Catholic Church Insurances Limited

ANNUAL REPORT 2012

Content

A Centenary In Print

In April 2009 historian and writer, Jane Mayo Carolan was commissioned to write the history of Catholic Church Insurances (CCI) dating back to its establishment in 1911. A challenging undertaking, Jane was charged with the task of researching and writing not only the story of the company, but also of its unique relationship with our Church. What followed was a journey Jane herself describes as "a pilgrimage and a spiritual experience".

The initial plan to compile a simple history of CCI quickly grew when the Board suggested linking the company's history with the events of our Church over the same period to make for a more interesting and compelling read. While the objective was not to write a history of the Church, the close bond between Church and its company is well reflected in the pages.

Having made this decision, Jane's challenge became even greater, now involving research of not just the company, but more than 100 dioceses, congregations and Church entities. Each of our current 89 shareholders is featured in some manner in the text.

Days, weeks and months of research followed. Jane was most resourceful and left no dusty folder unopened and no question unanswered in her quest for information about the Church, the company and the close bond between the two. The final result, printed in two volumes, traces the journey of the company over the last 100 years and pays tribute to the people and entities involved in its establishment and continuing success.

Committing the company's unique story to print is a great achievement of which we are extremely proud. A copy of both volumes of the book, signed by Directors and the Executive Group, has been placed in the company's time capsule to be opened in 50 years.

Corporate Information

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

Directors
Paul A Gallagher *(Chairman)*

Sister Clare T Condon

Jo Dawson

Norman E B Griffiths
(Retired 21 November 2011)

Richard M Haddock

J A (Tony) Killen

Reverend Brian J Lucas

Julie-Anne Schafer
(Appointed 21 February 2012)

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 (Executive Group member until 19 April 2012)*

Jillian Barrie - *Assistant General Manager - Strategy, Marketing & Sales (Executive Group member until 19 April 2012)*

Edd Branigan - *Assistant General Manager - Insurance Operations (Executive Group member until 19 April 2012)*

Tania Briganti - *Reinsurance Manager (Executive Group member until 19 April 2012)*

Dominic Chila - *Company Secretary - Chief Financial Officer (Until 23 April 2012)*

Domenic Muscari - *Chief Financial Officer (Appointed 23 April 2012)*

Charlie Nettleton - *Human Resources Manager (Until 5 March 2012) - Chief Operating Officer (Appointed 5 March 2012)*

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

Ian Smith - *Chief Investment Officer*

Norman Smith - *Manager Information & Communication Technology*

Solicitors
Gadens Lawyers
Level 25 Bourke Place
600 Bourke Street
Melbourne Vic 3000

Bankers
National Australia Bank Limited
424 St Kilda Road
Melbourne Vic 3004

Auditor
Ernst & Young
8 Exhibition Street
Melbourne Vic 3000
Australia

CCI is a truly
DIFFERENT TYPE OF INSURANCE COMPANY
– one that has a genuine commitment to client care.

Company Profile

Catholic Church Insurances Limited (CCI) has been protecting the interests of the Catholic Church in Australia for over 100 years. Owned by the Church and existing to serve the Church, CCI understands the unique needs of the Church community like no other. This understanding has helped us to build a valued relationship of trust with the community we serve.

Right from the beginning, our founding principles have remained constant: to develop specialist products and services which are able to meet the needs of the Church; to keep control of insurance costs; and to retain the surplus within Church. While building on its heritage, CCI also 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

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

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 back to that community, 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.

In all its operations, CCI's' mission is to serve Church.

We belong to the Church

CCI is owned by the Catholic Dioceses and Religious Institutes of Australia, which are represented on the Board of Directors.

We are sustained by a prudent leadership team, which operates under the guidance of the Board of Directors and is committed to serving the Church community.

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

A different type of insurance company

CCI is a truly different type of insurance company – one that has a genuine commitment to client care.

When our clients need us, we are there for them. In the event of a claim, we act promptly, not only to restore or repair the loss, but also to support those who are affected. As a Church organisation, our staff understand the importance of fairness, clear communication and caring service, especially when our clients are experiencing times of difficulty or distress.

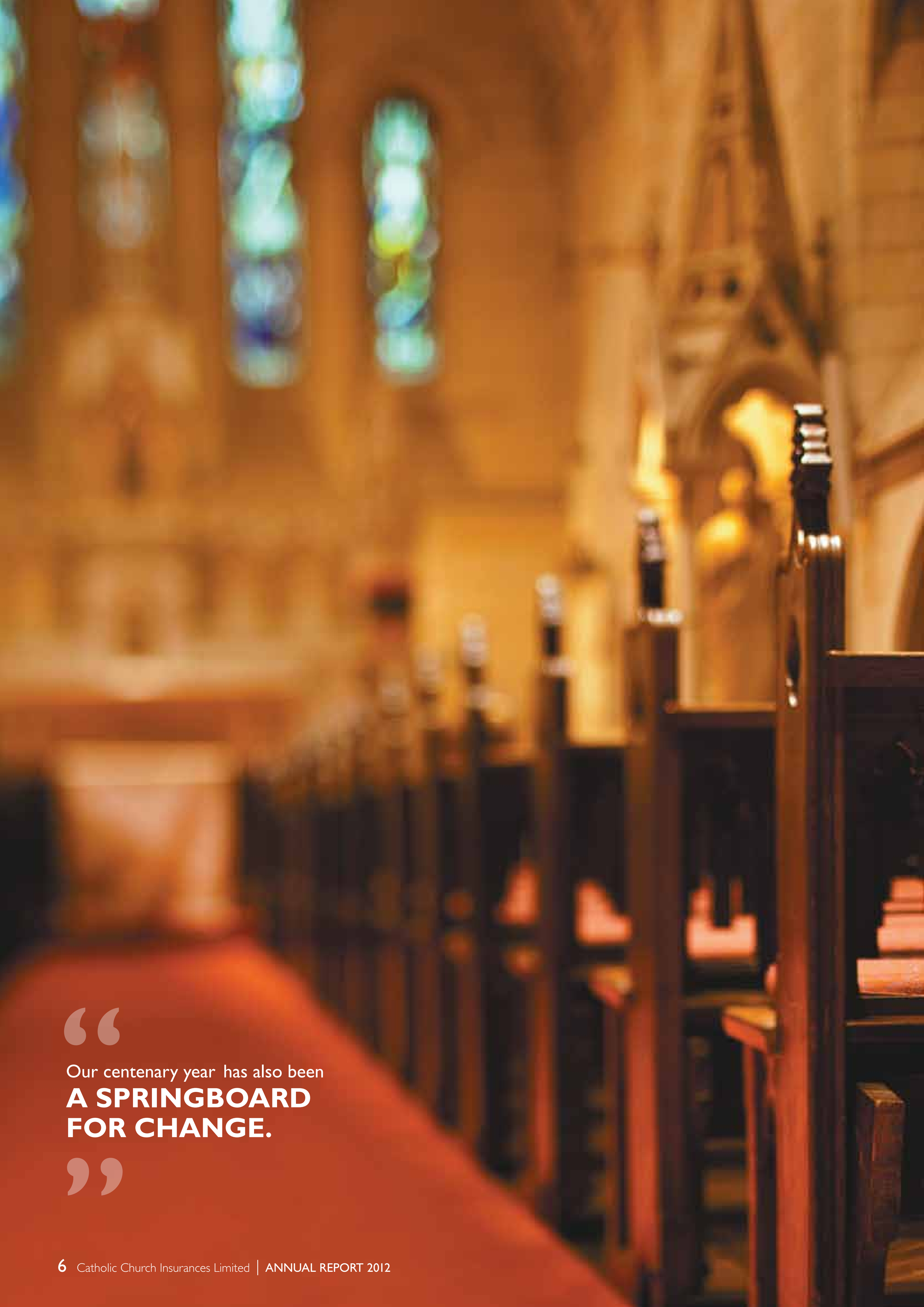
Our relationship philosophy is simple – to go the extra mile and to be there when it counts. Our service team travels many thousands of kilometres each year, going as far afield as the missions at Cape York and the offshore islands to provide personal service.

Serving the Church and supporting its mission

Beyond our insurance operations, CCI actively engages 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 put Church interests before company profits. When an operating surplus is achieved, a significant proportion is returned to the Catholic Church by way of dividends, distributions and grants. We have returned in excess of $252 million in the past 34 years.



“Our centenary year has also been **A SPRINGBOARD FOR CHANGE.**”

Highlights of the Year 2012

- Celebration of the company's centenary - 100 years of Serving Church
- Review of the company's brand
- Implementation of organisational change to deliver more effective services to our clients and to enhance efficiencies across the business
- Achievement of an operating surplus of $3.0 million after distributions during a year of significant volatility in global investment markets
- 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 distributions to Catholic entities of $4.6 million, bringing the total distributions in the last 34 years to more than $252 million
- Sound financial security with a solvency coverage of 2.12 times the minimum required by the Australian Prudential Regulation Authority (APRA), nil borrowings and shareholders' equity of $304 million
- Sound insurance result with an underwriting profit of $18.1 million
- First class reinsurance protection for our policyholders in the aftermath of severe global catastrophes
- Working with our clients to reduce risk through tailored risk management solutions
- The enhancement of the company's corporate risk and capital management frameworks

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

Management

Chief Executive Officer – **Peter Rush**

Governance and Audit

Company Secretary – **Dominic Chila**
Manager Corporate Governance, Risk and Compliance – **Paul Korte**
Manager Internal Audit – **Steven Berizzi**

Insurance Operations and Client Services

Chief Operating Officer – **Charlie Nettleton**
Chief Underwriter – **Tania Briganti**
Portfolio Manager, Casualty Portfolio Management – **Glenn Stewart**
Portfolio Manager, Property – **Manfred Kurz**
Acting Reinsurance Manager – **Cheryl Cook**
National Claims Manager – **Marita Wright**
Manager Property Claims – **Effie Valavanis**
National Risk Management Manager – **Mark Wilson**
National Workers' Compensation Manager – **Mark Daniels**
Manager Workers' Compensation Manager NSW & ACT – **Kate Fegan**
Manager Workers' Compensation SA, NT & TAS – **Dave Harding**
Manager Workers' Compensation WA – **Laurettee Gollan-Neale**
National Client Services Manager – **Michael Newell**
State Manager VIC/TAS – **Vacant**
State 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**
National Business Development Manager – **Vacant**
Business Development Manager, Personal Insurance – **Jane Thorrington**

Finance and Administration

Chief Financial Officer – **Domenic Muscari**
Manager Finance Insurance – **Jenny Slavkovic**
Manager Finance Superannuation – **Peter Nancarrow**
Manager Human Resources – **Sally Stares**
Manager Project Management Office – **Neil Trevena**

Information and Communication Technology

Manager Information & Communication Technology – **Norm Smith**
Manager Technology & Infrastructure – **Carlo DeFazio**
Manager Applications & Business Analysis – **Julian Ryan**

Investments

Chief Investment Officer – **Ian Smith**
Manager Investment Services – **Shali Lingaretnam**
CCI Investment Management General Manager – **Peter Rush**
Manager CCI Investment Management – **Ian Smith**

Strategy Implementation and Brand

Manager Strategy Implementation & Brand – **Vacant**

Superannuation

Head of Superannuation – **Rommie Redlich**
Superannuation Administration Manager – **Renae Bell**
Manager Performance Operations – **Barry Grant**

Chairman's Report

In reflecting on the outcome of the last financial year for Catholic Church Insurances (CCI), I believe the company has achieved a result which could be deemed satisfactory but not outstanding. While the company's financial return may be modest, much has been achieved elsewhere in the company.

