			52	224		276
Shares, options & trusts						372,450	372,450
Preference shares	5.62			145			145
Exchange traded options						1,214	1,214
Total		48,203	51,349	193,556	8,403	501,283	802,793
Financial liabilities							
Trade and sundry creditors						34,959	34,959
Exchange traded options							
Total						34,959	34,959

2010	Average Interest Rate %	Variable Interest $'000	Less than 1 Year $'000	1 to 5 Years $'000	More than 5 Years $'000	Non-Interest Bearing $'000	Total $'000
	Fixed Interest Rate Maturity – Parent						
Financial assets							
Cash assets	3.43	46,894				1,212	48,106
Receivables and other						127,367	127,367
Government and semi-government loans	6.09		47,290	26,738			74,028
Other fixed interest securities	6.11		4,059	166,621	8,179		178,858
Loans	5.00			52	224		276
Shares, options & trusts						372,450	372,450
Preference shares	5.62			145			145
Exchange traded options						1,214	1,214
Total		46,894	51,349	193,556	8,403	502,243	802,444
Financial liabilities							
Trade and sundry creditors						34,959	34,959
Exchange traded options							
Total						34,959	34,959

45. Fair value hierarchy

The table below sets out the consolidated entity's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy.

Economic entity as at 30 June 2011	Quoted market price (Level 1) $'000	Valuation technique – market observable inputs (Level 2) $'000	Valuation technique – non market observable inputs (Level 3) $'000	Total $'000
Financial assets				
Derivative instruments				
Options	–	–	–	–
Financial assets at fair value through profit and loss	522,207	129,172	16,322	667,701
Total	522,207	129,172	16,322	667,701
Financial liabilities				
Derivative instruments				
Options	(1,912)	–	–	(1,912)
Total	(1,912)	–	–	(1,912)

Transfer between categories

There were no transfers between Level 1 and Level 2 during the year.

Economic entity as at 30 June 2010	Quoted market price (Level 1) $'000	Valuation technique – market observable inputs (Level 2) $'000	Valuation technique – non market observable inputs (Level 3) $'000	Total $'000
Financial assets				
Derivative instruments				
Options	1,487	–	–	1,487
Financial assets at fair value through profit and loss	508,464	98,617	18,676	625,757
Total	509,951	98,617	18,676	627,244
Financial liabilities				
Derivative instruments				
Options	(274)	–	–	(274)
Total	(274)	–	–	(274)

Transfer between categories

There were no transfers between Level 1 and Level 2 during the year.

	Economic Entity	
	2011	2010
Reconciliation of Level 3 fair value movements	$'000	$'000
Opening balance	18,676	22,620
Total gains and losses	582	(3,870)
Purchases	280	375
Sales	(2,858)	(449)
Transfers from other categories	(360)	–
Closing balance	16,320	18,676

Total gains and losses from level 3 fair value movements have been recognised in the statement of comprehensive income in the line item 'investment income'.

Fair value is determined by computing the loss distribution of a credit portfolio taking into account asset correlation, recovery rates and risk neutral probability of default of individual reference entities. The potential effect of using reasonable alternative assumptions based on a relevant input by 10% would have the effect of reducing the fair value by up to $153,000 (2010: $153,000) or increase the fair value by $153,000 (2010: $153,000).

46. Events occurring after the reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the company disclosed in the statement of financial position as at 30 June 2011 or on the results and cash flows of the company for the reporting period ended on that date.

Directors' Declaration

In accordance with a resolution of the Directors of Catholic Church Insurances Limited, I state that:

In the opinion of the Directors:

(a) the financial statements and notes of the company and consolidated entity are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2011 and of their performance for the year ended on that date, and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in *note 2(b)*, and

(c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

P A Gallagher
Director
Melbourne, 6 October 2011

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Independent auditor's report to the members of Catholic Church Insurances Limited

Report on the financial report

We have audited the accompanying financial report of Catholic Church Insurances Limited, which comprises the statements of financial position as at 30 June 2011, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entity it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2b, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

a. the financial report of Catholic Church Insurances Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the company's and consolidated entity's financial positions as at 30 June 2011 and of their performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2b.

Ernst + Young

Ernst & Young

T M Dring
Partner
Melbourne
6 October 2011

"As we celebrate our 100th anniversary, Catholic Church Insurances both honours its heritage and looks to the future, constantly evolving and introducing new products and services to meet the changing needs of the Church today and tomorrow."

Catholic Church Insurances Limited

Celebrating 100years Serving Church 1911~2011

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