Results

After a year characterised by fluctuating global equity markets, uncertainty around the economies of Europe and other regions and the ongoing management of claims arising from natural disasters, CCI's overall financial position at year's end is below budget expectations.

While the company has felt the impact of short-term volatility, it is important to recognise that a single year's return is not a true reflection of our stability and strength. The Board of Directors and management have developed a prudent and active investment strategy with the aim of achieving positive long-term returns. Our strategy reflects the need to manage our long-tail claims reserves and has enabled us to return in excess of $252 million in the past 34 years in the form of Catholic entity distributions and grants to the Church.

While our surplus may be less than anticipated, the company remains strong and well exceeds all the requirements set by the Australian Prudential Regulation Authority (APRA), as well as our own internal guidelines.

APRA continues to review and update its capital standards for general and life insurance companies with the aim of achieving greater consistency between APRA-regulated entities and improving the risk sensitivity of the prudential standards. The Board supports the new reforms, which come into effect on 1 January 2013, and believes they will enhance corporate risk management and governance practices throughout the organisation. The company's review of the new requirements indicates that we will be able to meet any additional capital requirements.

Distributions

I am pleased that our modest result has allowed the Board to recommend a dividend to shareholders of 40c per share, an allocation of $4 million in Catholic entity distributions to Church policyholders and the payment of major grants – all totalling more than $5.7 million.

While we may not be in a position to make our usual distributions, we do appreciate that insurance is one of the most significant expenses for many of our clients and, in accordance with our mutual principles, we strive to minimise that cost.

Changes and achievements

Celebrating the company's first 100 years of business was a significant achievement this year. Reaching a century is momentous for any business, even more so for an Australian insurer, and we were delighted to commemorate this milestone with our clients and business partners. The challenge for us now is to focus on the next 100 years - to look at how we might improve and build on our service to the Church community and strengthen existing relationships, while protecting our financial stability and striving for greater efficiencies.

This has been the driving force behind a restructure of senior management at CCI. From the Board's perspective it comes at a perfect time and I would like to congratulate Peter Rush and his senior management team on this initiative. It is fitting that we should begin this new era of our operation with the launch of a new CCI brand and I look forward to the official release of the new look for the company before the end of 2012.

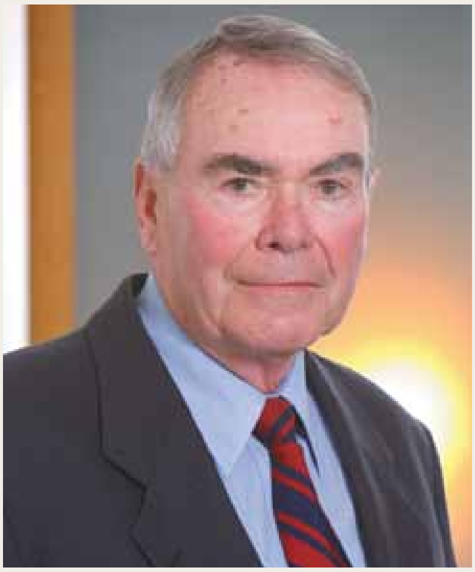
"The challenge for us now is to **FOCUS ON THE NEXT 100 YEARS** - to look at how we might improve **AND BUILD ON OUR SERVICE** to the Church community."

Board of Directors

Norman Griffiths retired from the Board on 21 November 2011 and I would like not only to thank him for the valuable contribution he has made to CCI over the last 10 years, but also to acknowledge his long association with the company prior to this time. While we lose Norman's experience we are delighted to welcome Julie-Anne Schafer whose background and expertise will contribute to the broad range of skills necessary to fulfil our responsibilities.

I would also like to congratulate Richard Haddock on receiving an Order of Australia. The award recognises Richard's service to business, through executive roles with financial institutions, to the law and to the community, in particular as an adviser to the social welfare organisations of the Catholic Church in Australia.

As I look back over the last year I must also acknowledge the significance of the last 12 months for the Church. This year we have witnessed the installation of not one but two archbishops when the Most Reverend Timothy Costelloe SDB and the Most Reverend Mark Coleridge were installed as the sixth



"CCI has a glowing future. It is a professional company with **ALL THE HEART** of a organisation that is really interested in **LOOKING AFTER ITS CLIENTS."**
Norman Griffiths

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

Norman Griffiths' retirement from the CCI Board in November 2011 marked the end of ten years of exceptional service to the company, however Norman's relationship with CCI began long before this time.

Employed by Munich Reinsurance from 1972 to 2001, Norman was Regional Manager for Victoria, South Australia and Tasmania from 1983 to 2001. CCI was his client and he developed a close working relationship with both former General Manager Chris O'Malley, and current CEO Peter Rush. He also came to respect the way the company operated and handled its insurance business.

"CCI has an enviable reputation with its reinsurers, in fact with all of its service providers, as a reliable and ethical long-term business partner," says Norman. "When I was invited to join the Board after I retired it took very little thought on my part to accept."

With his strong corporate background, Norman's most significant contribution during his time on the Board has been in the area of reinsurance. He was Chair of the Reinsurance Committee and the Budget Committee, and a member of the Board Audit, Risk Management and Compliance Committee as well as the Directors' Governance Committee. He was responsible for the redevelopment of the company's Reinsurance Policy, creating a document that continues to provide long-term guidance to the reinsurance team and the Board.

"Naturally my major interest has been in the reinsurance area, but I have had the pleasure of serving on a Board made up of highly-skilled and dedicated business professionals from different areas," says Norman.

"More stringent governance and corporate compliance requirements have changed the nature of boards over the years," he adds. "The CCI Board has been able to adapt and enhance its corporate governance activities and is regarded as a highly professional operation."

"CCI has a glowing future," says Norman. "It is a professional company with all the heart of a organisation that is really interested in looking after its clients".

Julie-Anne Schafer LLB (HONS) GAICD ANZIIF

We welcomed Julie-Anne Schafer to the CCI Board in February 2012. A qualified lawyer, Julie-Anne has more than 30 years legal and corporate experience in both the insurance and commercial sectors. Several years ago she decided to work only as a non-executive director. Since this time, she has served on boards across a wide variety of industries, but has always retained a particular interest in financial services.

Julie-Anne's knowledge and experience in both regulatory and reporting environments is extensive. She was a Director and Chair of the Royal Automobile Club of Queensland (RACQ) and of RACQ Insurance. Her current directorships include: Queensland Rail Limited, Aviation Australia Pty Ltd, National Transport Commission, Calvary Ministries Limited and Territory Insurance Office. She is Chair of Church Resources and CNA Limited.

Her extensive skills in the areas of governance, law and risk management will translate well into the prudential and highly regulated environment in which CCI operates, as will the experience gained as Director and Chair of RACQ, the largest mutual in Queensland.

"This is an opportunity for me to be part of a proven, successful company with a great service ethos," says Julie-Anne. "I am looking forward to being able to contribute as well as deepen my skills and experience through service on the CCI Board."

"CCI has a deep understanding of its owners and its customers' needs," she says. "It also has a willingness and ability to be there for clients when they need it, often in circumstances where other insurers would not. I believe that relationships are the greatest currency a company can have these days and CCI's offering is quite unique in the market."

Julie-Anne sits on the Board's Budget, Directors' Governance and Reinsurance Committees.

> "I believe that **RELATIONSHIPS ARE THE GREATEST CURRENCY** a company can have these days and CCI's offering is quite **UNIQUE IN THE MARKET.**"
> Julie-Anne Schafer

archbishops of Perth and of Brisbane respectively.

We have seen the Church grow to serve her community with the opening of new schools in many dioceses and we stood with clients large and small as they rebuilt after losses caused by storms and other natural disasters. We are pleased to have been able to provide what support we could to all entities of the Church over the year as they have worked to achieve their mission and meet the challenges before them.

I would like to acknowledge our staff and thank them for the valuable contribution they have made throughout the year. We are extremely proud of our people. Their commitment to the company's vision of Serving Church and the compassion they show when responding to clients, often in difficult circumstances, is unique. We would not be the company we are without their expertise and enthusiasm and we are very fortunate to be supported by such a wonderful team of people.

Finally, in closing I would like to thank my fellow Directors for their support and for their contribution not only to the Board but also to the many Board Committees on which they serve. To our shareholders and policyholders I would like to extend my gratitude for your continuing trust and loyalty. And to our Chief Executive Officer, Peter Rush, his executive team and all the staff at CCI, I would like to convey my thanks for their hard work and commitment over the year.

Paul Gallagher
Chairman

Directors of the Board of Catholic Insurances Limited from left to right:
Back Row: Richard Haddock, Reverend Brian Lucas, Tony Killen, Paul Gallagher - Chariman.
Front Row: Jo Dawson, Sister Clare Condon, Jane Tongs. Apology: Julie-Anne Schafer.

Corporate Governance Statement

For the year ended 30 June 2012

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 a quorum of at least 50% of 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 employees have 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 auditor's management letter and management's response
- Ensure compliance with the Insurance Act, APRA guidelines and all other relevant legislation
- Review the Compliance Plan and assess reports on compliance with relevant legislation, regulations, standards, the insurance industry Code of Practice
- Review the Statement of Integrity of Financial Reporting from the Chief Executive Officer and the Chief Financial Officer
- Review APRA reports and management's response, and
- Review APRA mandated policies including the Risk Management Plan, the Capital Management Plan, the Business Continuity Plan and various other company policies.

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 to make changes, 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 the 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.

Chief Executive Officer's Review of Operations

The financial year will be remembered as one of the most significant in Catholic Church Insurances' (CCI) recent history. We celebrated a centenary in business, taking the opportunity to acknowledge the company's achievements over the last 100 years and the contributions made by so many people along the way. Sharing this event with our valued clients and having the chance to thank them for their loyalty and commitment was a highlight for everyone.

Our centenary year has also been a springboard for change. In May 2012 we commenced a major organisational restructure of the company with the aim of delivering more effective services to our clients, enhancing efficiencies and encouraging smoother sharing of knowledge and information between departments. In today's business, the need for high quality leaders cannot be overstated and as part of these changes several new senior management roles were created, while some ceased. I believe we now have the people and the structure in place to achieve our strategic objectives and better serve the Church.

For clients, the single greatest benefit of the changes will be efficiency. This could equate to a quicker claims process, a simpler renewal or easier access to information, without the loss of the human element of our service, which I know is highly valued. The needs of our clients have been front-of-mind throughout this process. We recognise that while the institution of Church remains stable, dioceses and religious institutes are acknowledging the need to adapt to the changes in their own environment and we believe there is a great deal we can offer to support them in this process.

While there was much to be celebrated over the year, investment returns were less than satisfactory. The volatility of global investment markets remained high, caused principally by ongoing uncertainty in Europe and elsewhere. Although our exposure to overseas markets is not significant we are nonetheless influenced by the contagion effect. Furthermore, while our underwriting result was positive, the loss from investments was such that we have

achieved only a modest surplus for the financial year ending 30 June 2012.

This outcome will allow us to make Catholic entity distributions, albeit not at the level of previous years. We know many Church entities rely on these distributions and we are pleased to be able to contribute in some small way to the ongoing mission of the Church.

In the current financial climate it is easy to concentrate on short-term results. While our performance this year might be disappointing, the company remains extremely financially sound. The success of a company like CCI should not be measured based on any single year's performance. A combination of long-term returns and solvency is a much better indication of the company's strength. Our long-term investment strategy has consistently delivered extremely good returns to the company, its shareholders and policyholders and our solvency ratio currently sits at more than twice the minimum level required by the regulator, the Australian Prudential Regulation Authority (APRA).

Investment markets and performance

The turbulence of investment markets throughout the year kept investors attached to the safety of defensive assets at the expense of growth assets. The Australian economy has experienced the biggest investment surge in history, yet consumers remain stubborn and subdued in their spending habits and economic growth has become tepid.

CCI has repositioned the portfolio marginally throughout the year with greater emphasis on more defensive high-yield investments. The Board's Investment Policy provides the limits and controls to ensure risks are kept to acceptable levels, while allowing sufficient flexibility for the portfolio to be re-balanced to benefit from any change in the investment outlook.

While our overall investment performance for the financial year is negative, our flexible and prudent approach to investing ensures the company is financially strong. Even though we do not expect a dramatic resurgence of investor confidence, we remain positive that a return to profitability in our investment portfolio will be achieved in the coming year.

Operations

Client Services

Dedicated to providing personalised service and maintaining strong professional relationships, our client services team has devoted much of its time to reviewing clients' portfolios and ensuring the best possible protection of the Church's assets.

With many clients going through major organisational change, including mergers, amalgamations and the establishment of public juridic persons, our insight into the significance of these activities and our ability to understand their likely impact on insurance has been of real benefit. We are working with our clients to coordinate their insurance programs and make sure there is security of cover throughout the transition period and beyond. We believe we are in a unique position as the Church's insurer to recognise some of the implications of these developments.

The ability of our clients to afford insurance premiums remains an area of real concern and we are currently in discussions with dioceses and religious congregations in an effort to better understand their circumstances and develop strategies to help them address this problem.

New name reflects true mission

For over 75 years, the Archdiocese of Melbourne's welfare agency CatholicCare has provided a range of much-needed programs and services to the communities of Melbourne and Geelong. Responding to the needs of the most vulnerable and disadvantaged in society, the agency employs specialists in areas including psychology, social work, counselling and mediation.

While the agency's history of service may be long, their association with the name CatholicCare is not. Formerly Centacare Catholic Family Services, the agency made the decision to change its name relatively recently, becoming CatholicCare in April 2011.

Originally established in 1935 as the Catholic Social Services Bureau, the agency changed its name to the Catholic Family Welfare Bureau in 1956, before adopting the name Centacare in the early 1990s. By the mid 1990s the vast majority of diocesan welfare groups across Australia had taken the name Centacare, and while the origin of the name itself is unclear, it was able unify these very individual organisations under the common banner of the welfare agencies of the Church.

While many saw real benefit in a universal name, CatholicCare CEO Fr Joe Caddy says that in the Archdiocese of Melbourne, the case for a new name was even stronger.

"We wanted a name which more clearly identified who we are," says Fr Joe. "From what we could ascertain we had low brand recognition in Melbourne. People did not identify the name CentreCare with the Catholic Church and we were often confused with Centrelink."

"There was a feeling amongst the leadership that as this was one of the things we were doing really well, we ought to be able to state proudly that it was as an activity of the Catholic Church. The new name reflects our mission: the Catholic mission of care. It aligns the agency with the welfare arms of other churches such as Anglicare, UnitingCare and Baptcare and we no longer have to explain who we are and what we do."

Changing a name is not a decision entered into lightly and according to Fr Joe, consultation was pivotal to the success of the process. While Archbishop Denis Hart, Archbishop of Melbourne, selected the name from the options put forward, the agency sought input from all stakeholders including staff, priests, donors, funding bodies, parishioners and even clients.

"The notion of engaging with stakeholders and including them in the process, was a helpful one," he says. "Views varied widely but in the end, on balance, it was decided that the name CatholicCare ticked off a number of key items that the agency wanted."

While the new name meets the vast majority of the agency's criteria, there is a risk of being perceived as an agency that cares solely for Catholics, as opposed to one whose mission impels them to care for anyone who is in trouble regardless of religion, race, gender or sexuality.

"We need to really to emphasise this wherever we go, through all of our promotion," says Fr Joe.

The adoption of the by-line 'Strengthening families and communities', which accompanies the name and logo, should go some way towards counteracting any misconceptions.

After more than a year operating as CatholicCare the agency still sees it as a work-in-progress and has been grateful for the support of other agencies that have already been through the process, particularly CatholicCare in Sydney.

"I would hope that the welfare agencies of the Church might once again have a universal national name that will tick all the boxes, but it is very much a decision for each diocese," says Fr Joe.

An exercise of the heart

In 2005, the 17 independent Australian congregations of Sisters of Mercy who made up the Institute of Sisters of Mercy of Australia and the autonomous region of Sisters of Mercy in Papua New Guinea (PNG), entered a phase of consultation, reflection and prayer to determine how to reconfigure their congregations.

Looking for a way to respond more effectively to their changing circumstances and confronted by diminishing numbers, the sisters drew together to find a new way of working.

"We are very conscious of being part of a world community and the need to be organised at a level capable of dealing with that," says Sister Berneice Loch, the first Congregational Leader of the newly formed Institute of Sisters of Mercy of Australia and Papua New Guinea. "We also knew that if we were going to reconfigure, it had to be about moving our mission forward - to serve those who need mercy."

A six-year period of consultation ensued and on 12 December 2011 the Institute of Sisters of Mercy of Australia and Papua New Guinea (ISMAPNG) came into existence. At its first chapter, 14 congregations and the autonomous region of PNG ceased to be separate canonical and legal entities and joined the new Institute. The three remaining congregations decided to continue autonomously.

The consultation was critical, ensuring communities and individual sisters knew what was going on and could be involved in the process. The Holy See required an indicative vote with at least 80 percent in favour of reconfiguring for it to proceed, so every sister who was capable of doing so was required to cast her vote and have her say.

"What was happening was very deeply understood within the communities," says Sister Berneice. "I believe this was very important because in the end, this is not a governance exercise, it is an exercise of the heart."

For Sister Berneice and the rest of the new leadership team the first chapter was the beginning of a long process of establishing structures for every aspect of their operation and mission, which has included the creation of six communities and various committees. The process continues to this day and draws heavily on the work carried out by the leaders of the 15 groups in the preceding 12 months and the former Institute of Sisters of Mercy.

"It would be fair to say that for every activity we look at there are 15 different ways of doing it," says Sister Berneice. "In each instance we have to ask ourselves whether a solution taken from the past is helpful in the present. There is no right way of doing things. Instead we ask: what would be an appropriate way?"

One of the challenges has been developing structures for both the ministry of the sisters and the 23 ministry companies for which it has canonical responsibility.

"Historically these companies have been managed by religious but increasingly this is in the hands of newly evolved public juridic persons," says Sister Berneice. "The theology of Vatican II and the changing position of laity in the Church have had significant influence on us, particularly in the congregations with institutional ministries, and we are very ready to understand a genuine vocation of lay people to lead in the Church."

"I think the sisters have found the whole experience quite energising," she adds. "They have responded with great generosity. Obviously things have broken down at times and arrangements have not always been in place, but they have been very patient."

The Mission statement from the first Chapter of the new Institute is a wonderful example of this shared vision. It reads:

Mercy impels us to extravagant hospitality, compassion and justice in the earth community being shattered by displacement.

"This might sound quite simple," says Sister Berneice. "But for the people who wrote it and the people who own it, it has huge depth. So much goes into finding a word like shattered or displacement. Within it we still have the compassion, the justice, the hospitality: Mercy values that can be tracked back to our earliest days. The commitment to them does not change, but the expression of them does."

Catholic Church Insurances has been pleased to provide support to ISMAPNG during their transition period, tracking insurance across all 15 entities and ensuring adequate covers were in place.

Insurance Operations

While we sought to minimise premium increases this was not achievable in all portfolios. CCI was not as heavily affected by the 2010/11 natural disasters as other insurers and there were no new catastrophe claims to report this year, but we have not been immune to increases in reinsurance costs.

The global reinsurance market is more closely monitoring its Australian exposure to events such as earthquake, flood, cyclone and bushfire as it attempts to recover from the worst series of disasters ever recorded. For CCI and all other Australian insurers this has resulted in increased costs for specific protection against these perils. We regret that this has necessitated an increase in our property premiums.

CCI has strong support from our established panel of reinsurers, most of who are major global companies with high security ratings. We continue to review our reinsurance program annually to ensure that it provides the most effective protection for our business and our clients.

The modest growth in our total annual income for insurance operations was largely due to greater reinsurance costs in regions exposed to natural disasters, wage increases in our worker's compensation portfolio and the indexation of property values to reflect inflationary costs.

While the financial year was quieter than previous years in terms of natural disasters, some of our clients were again seriously affected by hail, storms and flooding. A considerable amount of work also remains to be completed in those areas where major losses occurred in the previous financial year and we are continuing to provide what support we can to clients in these regions.

Risk Services

The provision of risk management services to clients is an important part of our business. This year, in addition to delivering general risk management advice and education we set about adapting and increasing our range of products and services with the aim of better aligning them to client needs.

Over the year we were pleased to:

- Deliver risk assessment and profiling workshops to a number of dioceses
- Partner with other Church entities to deliver the Keeping your Parish Safe forums
- Provide individual risk management advice and assistance through the risk management helpdesk
- Publish a range of articles, bulletins and guidance material, and
- Conduct a number of onsite risk control reviews in the parish and education sectors.

Personal Insurances

The partnership between CCI and Allianz for the provision of personal insurance continues to work well and has enabled us to concentrate on our core business while still providing a range of products to the Catholic community at competitive prices. While this arrangement with Allianz is in its infancy, we remain positive that the future will be mutually beneficial and that we will provide outstanding insurance protection for those clients using this service.

CCI Investment Management

As a custodian of Church funds we always look for ways to provide financial services to investors in a cost effective manner. This year in our subsidiary company, CCI Investment Management Ltd (CCIIM), we set ourselves the combined goal of improving investment offerings while also reducing operating costs through increased efficiencies.

To this end, we conducted a review of our services and product range, which included detailed discussions with our clients. The proposed changes arising from this review will allow CCIIM to reduce its cost structure, promote tax effective strategies and deliver products more closely aligned with its core Catholic values. They include:

- A significant reduction in the number of investment options on offer, and
- The transfer of the funds management function for Australian equities, fixed interest and cash investments to an in-house CCI service. Management of global equities and property investments within the trusts will continue to be managed externally.

Superannuation Administration

The superannuation landscape continues to change at a significant pace and we need to adapt our services continuously to remain at the forefront in administration.

As the role of the fund administrator becomes ever more complex and demanding our primary objective is the welfare of Catholic Superannuation Fund and its members. With this in mind we have increased our focus on compliance and new services such as additional investment options and the end-to-end automation of some processes.

Summary

It is timely indeed that as CCI commences its second century of operation the company is financially strong and well supported by our loyal clients, shareholders and business partners.

The year has been both challenging and exciting. While change can bring uncertainty it also presents many opportunities. The work we have undertaken in relation to the structure and management of the company provides a stable base for us to build on and a platform to improve our service to the Church - I look forward to seeing this come to fruition.

Such an ambitious project would not have been possible without the support and encouragement of our Board of Directors and I thank our Chairman, Paul Gallagher, and his colleagues for their commitment to the company and its staff. I would also like to express my gratitude to my fellow members of the Executive Group for their confidence and trust and for the support they have provided during the sometimes difficult process of transition. To our staff, at every level of the business, I would like to extend my thanks for their willingness to embrace a new way of working and our vision for the future of the company.

Finally, and most importantly, to our clients, who are the reason behind all these changes, thank you for your continuing loyalty and we look forward to serving Church for another 100 years.

Peter Rush

Chief Executive Officer

Directors' Report

The Directors of Catholic Church Insurances Limited (the "company") have pleasure in presenting their annual financial report on the company and its controlled entity for the financial year ended 30 June 2012. 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)*

Sister Clare T Condon

Jo Dawson

Norman E B Griffiths *(Retired 21 November 2011)*

Richard M Haddock

J A (Tony) Killen

Reverend Brian J Lucas

Julie-Anne Schafer *(Appointed 21 February 2012)*

Jane A Tongs

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

Names, qualifications, experience and special responsibilities

Paul A Gallagher, B.COMM, FCA, MAICD, 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 and member of the Board Audit, Risk Management & Compliance Committee, Budget Committee, Directors' Governance Committee and Remuneration Committee.

Sister Clare T Condon, MPS, GRAD DIP ED ADM, BA, MAICD, joined the Board in October 2004. She is congregational leader of the religious congregation of the Sisters of the Good Samaritan. Sister Clare was President of Catholic Religious Australia from 2008 to 2010. In 1994 Sister Clare was 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.

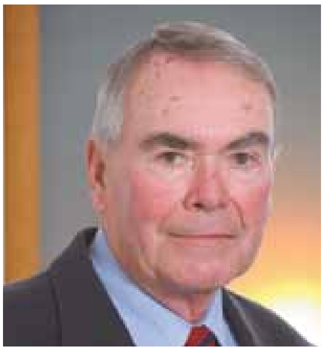
Jo Dawson, B.COMM, MBA, CA, CFP, MAICD, joined the Board in October 2006. Jo is a chartered accountant and certified financial planner. She is currently Managing Director of financial planning firm Executive Wealth Strategies Pty Ltd and is an authorised representative of financial services organisation 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 non-executive Director of Templeton Global Growth Fund Limited and a Board member, and Chairperson of the Audit and Risk Committee of the Victorian State Government Agency, Film Victoria. Jo is also a director of CCI Investment Management Limited.

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.

Directors' Report (continued)

Names, qualifications, experience and special responsibilities



Norman E B Griffiths, B.E. (CIVIL), M.I.E. AUST, AAII, MAICD, joined the Board in June 2001 and retired on 21 November 2011. 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 member of the Board Audit, Risk Management & Compliance Committee and Directors' Governance Committee.

Richard M Haddock, AM, B.A. LL.B, 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 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 Tishman Speyer Australia Ltd and 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. Richard is also a director of CCI Investment Management Limited.

Special responsibilities held in the company

Chairman of the Budget Committee and member of the Investment Committee and Remuneration Committee.

J A (Tony) Killen, B.A., FAIM, FAICD, OAM, 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.

Reverend Brian J Lucas, LL.M. M.GEN.STUD. S.T.L. DIP.JUR. GRAD.DIP.R.E, GAICD, 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. Brian is also a Director of CCI Investment Management Limited.

Special responsibilities held in the company

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

Names, qualifications, experience and special responsibilities

Julie-Anne Schafer, LLB (Hons) GAICD ANZIIF, joined the Board in February 2012. She has extensive legal and corporate experience, including financial services. Julie-Anne was a Director and Chair of the Royal Automobile Club of Queensland and of RACQ Insurance and a number of hospitals. She is a former Telstra Queensland Business Women's award winner and Adjunct Professor at the University of Queensland and served on Law Faculty Advisory Committees at several other Queensland Universities. She was Deputy Chancellor of the Queensland University of Technology. She is a Director of the Territory Insurance Office, Queensland Rail Limited, Aviation Australia Pty Ltd and Calvary Ministries Limited. She is Chair of Church Resources and CNA Limited. Julie-Anne is a National Transport Commissioner.

Special responsibilities held in the company

Member of the Budget Committee, Directors' Governance Committee and Reinsurance Committee.

Jane A Tongs, B.BUS (ACTG), EMBA, FCPA, FCA, MAICD, joined the Board in February 2010. She is presently Chairman of the Netwealth 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. Jane is also a director of CCI Investment Management Limited.

Special responsibilities held in the company

Chairman of the Reinsurance Committee and member of the Budget Committee, Investment Committee and Remuneration Committee.

Chief Executive Officer

Peter A Rush, DIP.BUS, ANZIIF, CIP, 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 Catholic Church Insurances 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 until 21 June 2012 was a Director of the Trustee of the Catholic Superannuation Fund.

Peter Rush acts as alternate Director for Father Brian Lucas.

Company Secretary

Dominic P Chila, B.BUS, CPA, was appointed as Company Secretary and Chief Financial Officer in February 2008. The combined role was split on 23 April 2012 and he now holds the position of Company Secretary responsible for the assurance function of the company including governance, corporate risk management, compliance and audit. He has over 18 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. He is also the Company Secretary of CCI Investment Management Limited.

Dividends

In respect of the financial year ended 30 June 2012, the Directors recommend the payment of a final unfranked dividend of $1.176M (2011:$1.176M) to the holders of fully paid ordinary shares on 21 November 2012. The dividend has not been provided for in the 30 June 2012 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.

Principal activities

The principal activities of the company 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 some residential and personal accident insurance business 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.

Ecclesiatical

Directors are pleased to note that no senior members of the clergy passed away during the financial year.

Review of operations

The review of operations has been outlined by the Chief Executive Officer on pages 15 to 18.

Results of Operations

	2012	2011
	$'000	$'000
Consolidated Profit/ (Loss)	2,995	33,387

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

Employees

The consolidated entity employed 238 employees as at 30 June 2012 (2011: 229 employees).

Risk managment

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 the notes to the financial statements.

Significant changes in the state of affairs

In the opinion of Directors, there were no significant changes in the state of affairs of the consolidated 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 consolidated 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 consolidated 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.

Environmental regulation and performance

The operations of the company are not subject to any particular or significant environmental regulation under the law of the Commonwealth or of a State or Territory. There have been no significant breaches of any other environmental requirements applicable to the company.

Directors' shareholdings

Each Director, except Ms Schafer, holds 1,250 shares in Catholic Church Insurances Limited in trust for the Australian Episcopal Conference of the Roman Catholic Church. Ms Schafer holds 1,000 shares in trust (refer to note 36).

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, the CEO, the 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.

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 2012 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	8	8	3	3	1	-	2	2	-	-	-	-	2	2
C T Condon	8	7	3	3	-	-	2	2	-	-	2	2	2	2
J Dawson	8	7	3	3	1	1	-	-	9	9	2	2	-	-
N E B Griffiths	5	5	2	1	-	-	1	1	-	-	1	1	-	-
R Haddock	8	7	-	-	1	-	-	-	9	7	-	-	2	2
J A Killen	8	8	-	-	-	-	-	-	9	9	-	-	2	2
B J Lucas	8	8	3	3	-	-	2	2	9	9	-	-	-	-
J A Schafer	3	3	-	-	1	1	1	1	-	-	1	1	-	-
J A Tongs	8	7	-	-	1	1	-	-	9	9	2	2	2	2

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 36). In the prior financial year there were no contracts made by the company or a related entity with any Director or with a firm of which any Director was a member, or with a company in which any Director had a substantial financial interest other than normal fees for professional services paid to their firm of which two former Directors are members (see note 37), 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 $1,000 where rounding is applicable and where noted ($'000) under the option available to the company under ASIC CO 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, 11 September 2012

Auditor's Independence Declaration

Ernst & Young Building
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
www.ey.com/au

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 2012, 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
11 September 2012

> **WHEN OUR CLIENTS NEED US, WE ARE THERE FOR THEM.** In the event of a claim, **WE ACT PROMPTLY,** not only to restore or repair the loss, but also to **SUPPORT THOSE WHO ARE AFFECTED.**

FINANCIAL STATEMENTS

Statement of Comprehensive Income

For the financial year ended 30 June

	Note	Consolidated 2012 $'000	Consolidated 2011 $'000	Company 2012 $'000	Company 2011 $'000
Premium revenue		196,380	186,098	196,380	186,098
Outwards reinsurance expense		(59,245)	(56,906)	(59,245)	(56,906)
Net premium revenue	7	137,135	129,192	137,135	129,192
Gross claims incurred	8	(117,594)	(102,536)	(117,594)	(102,536)
Reinsurance and other recoveries revenue	9	33,220	31,078	33,220	31,078
Net claims incurred	10	(84,374)	(71,458)	(84,374)	(71,458)
Acquisition costs		(141)	(157)	(141)	(157)
Other underwriting expenses	11	(35,270)	(39,132)	(35,270)	(39,132)
Underwriting expenses		(35,411)	(39,289)	(35,411)	(39,289)
Gross movement in unexpired risk liability	12	1,741	(776)	1,741	(776)
Reinsurance recoveries on unexpired risk liability		(1,006)	1,167	(1,006)	1,167
Net movement in unexpired risk liability		735	391	735	391
Underwriting result		**18,085**	**18,836**	**18,085**	**18,836**
Investment income/(losses)	13	(178)	48,125	(116)	48,137
General and administration expenses	11	(17,667)	(16,976)	(16,202)	(15,753)
Catholic entity distributions		(3,933)	(23,166)	(3,933)	(23,166)
Sundry income		6,688	6,568	6,031	5,858
Profit/(loss) for the period	14	2,995	33,387	3,865	33,912

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

Statement of Financial Position

As at 30 June

	Note	Consolidated 2012 $'000	Consolidated 2011 $'000	Company 2012 $'000	Company 2011 $'000
Current Assets					
Cash and cash equivalents	16	25,528	38,157	25,227	38,014
Trade and other receivables	17	123,871	112,415	123,718	112,234
Deferred reinsurance expense	18	27,241	25,723	27,241	25,723
Financial assets at fair value through profit and loss	19	338,253	435,771	338,253	435,771
Tax assets	20	7,010	10,224	7,010	10,224
Other assets	21	9,334	9,338	9,334	9,338
Total Current Assets		531,237	631,628	530,783	631,304
Non-Current Assets					
Trade and other receivables	22	19,928	21,698	21,428	22,198
Financial assets at fair value through profit and loss	23	337,045	231,929	337,045	231,929
Plant and equipment	24	7,002	7,781	7,002	7,781
Intangible assets	25	5,302	3,747	5,302	3,747
Total Non-Current Assets		369,277	265,155	370,777	265,655
TOTAL ASSETS		900,514	896,783	901,560	896,959
Current Liabilities					
Trade and other payables	26	34,976	37,531	34,976	37,531
Outstanding claims	34	92,635	92,651	92,635	92,651
Unearned premium reserve	35	132,572	120,231	132,572	120,231
Unexpired risk liability	12	-	735	-	735
Provisions	27	8,265	27,949	8,265	27,949
Tax liabilities	28	69	-	69	-
Other liabilities	29	435	1,912	435	1,912
Total Current Liabilities		268,952	281,009	268,952	281,009
Non-Current Liabilities					
Outstanding claims	34	325,417	311,590	325,417	311,590
Provisions	30	2,132	1,990	2,132	1,990
Total Non-Current Liabilities		327,549	313,580	327,549	313,580
TOTAL LIABILITIES		596,501	594,589	596,501	594,589
NET ASSETS		304,013	302,194	305,059	302,370
Shareholders' Equity					
Contributed equity	32	8,139	8,139	8,139	8,139
Reserves	33	293,694	292,650	293,694	292,650
Retained profit/(loss)		2,180	1,405	3,226	1,581
TOTAL SHAREHOLDERS' EQUITY		304,013	302,194	305,059	302,370

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the financial year ended 30 June

	Contributed Equity	General Reserves	Retained Earnings	Total
	$'000	$'000	$'000	$'000
Consolidated				
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 ($0.80 cents per share)	-	-	(2,352)	(2,352)
At 30 June 2011	8,139	292,650	1,405	302,194
At 1 July 2011	8,139	292,650	1,405	302,194
Net profit/(loss) for the period	-	-	2,995	2,995
Transfer to reserves	-	1,044	(1,044)	-
Dividend for 2011 ($0.40 cents per share)	-	-	(1,176)	(1,176)
At 30 June 2012	8,139	293,694	2,180	304,013

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

	Contributed Equity	General Reserves	Retained Earnings	Total
Company				
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 ($0.80 cents per share)	-	-	(2,352)	(2,352)
At 30 June 2011	8,139	292,650	1,581	302,370
At 1 July 2011	8,139	292,650	1,581	302,370
Net profit/(loss) for the period	-	-	3,865	3,865
Transfer to reserves	-	1,044	(1,044)	-
Dividend for 2011 ($0.40 cents per share)	-	-	(1,176)	(1,176)
At 30 June 2012	8,139	293,694	3,226	305,059

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

Statement of Cash Flows

For the financial year ended 30 June

	Note	Consolidated		Company	
		2012 $'000	2011 $'000	2012 $'000	2011 $'000
Cash flows from operating activities					
Premiums received		187,731	169,982	187,731	169,982
Outwards reinsurance paid		(62,840)	(55,898)	(62,840)	(55,898)
Claims paid		(103,782)	(92,606)	(103,782)	(92,606)
Reinsurance and other recoveries received		30,612	34,718	30,612	34,718
Acquisition costs paid		(140)	(128)	(140)	(128)
Other underwriting expenses paid		(18,701)	(22,270)	(18,701)	(22,270)
Other operating expenses paid		(16,496)	(15,807)	(15,060)	(14,654)
Other operating income received		7,482	5,441	5,826	4,233
Interest received		14,121	15,632	14,183	15,644
Dividends received		29,726	28,879	29,726	28,879
Total cash flows from/(used) in operating activities	40	67,713	67,943	67,555	67,900
Cash flows from investing activities					
Investment trading		(52,497)	(44,460)	(52,497)	(44,458)
Payments for plant and equipment		(968)	(1,321)	(968)	(1,323)
Proceeds from sale of plant and equipment		683	466	683	466
Payments for intangibles		(2,646)	(3,361)	(2,646)	(3,361)
Total cash flows from/(used) in investing activities		(55,428)	(48,676)	(55,428)	(48,676)
Cash flows from financing activities					
Dividends paid		(1,176)	(2,352)	(1,176)	(2,352)
Catholic entity distributions		(23,738)	(26,964)	(23,738)	(26,964)
Total cash flows from/(used) in financing activities		(24,914)	(29,316)	(24,914)	(29,316)
Net increase/(decrease) in cash held		(12,629)	(10,049)	(12,787)	(10,092)
Cash and cash equivalents at 1 July		38,157	48,206	38,014	48,106
Cash and cash equivalents at 30 June	16	25,528	38,157	25,227	38,014

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

Notes to the Financial Statements

For the financial year ended 30 June 2012

1. Corporate Information

The consolidated financial report of Catholic Church Insurances Limited (the company) for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the Directors on 11 September 2012.

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 CO 10/654 allowing the disclosure of company financial statements due to Australian Financial Services Licensing obligations. The financial statements have been prepared on a historical cost basis, except for financial assets and derivative financial liabilities which have been measured at fair value and the outstanding claims liability and related reinsurance and other recoveries which have been measured based on the central estimate of the present value of the expected future payments for claims incurred plus a risk margin to allow for the inherent uncertainty in the central estimate.

The preparation of financial statements in conformity with the Australian equivalent of 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 amounts have been rounded to the nearest $1,000 where rounding is applicable and where noted ($'000) under the option available to the company under ASIC CO 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 the Australian equivalent of 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 2012 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 2011-9	Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]	This Standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not.	1 July 2012	These amendments are only expected to affect the presentation of the company's financial report.	1 July 2012
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

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
AASB 10	Consolidated Financial Statements	AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 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. Consequential amendments were also made to other standards via AASB 2011-7.	1 January 2013	These amendments will have no direct impact on the amounts included in the company's financial statements.	1 July 2013
AASB 11	Joint Arrangements	AASB 11 replaces AASB 31 Interests in Joint Ventures and UIG-113 Jointly- controlled Entities – Non-monetary Contributions by Ventures. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it 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. Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB 128.	1 January 2013	These amendments will have no direct impact on the amounts included in the company's financial statements.	1 July 2013

Reference	Title	Summary	Application date of standard	Impact on CCI financial report	Application date for CCI
AASB 12	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgments 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 are only expected to affect the presentation of the company's financial report.	1 July 2013
AASB 13	Fair Value Measurement	AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. Consequential amendments were also made to other standards via AASB 2011-8.	1 January 2013	These amendments are only expected to affect the presentation of the company's financial report.	1 July 2013
AASB 119	Employee Benefits	The main change introduced by this standard is to revise the accounting for defined benefits plan. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognised in full with actuarial gains and losses being recognised in other comprehensive income. It also revised the method of calculating the return on plan assets. The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date. Consequential amendments were also made to other standards via AASB 2011-10	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 consolidated 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 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 consolidated 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 estimated 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 consolidated 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.

At 30 June 2012 the company changed its methodology for undertaking this assessment at an individual product level to now performing this test based on the maturity of the underwriting portfolios (i.e. short tail vs. long tail). The definition of short/long tail is provided in note 4.

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.

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 34.

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) 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.

l) 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.

m) 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.

n) 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.

o) 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.

p) 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 and

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

q) 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.

r) Superannuation

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

s) 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 the balance date. 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 and
- 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 2012 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 model was adopted.

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) and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Note 44 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.

t) 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 consolidated 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:

	2012	2011
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

u) Amortisation of intangible assets

Amortisation on intangible assets, comprising computer software, is calculated on a straight-line basis over the useful life of the asset to the consolidated entity commencing from the time the asset is held ready for use.

Computer software's estimated useful life used in the calculation of amortisation is 5 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 Insurance 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

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.

2012	Short-Tail	Public Liability	Professional Indemnity	Workers' Compensation
Average weighted term to settlement (discounted)	Less than 1 year	5.2 years	7.7 years	5.4 years
Inflation	0.00%	0.00%	0.00%	2.50%
Superimposed inflation	0.00%	0.00%	0.00%	2.00%
Discount rate	0.00%	2.50%	2.50%	2.50%
Expense rate	5.00%	5.00%	5.00%	5.00%
Risk margin	9.90%	12.40%	16.00%	9.00%

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%	0.00%	0.00%	3.75%
Superimposed inflation	0.00%	0.00%	0.00%	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%

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 /(loss) $'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	(2,378)	(2,193)	(2,378)	(2,193)
	-0.5	2,429	2,242	2,429	2,242
Inflation and superimposed assumption	+1%	13,873	13,885	13,873	13,885
	-1%	(12,647)	(12,659)	(12,647)	(12,659)
Discount rate	+1%	(17,435)	(17,114)	(17,435)	(17,114)
	-1%	19,322	18,975	19,322	18,975
Expense rate	+1%	3,995	3,995	3,995	3,995
	-1%	(3,995)	(3,995)	(3,995)	(3,995)
Risk margins	+1%	3,767	3,376	3,767	3,376
	-1%	(3,767)	(3,376)	(3,767)	(3,376)
Average claim size	+10%	11,783	11,783	11,783	11,783
	-10%	(11,783)	(11,783)	(11,783)	(11,783)

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 the notes to the financial statement.

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 influenced by the nature and term of insurance liabilities. The management of assets and liabilities is closely monitored and consideration is given to the maturity dates of assets with the expected pattern of claim payments and
- 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:

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.

	2012	2011
Premium revenue	$'000	$'000
Commercial property	71,958	63,969
Domestic property	796	1,961
Motor	9,723	9,182
Marine and aviation	62	134
Professional indemnity	10,030	8,585
Public liability	32,815	34,420
Workers' compensation	59,627	56,324
Travel	126	113
Other	11,242	11,408
	196,380	186,098

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

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

The 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 43.

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 and
- 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 company 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	Below Investment Grade	Not Rated	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2012							
Consolidated							
Cash and cash equivalents	1,003	22,801	-	942	-	782	25,528
Interest bearing investments[1]	271,069	29,700	9,463	8,183	2,112	731	321,258
Reinsurance & other recoveries[2]	36,327	-	10,660	345	2,575	-	49,907
Financial asset – warrants	-	-	-	-	-	6,106	6,106
Loans receivable[3]	-	-	-	-	-	205	205
2011							
Consolidated							
Cash and cash equivalents	1,000	34,444	-	-	-	2,713	38,157
Interest bearing investments[1]	190,544	20,098	6,843	4,829	321	1,197	223,833
Reinsurance & other recoveries[2]	32,895	-	12,403	216	4,060	-	49,574
Loans receivable[3]	-	-	-	-	-	243	243

[1]Includes government and semi-government bonds, other fixed interest securities and unsecured notes in other corporations (refer notes 19 and 23).

[2]Includes reinsurance and other recoveries on outstanding claims and reinsurance commissions receivable (refer notes 17 and 22). 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 difference between the consolidated entity and the company relates to cash and cash equivalents. The AA rating for the company reduces by $301,000 for the current year and $143,000 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 company'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
2012						
Consolidated						
Premiums receivable	64,906	14,084	236	7	6	79,239
Reinsurance & other recoveries[1]	37,931	5,244	1,646	11	753	45,585
Loans receivable	205	-	-	-	-	205
Tax assets	7,010	-	-	-	-	7,010
Other receivables[2]	18,962	-	-	12	-	18,974
Financial asset - warrants	6,106	-	-	-	-	6,106
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

[1]Includes reinsurance and other recoveries on outstanding claims, reinsurance commissions receivable and provision for doubtful debts reinsurance recoveries (refer notes 17 and 22).

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

The difference between the consolidated entity and the company relates to other receivables. The "Fully Performing" category for the company decreases by $153,000 for the current year and $181,000 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 2012, the mean term to maturity of fixed interest securities was 3.9 years (2011: 3.4 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 the company 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
2012					
Consolidated & Company					
Trade and other payables	-	34,976	-	-	34,976
Financial Liabilities – Options	435	-	-	-	435
2011					
Consolidated & Company					
Trade and other payables	-	37,531	-	-	37,531
Financial Liabilities – Options	1,912	-	-	-	1,912

The consolidated entity and company have 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 +/-			
		2012 Net profit (loss)	2012 Equity	2011 Net profit (loss)	2011 Equity
Market risk	Movement in variable	$'000	$'000	$'000	$'000
Interest rate	2%+/-	23,812/(23,812)	23,812/(23,812)	14,584/(14,584)	14,584/(14,584)
Equities	10%+/-	20,356/(20,356)	20,356/(20,356)	29,646/(29,646)	29,646/(29,646)
	20%+/-	38,460/(38,460)	38,460/(38,460)	45,756/(45,756)	45,756/(45,756)
	30%+/-	56,556/(56,556)	56,556/(56,556)	61,565/(61,565)	61,565/(61,565)

	Consolidated 2012 $'000	Consolidated 2011 $'000	Company 2012 $'000	Company 2011 $'000
7. Net premium revenue				
Direct	180,624	173,798	180,624	173,798
Fire service levies	15,756	12,300	15,756	12,300
Premium revenue	196,380	186,098	196,380	186,098
Outwards reinsurance premiums	(59,245)	(56,906)	(59,245)	(56,906)
Net premium revenue	137,135	129,192	137,135	129,192
8. Gross claims incurred				
Direct	117,594	102,536	117,594	102,536
9. Reinsurance and other recoveries revenue				
Reinsurance and other recoveries	33,220	31,078	33,220	31,078

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.

			2012			2011
	Current Year $'000	Prior Years $'000	Total $'000	Current Year $'000	Prior Years $'000	Total $'000
Direct business						
Gross claims incurred and related expenses - undiscounted	105,420	(50,633)	54,787	120,564	(36,729)	83,835
Reinsurance and other recoveries - undiscounted	(19,957)	(11,107)	(31,064)	(26,405)	(4,244)	(30,649)
Net claims incurred - undiscounted	85,463	(61,740)	23,723	94,159	(40,973)	53,186
Discount and discount movement - gross claims incurred	(12,586)	75,393	62,807	(17,632)	36,333	18,701
Discount and discount movement – reinsurance and other recoveries	6,695	(8,851)	(2,156)	5,846	(6,275)	(429)
Net discount movement	(5,891)	66,542	60,651	(11,786)	30,058	18,272
Net claims incurred	79,572	4,802	84,374	82,373	(10,915)	71,458

The balance of net claims incurred for the consolidated entity is the same as the company.

	Consolidated 2012 $'000	Consolidated 2011 $'000	Company 2012 $'000	Company 2011 $'000
11. Underwriting and general administration expenses				
Expenses by function:				
Levies and charges	14,375	16,362	14,375	16,362
Administration expenses	28,934	29,663	28,934	29,663
Reinsurance commission	(8,039)	(6,893)	(8,039)	(6,893)
Underwriting expenses	35,270	39,132	35,270	39,132
Investment expenses	797	842	797	842
Marketing expenses	556	555	556	551
Lease expenses	1,701	1,673	1,681	1,644
Depreciation charges (note 24)	1,505	1,647	1,505	1,647
Information technology expenses	2,594	2,777	2,594	2,776
Employee expenses	5,960	6,635	5,587	6,308
Other expenses	4,554	2,847	3,482	1,985
General and administration expenses	17,667	16,976	16,202	15,753

	Consolidated		Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
12. Unexpired risk liability				
a) Unexpired risk liability				
Unexpired risk liability as at 1 July	(1,741)	(965)	(1,741)	(965)
Recognition of additional unexpired risk liability in the period	1,741	(776)	1,741	(776)
Gross unexpired risk liability as at 30 June	-	(1,741)	-	(1,741)
b) Deficiency recognised in the statement of comprehensive income				
Gross unexpired risk liability	-	(1,741)	-	(1,741)
Reinsurance recoveries (expense) on unexpired risk liability	-	1,006	-	1,006
Net unexpired risk liability	-	(735)	-	(735)
Total deficiency recognised in the statement of comprehensive income	-	(735)	-	(735)

c) Deficiency recognised in the statement of comprehensive income

Year ended 30 June 2012

The liability adequacy test has identified a surplus for all portfolios of contracts that are subject to broadly similar risks that are managed together as a single portfolio. This test is now performed at a short/long tail basis.

The process for determining the overall risk margin, including the way in which diversification of risks has been allowed for, is discussed in Note 34. As with outstanding claims, the overall risk margin is intended to achieve a 75% probability of sufficiency.

		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

	Consolidated		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
13. Investment income /(expenses)				
Dividend income	25,379	33,728	25,379	33,728
Interest income	16,509	16,834	16,571	16,846
Changes in fair value				
- Unrealised gains/(losses) on investments	(9,980)	10,657	(9,980)	10,657
- Realised gains/(losses) on investments	(32,086)	(13,094)	(32,086)	(13,094)
	(178)	48,125	(116)	48,137

	Consolidated 2012 $'000	Consolidated 2011 $'000	Company 2012 $'000	Company 2011 $'000
14. Operating profit/(loss)				
Gross written premiums	204,943	186,351	204,943	186,351
Unearned premium movement	(8,563)	(253)	(8,563)	(253)
Gross earned premium	196,380	186,098	196,380	186,098
Outward reinsurance expense	(59,245)	(56,906)	(59,245)	(56,906)
Net earned premium	137,135	129,192	137,135	129,192
Gross claims incurred	(117,594)	(102,536)	(117,594)	(102,536)
Reinsurance and other recoveries	33,220	31,078	33,220	31,078
Net claims incurred	(84,374)	(71,458)	(84,374)	(71,458)
Acquisition costs	(141)	(157)	(141)	(157)
Net movement in unexpired risk liability	735	391	735	391
Underwriting expenses	(35,270)	(39,132)	(35,270)	(39,132)
	(119,050)	(110,356)	(119,050)	(110,356)
Underwriting profit	**18,085**	**18,836**	**18,085**	**18,836**
Dividend income	25,379	33,728	25,379	33,728
Interest income	16,509	16,834	16,571	16,846
Changes in fair value:				
- Unrealised gains/(losses) on investments	(32,086)	(13,094)	(32,086)	(13,094)
- Realised gains/(losses) on investments	(9,980)	10,657	(9,980)	10,657
Other income	6,688	6,568	6,031	5,858
Investment and other income	6,510	54,693	5,915	53,995
General and administration expenses	(17,667)	(16,976)	(16,202)	(15,753)
Catholic entity distributions	(3,933)	(23,166)	(3,933)	(23,166)
Profit/(loss) from ordinary activities	**2,995**	**33,387**	**3,865**	**33,912**

	Consolidated 2012 $'000	Consolidated 2011 $'000	Company 2012 $'000	Company 2011 $'000
15. Dividends paid and proposed				
Declared and paid during the year:				
Dividends on ordinary shares: Final unfranked dividend for 2011: $0.40 cents (2010: $0.80 cents)	1,176	2,352	1,176	2,352
Proposed for approval at AGM *(not recognised as a liability as at 30 June):*				
Dividends on ordinary shares: Final unfranked dividend for 2012: $0.40 cents (2011: $0.40 cents)	1,176	1,176	1,176	1,176

	Consolidated		Company	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
16. Cash and cash equivalents				
Cash and cash equivalents comprises:				
- Cash on hand	3	3	2	2
- Cash at call	25,525	38,154	25,225	38,012
	25,528	38,157	25,227	38,014
Reconciliation of cash Cash at the end of the financial year as shown in the Statement of Cash Flow is reconciled to items in the Balance Sheet as follows:				
– Cash	25,528	38,157	25,227	38,014
	25,528	38,157	25,227	38,014

The consolidated entity has a combined bank overdraft facility of $150,000.This facility was unused at 30 June 2012.

17. Trade and other receivables (current)				
Premiums receivable (i)	79,239	73,368	79,239	73,368
Reinsurance commissions receivable (ii)	(190)	(176)	(190)	(176)
Reinsurance and other recoveries on outstanding claims and claims paid (iii)	30,169	28,052	30,169	28,052
Provision for doubtful debts on reinsurance recoveries	(4,322)	(3,863)	(4,322)	(3,863)
	25,847	24,189	25,847	24,189
Investment income accrued (iv)	7,276	6,495	7,276	6,495
Sundry debtors (v)	11,699	8,539	11,546	8,358
	123,871	112,415	123,718	112,234

The current period balance of premiums receivable includes $51.894 million (2011: $48.115 million) relating to the renewal of workers' compensation premiums expiring at 4pm 30 June 2012.

(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 entities right to receive the payment is established.

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

18. Deferred reinsurance expense				
Deferred reinsurance expense as at 1 July	25,723	25,346	25,723	25,346
Reinsurance premiums written during the year	76,022	67,643	76,022	67,643
Reinsurance premiums earned during the period	(74,504)	(67,266)	(74,504)	(67,266)
Deferred reinsurance expense as at 30 June	27,241	25,723	27,241	25,723

The current period balance of deferred reinsurance expense includes $4.997 million (2011: $6.466 million) relating to the renewal of workers' compensation premiums expiring at 4pm 30 June 2012.

	Consolidated		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
19. Financial assets (current)				
- Government and semi-government bonds	4,021	-	4,021	-
- Other fixed interest securities	8,302	14,361	8,302	14,361
- Shares in other corporations	203,556	296,092	203,556	296,092
- Units in other unit trusts	81,705	83,224	81,705	83,224
- Units in property unit trusts	40,669	42,094	40,669	42,094
Total current investments	338,253	435,771	338,253	435,771
20. Tax assets				
Imputation credits	5,814	8,554	5,814	8,554
Deferred GST refund	1,196	1,670	1,196	1,670
	7,010	10,224	7,010	10,224
21. Other current assets				
Deferred fire service levy expenses	7,495	5,888	7,495	5,888
Other assets	1,839	3,450	1,839	3,450
	9,334	9,338	9,334	9,338
22. Trade and other receivables (non-current)				
Reinsurance and other recoveries on outstanding claims and claims paid	19,928	21,698	19,928	21,698
Loan to subsidiary	-	-	1,500	500
	19,928	21,698	21,428	22,198

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.

	Consolidated		Company	
23. Financial assets (non-current)				
- Government and semi-government bonds	239,049	106,071	239,049	106,071
- Other fixed interest securities	69,886	103,400	69,886	103,400
- Financial asset-warrants	6,106	-	6,106	-
- Units in other unit trusts	21,799	22,215	21,799	22,215
- Loans - secured	205	243	205	243
Total non-current investments	337,045	231,929	337,045	231,929

24. Plant and equipment

	Consolidated				
	Motor Vehicles	Office Equipment	Computer Equipment	Leasehold Improvements	Total
Year ended 30 June 2012	$'000	$'000	$'000	$'000	$'000
Gross carrying amount					
Balance at 1 July 2011	2,387	4,989	8,715	4,504	20,595
Additions	791	137	-	41	969
Disposals	(749)	-	-	-	(749)
Balance at 30 June 2012	2,429	5,126	8,715	4,545	20,815
Accumulated depreciation					
Depreciation charge for the year	(549)	(245)	(252)	(459)	(1,505)
Accumulated depreciation	(564)	(3,412)	(7,867)	(465)	(12,308)
Balance at 30 June 2012	(1,113)	(3,657)	(8,119)	(924)	(13,813)
Net carrying amount at 30 June 2012	1,316	1,469	596	3,621	7,002

There has been no change to depreciation rates or useful lives at 30 June 2012.
The balance of plant and equipment for the consolidated entity is the same as the company.

Year ended 30 June 2011					
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

25. Intangible assets

Consolidated

Year ended 30 June 2012

(a) Reconciliation of carrying amounts at the beginning and end of the period

	Computer Software $'000
Gross carrying amount	
Balance at 1 July 2011 net of accumulated amortisation	4,597
Additions	2,646
Disposals	-
Balance at 30 June 2012	7,243
Accumulated amortisation	
Amortisation charge for the year	(1,092)
Accumulated amortisation	(850)
Balance at 30 June 2012	(1,942)
Net carrying amount at 30 June 2012	5,302

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

(b) Description of the consolidated 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.
The balance of Computer Software for the consolidated entity is the same as the company.

Consolidated

Year ended 30 June 2011

(a) Reconciliation of carrying amounts at the beginning and end of the period

	Computer Software $'000
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

	Consolidated 2012 $'000	Consolidated 2011 $'000	Company 2012 $'000	Company 2011 $'000
26. Trade and other payables (current)				
Trade creditors	23,543	27,739	23,543	27,739
Accrued expenses	1,803	1,604	1,803	1,604
Sundry creditors	9,630	8,188	9,630	8,188
	34,976	37,531	34,976	37,531

The current period balance of the trade creditors includes $4.997 million (2011: $6.466 million) relating to the renewal of workers' compensation premiums expiring at 4pm 30 June 2012.

	Consolidated 2012 $'000	Consolidated 2011 $'000	Company 2012 $'000	Company 2011 $'000
27. Provisions (current)				
Catholic entity distributions	4,572	23,804	4,572	23,804
Risk management	13	37	13	37
Employee benefits	3,680	4,108	3,680	4,108
	8,265	27,949	8,265	27,949

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.

	Consolidated 2012 $'000	Consolidated 2011 $'000	Company 2012 $'000	Company 2011 $'000
28. Tax liabilities				
GST provision	69	-	69	-
29. Other current liabilities				
Financial liability – options	435	1,912	435	1,912
30. Provisions (non-current)				
Employee benefits	897	755	897	755
Make good of premises	1,235	1,235	1,235	1,235
	2,132	1,990	2,132	1,990

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

31. Provisions

	Consolidated				
	Catholic Entity Distributions	Risk Management	Employee Entitlements	Make Good Premises	Total
	$'000	$'000	$'000	$'000	$'000
Year ended 30 June 2012					
Carrying amount at 1 July 2011	23,804	37	4,863	1,235	29,939
Additional provisions	4,571	-	408	-	4,979
Amounts utilised during the year	(23,804)	(18)	(694)	-	(24,516)
Reversal of unused provision	-	(5)	-	-	(5)
Carrying amount at 30 June 2012	4,571	14	4,577	1,235	10,397
Current (note 27)	4,571	13	3,680	-	8,264
Non-current (note 30)	-	-	897	1,235	2,132
	4,571	13	4,577	1,235	10,396
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 27)	23,804	37	4,108	-	27,949
Non-current (note 30)	-	-	755	1,235	1,990
	23,804	37	4,863	1,235	29,939

32. Contributed equity

	Consolidated		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Ordinary shares issued & paid-up 2,939,676 (2011: 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.

		Consolidated		Company	
		2012	2011	2012	2011
		$'000	$'000	$'000	$'000
33. Reserves					
(a) Composition					
General reserve		293,694	292,650	293,694	292,650
		293,694	292,650	293,694	292,650
(b) Movements					
General reserve					
Opening balance		292,650	259,747	292,650	259,747
Transfers to and from retained profits		1,044	32,903	1,044	32,903
Closing balance		293,694	292,650	293,694	292,650

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.

34. Outstanding claims liability					
(a) Outstanding claims liability					
Undiscounted central estimate	(A)	414,077	464,889	414,077	464,889
Discount to present value		(52,450)	(115,156)	(52,450)	(115,156)
		361,627	349,733	361,627	349,733
Claims handling costs	(B)	17,936	17,346	17,936	17,346
		379,563	367,079	379,563	367,079
Risk margin	(C)	38,489	37,162	38,489	37,162
Gross outstanding claims liability - discounted		418,052	404,241	418,052	404,241
Gross claims incurred – undiscounted	(A)+(B)+(C)	470,502	519,397	470,502	519,397
Current		92,635	92,651	92,635	92,651
Non-current		325,417	311,590	325,417	311,590
Total		418,052	404,241	418,052	404,241

(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	2012	2011
	%	%
Short-tail	9.9	9.7
Professional indemnity	16.0	16.0
Public liability	12.4	12.4
Workers' compensation	9.0	9.0

(c) Reconciliation of movement in discounted outstanding claims liability

	Gross	Reinsurance	Net
	$'000	$'000	$'000
2012			
Brought forward	404,241	42,025	362,216
Effect of changes in assumptions	15,195	13,984	1,211
Increase in claims incurred/recoveries anticipated over the year	100,098	19,222	80,876
Incurred claims recognised in the statement of comprehensive income	115,293	33,206	82,087
Claim payments/recoveries during the year	(103,041)	(33,265)	(69,776)
Portfolio transfers and acquisitions	1,559	(6)	1,565
Carried forward	418,052	41,960	376,092

Portfolio transfers and acquisitions
This relates to a portfolio transfer from our South Australian workers' compensation business to Little Company of Mary Health Care Limited.

	Gross	Reinsurance	Net
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

(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	2006 & prior	2007	2008	2009	2010	2011	2012	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Estimate of ultimate claims cost:								
At end of accident year	509,597	72,572	69,164	65,810	63,115	53,814	52,449	886,521
One year later	484,388	62,183	60,892	58,928	50,770	48,599	-	765,760
Two years later	480,523	53,005	54,732	46,675	46,734	-	-	681,669
Three years later	458,752	47,403	41,081	42,036	-	-	-	589,272
Four years later	462,037	41,395	36,008	-	-	-	-	539,440
Five years later	484,466	41,903	-	-	-	-	-	526,369
Current estimate of cumulative claims cost	506,320	41,903	36,008	42,036	46,734	48,599	52,449	774,049
Cumulative payments	(288,476)	(28,518)	(23,273)	(22,554)	(19,978)	(17,070)	(7,814)	(407,683)
Outstanding claims-undiscounted	217,844	13,385	12,735	19,482	26,756	31,529	44,635	366,366
Discount								(44,780)
Outstanding claims								**321,586**
Short-tail outstanding claims								35,825
Claims handling expenses								17,936
Risk margins								42,705
Total gross outstanding claims as per the Balance Sheet								418,052

(ii) Net

Accident year	2006 & prior	2007	2008	2009	2010	2011	2012	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Estimate of ultimate claims cost:								
At end of accident year	425,233	68,152	65,752	64,301	62,918	53,484	52,238	792,078
One year later	409,407	59,827	58,596	57,827	49,610	48,063	-	683,330
Two years later	401,491	51,755	52,841	45,987	45,521	-	-	597,595
Three years later	375,136	46,258	39,127	41,755	-	-	-	502,276
Four years later	374,735	39,605	35,002	-	-	-	-	449,342
Five years later	411,351	39,405	-	-	-	-	-	450,756
Current estimate of cumulative claims cost	418,832	39,405	35,002	41,755	45,521	48,063	52,238	680,816
Cumulative payments	(214,225)	(26,856)	(22,416)	(22,379)	(19,873)	(17,012)	(7,794)	(330,555)
Outstanding claims-undiscounted	204,607	12,549	12,586	19,376	25,648	31,051	44,444	350,261
Discount								(43,909)
Outstanding claims								**306,352**
Short-tail outstanding claims								13,314
Claims handling expenses								17,936
Risk margins								38,490
Total net outstanding claims as per the Balance Sheet								376,092

	Consolidated		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
35. Unearned premium reserve				
Unearned premium liability as at 1 July	120,231	120,061	120,231	120,061
Deferral of premiums on contracts written in the period	163,375	145,893	163,375	145,893
Earning of premiums written in current and previous periods	(151,034)	(145,723)	(151,034)	(145,723)
Unearned premium liability as at 30 June	132,572	120,231	132,572	120,231

The current period balance of the unearned premium reserve includes $51.894 million (2011: $48.115 million) relating to the renewal of workers' compensation premiums expiring at 4pm on 30 June 2012.

36. 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)
C T Condon	Director (non-executive)
J Dawson	Director (non-executive)
N E B Griffiths	Director (non-executive) *- Retired 21 November 2011*
R M Haddock	Director (non-executive)
J A Killen	Director (non-executive)
B J Lucas	Director (non-executive)
J A Schafer	Director (non-executive) *- Appointed 21 February 2012*
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 - Executive Group member until 19 April 2012
J Barrie	Assistant General Manager - Strategy, Marketing & Sales - Executive Group member until 19 April 2012
E Branigan	Assistant General Manager - Insurance Operations - Executive Group member until 19 April 2012
T Briganti	Reinsurance Manager - Executive Group member until 19 April 2012
D Chila	Company Secretary Chief Financial Officer - Until 23 April 2012
D Muscari	Chief Financial Officer - Appointed 23 April 2012
C Nettleton	Human Resources Manager - Until 5 March 2012 Chief Operating Officer - Appointed 5 March 2012
R Redlich	Head of Superannuation - Appointed 6 July 2011
I Smith	Chief Investment Officer
N Smith	Manager Information & Communication Technology

(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:

	Consolidated		Company	
	2012 $	2011 $	2012 $	2011 $
Directors				
Short-term	350,128	375,343	299,669	295,993
Post employment	26,342	25,350	21,801	19,680
	376,470	400,693	321,470	315,673

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

	Consolidated		Company	
	2012 $	2011 $	2012 $	2011 $
Executives				
Short-term	3,072,734	3,156,052	3,072,734	3,156,052
Post employment	190,776	180,055	190,776	180,055
Other long-term	150,083	177,899	150,083	177,899
Termination benefits	1,385	-	1,385	-
	3,414,978	3,514,006	3,414,978	3,514,006

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 2012	Balance at Beginning	Net Change Other	Balance at End
Directors			
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)	-
R M Haddock	1,250	-	1,250
J A Killen	1,250	-	1,250
B J Lucas	1,250	-	1,250
J A Schafer	-	1,000	1,000
J A Tongs	1250	-	1,250
Total	9,750	-	9,750

Year ended 30 June 2011	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
R M Haddock	-	1,250	1,250
J A Killen	1,250	-	1,250
B J Lucas	1,250	-	1,250
J A Tongs	1,250	-	1,250
Total	9,750	-	9,750

(d) Loans to key management personnel

There are no loans to key management personnel.

	Consolidated 2012 $	Consolidated 2011 $	Company 2012 $	Company 2011 $
37. Related parties				
Wholly owned group transactions				
The entities within the wholly owned group are Catholic Church Insurances Limited (consolidated entity), and CCI Investment Management Limited (subsidiary).Catholic Church Insurances Limited is the ultimate parent entity.				
The company provided loans to its subsidiary totalling $1,500,000 (2011: $500,000) with no fixed repayment date.				
Balance of loan to subsidiary			1,500,000	500,000
The Directors have also provided a guarantee of continued financial support to CCI Investment Management Limited up until 11 September 2013 in the amount of $2,500,000 (2011: $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 in CCI Investment Management Ltd Funds			21,798,541	22,214,988
Expenses charged to CCI Investment Management Limited			1,528,378	1,235,677
Balance of intercompany payables from CCI Investment Management Limited			104,624	78,368
Other related party transactions				
Transactions with Director related entities				
A former Director of the company, 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 former Director of the subsidiary company, Ms P J Dwyer, was 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	-	311,548
- Roble & Co.	-	11,250	-	11,250

	Consolidated		Company	
	2012 $	2011 $	2012 $	2011 $
38. 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	171,550	173,300	159,150	161,300
(b) other services in relation to the entity and any other entity in the consolidated entity				
– Taxation services	-	4,200	-	4,200
– Other services	87,818	31,500	87,818	31,500
Total other services	87,818	35,700	87,818	35,700

	Consolidated 2012 $	Consolidated 2011 $	Company 2012 $	Company 2011 $
39. Expenditure commitments				
Operating lease expenditure commitments:				
– Within one year	7,223	3,821	7,223	3,821
– After one year but not more than five years	36,665	12,159	36,665	12,159
– More than five years	-	9,409	-	9,409
	43,888	25,389	43,888	25,389
Lease payments recognised as an expense in the period				
Minimum lease payment	2,171	2,124	2,151	2,095
Contingent rents	(470)	(451)	(470)	(451)
	1,701	1,673	1,681	1,644

Leasing arrangements

Leased offices

The consolidated entity leases offices under operating leases expiring from 1 to 10 years. Leases generally provide the consolidated 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 consolidated 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.

	Consolidated		Company	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
40. Statement of cash flows				
Reconciliation of cash flow from operations with profit/(loss) from ordinary activities				
Profit/(loss) from ordinary activities	2,995	33,387	3,865	33,912
Changes in net market value of investments	44,025	(3,614)	44,025	(3,614)
Depreciation of assets	1,504	1,649	1,489	1,636
Amortisation of intangible assets	1,093	615	1,092	614
Changes in grants and Catholic Entity Distributions	4,504	23,721	4,504	23,721
Profit/(loss) on sale of assets	66	(22)	66	(22)
Changes in assets and liabilities				
Increase/(decrease) in unearned premium	12,341	170	12,342	170
(Increase)/decrease in premiums receivable	(5,871)	(2,713)	(5,866)	(2,713)
(Increase)/decrease in reinsurance and other recoveries receivable on outstanding claims	111	3,480	110	3,480
(Increase)/decrease in reinsurance payables	(5,309)	645	(5,309)	645
Increase/(decrease) in outstanding claims	13,811	9,930	13,811	9,930
(Increase)/decrease in acquisition costs	-	29	-	29
(Increase)/decrease in statutory charge asset	(1,601)	385	(1,601)	385
Increase/(decrease) in GST tax provision	543	(179)	542	(179)
Increase/(decrease) in other provisions and sundry debtors	(499)	460	(1,515)	(94)
Cash flow from operating activities	67,713	67,943	67,555	67,900

41. Controlled entities

Name of entity	Country of incorporation	Ownership interest		Investment	
		2012	2011	2012	2011
		%	%	$'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.

42. 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, asset, 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:

	Company	
	2012	2011
	$'000	$'000
Tier 1 capital		
Paid-up ordinary shares	8,139	8,139
General reserves	293,694	292,650
Retained earnings at end of reporting period	2,186	1,407
Premium liability surplus	18,187	23,831
Net tier 1 capital	322,206	326,027
Less net intangible assets	5,301	3,747
Total capital base	316,905	322,280
Minimum capital requirement	149,557	158,672
Solvency coverage	2.12	2.03

The consolidated entity does not hold any tier 2 capital.

43. 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						
2012	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	4.96	25,525				3	25,528
Receivables and other						143,799	143,799
Government and semi-government loans	5.40		4,021	149,276	89,772		243,069
Other fixed interest securities	5.09		8,302	66,725	3,160		78,187
Loans	5.00			206			206
Shares, options & trusts						341,252	341,252
Preference shares			6,478				6,478
Exchange traded warrants						6,106	6,106
Total		25,525	18,801	216,207	92,932	491,160	844,625
Financial liabilities							
Trade and sundry creditors						34,976	34,976
Exchange traded options						435	435
Total						35,411	35,411

	Fixed Interest Rate Maturity – Company						
2012	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	4.96	25,225				2	25,227
Receivables and other						145,146	145,146
Government and semi-government loans	5.40		4,021	149,276	89,772		243,069
Other fixed interest securities	5.09		8,302	66,725	3,160		78,187
Loans	5.00			206			206
Shares, options & trusts						341,252	341,252
Preference shares			6,478				6,478
Exchange traded options						6,106	6,106
Total		25,225	18,801	216,207	92,932	492,506	845,671
Financial liabilities							
Trade and sundry creditors						34,976	34,976
Exchange traded options						435	435
Total						35,411	35,411

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
	Fixed Interest Rate Maturity – Consolidated						
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
Total		38,154	14,907	166,173	43,541	577,194	839,969
Financial liabilities							
Trade and sundry creditors						37,531	37,531
Exchange traded options						1,912	1,912
Total						39,443	39,443

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
	Fixed Interest Rate Maturity – Company						
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
Total		38,011	14,907	166,173	43,541	577,513	840,145
Financial liabilities							
Trade and sundry creditors						37,531	37,531
Exchange traded options						1,912	1,912
Total						39,443	39,443

44. 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.

	Quoted market price (Level 1)	Valuation technique – market observable inputs (Level 2)	Valuation technique – non market observable inputs (Level 3)	Total
Consolidated entity as at 30 June 2012	$'000	$'000	$'000	$'000
Financial assets				
Derivative instruments				
Warrants	6,106	-	-	6,106
Financial assets at fair value through profit and loss	526,512	128,384	14,297	669,193
Total	532,618	128,384	14,297	675,299
Financial liabilities				
Derivative instruments				
Options	(435)	-	-	(435)
Total	(435)	-	-	(435)

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

Consolidated entity as at 30 June 2011				
Financial assets				
Financial assets at fair value through profit and loss	522,207	129,170	16,322	667,699
Total	522,207	129,170	16,322	667,699
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.

	Consolidated	
	2012	2011
Reconciliation of Level 3 fair value movements	$'000	$'000
Opening balance	16,322	18,676
Total gains and losses	(2,072)	583
Purchases	985	281
Sales	(938)	(2,858)
Transfers from other categories	-	(360)
Closing balance	14,297	16,322

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 $116,000 (2011: $153,000) or increase the fair value by $116,000 (2011: $153,000).

45. 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 2012 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 2012 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 the Australian equivalent of 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, 11 September 2012

Independent Auditor's Report

ERNST & YOUNG

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 2012, 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 entities 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 2(b), 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. These 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. We confirm that the Auditor's Independence Declaration would be in the same terms if given to the directors as at the time of this auditor's 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 2012 and of their performance for the year ended on that date; and

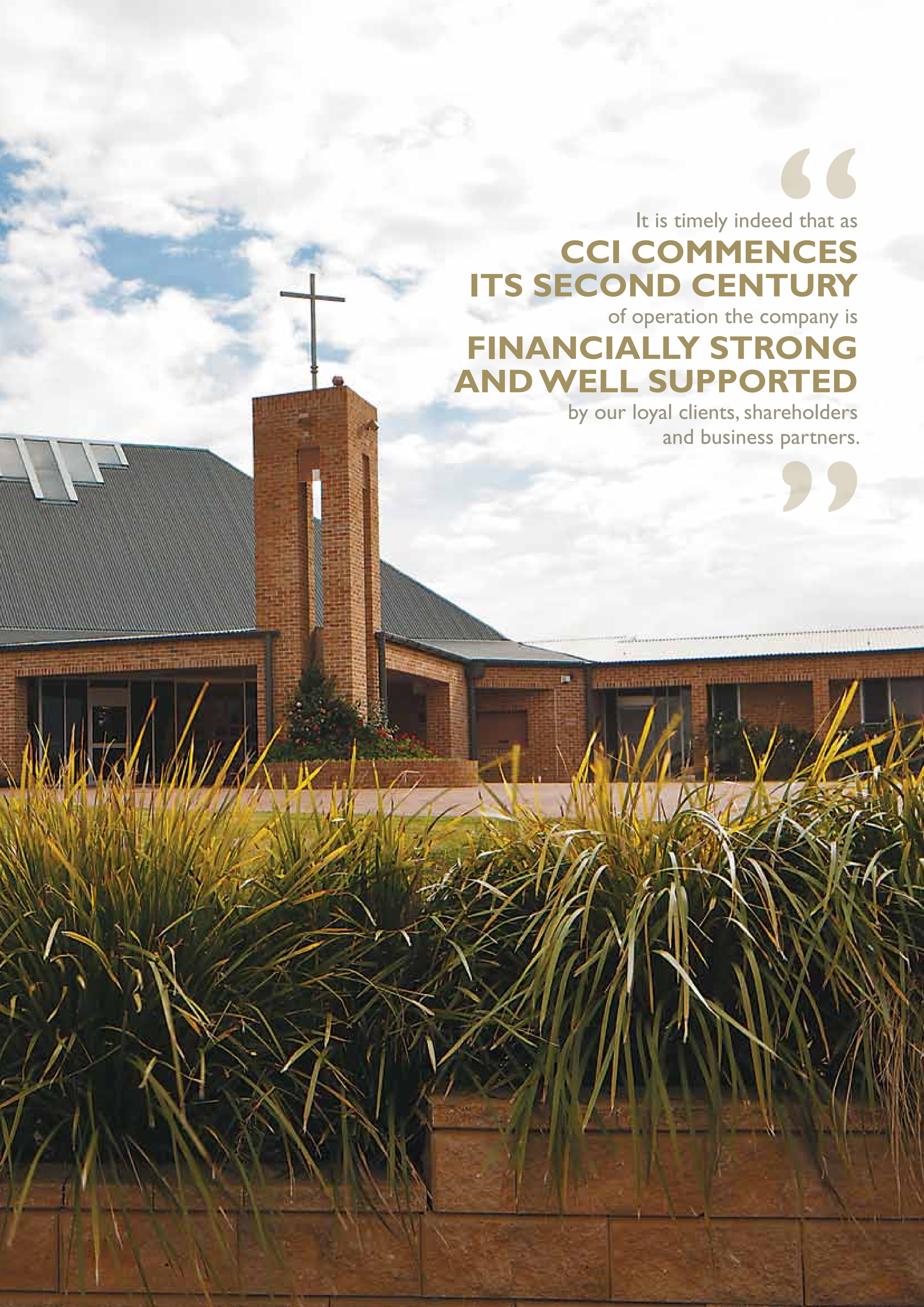
   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with the Australian equivalent of the *International Financial Reporting Standards* as disclosed in Note 2(b).

Ernst & Young

Ernst & Young

T M Dring
Partner
Melbourne
11 September 2012



It is timely indeed that as **CCI COMMENCES ITS SECOND CENTURY** of operation the company is **FINANCIALLY STRONG AND WELL SUPPORTED** by our loyal clients, shareholders and business partners.

Catholic Church Insurances Limited

Church Insurances
- Claims, Policy and General Enquiries
1300 655 001
www.ccinsurances.com.au

Personal Insurances
- Claims, Policy and General Enquiries
1300 655 003
www.catholicinsurances.com.au

CCI Investment Management
- Customer Service
1300 655 220
www.cciim.com.au

Victoria – Head Office
Level 8,
485 La Trobe Street
Melbourne VIC 3000
Tel 03 9934 3000
Fax 03 9934 3464

Western Australia
Level 1,
61 Fitzgerald Street
Northbridge WA 6003
Tel 08 9421 6000
Fax 08 9421 6050

New South Wales
Level 15,
207 Kent Street
Sydney NSW 2000
Tel 02 9273 2800
Fax 02 9273 2880

South Australia
Level 2,
45 Wakefield Street
Adelaide SA 5000
Tel 08 8236 5400
Fax 08 8236 5475

Queensland
Level 2,
143 Edward Street
Brisbane QLD 4000
Tel 07 3227 9200
Fax 07 3227 9225

Australian Capital Territory
51 Cooyong Street
Braddon ACT 2612
Tel 02 6201 9884
Fax 02 6257 8239

Tasmania
35 Tower Road
New Town TAS 7008
Tel 1300 655 001
Fax 03 9934 3464

Northern Territory
2 St John Court
The Gardens NT 0821
Tel 08 8236 5400
Fax 08 8236 5475