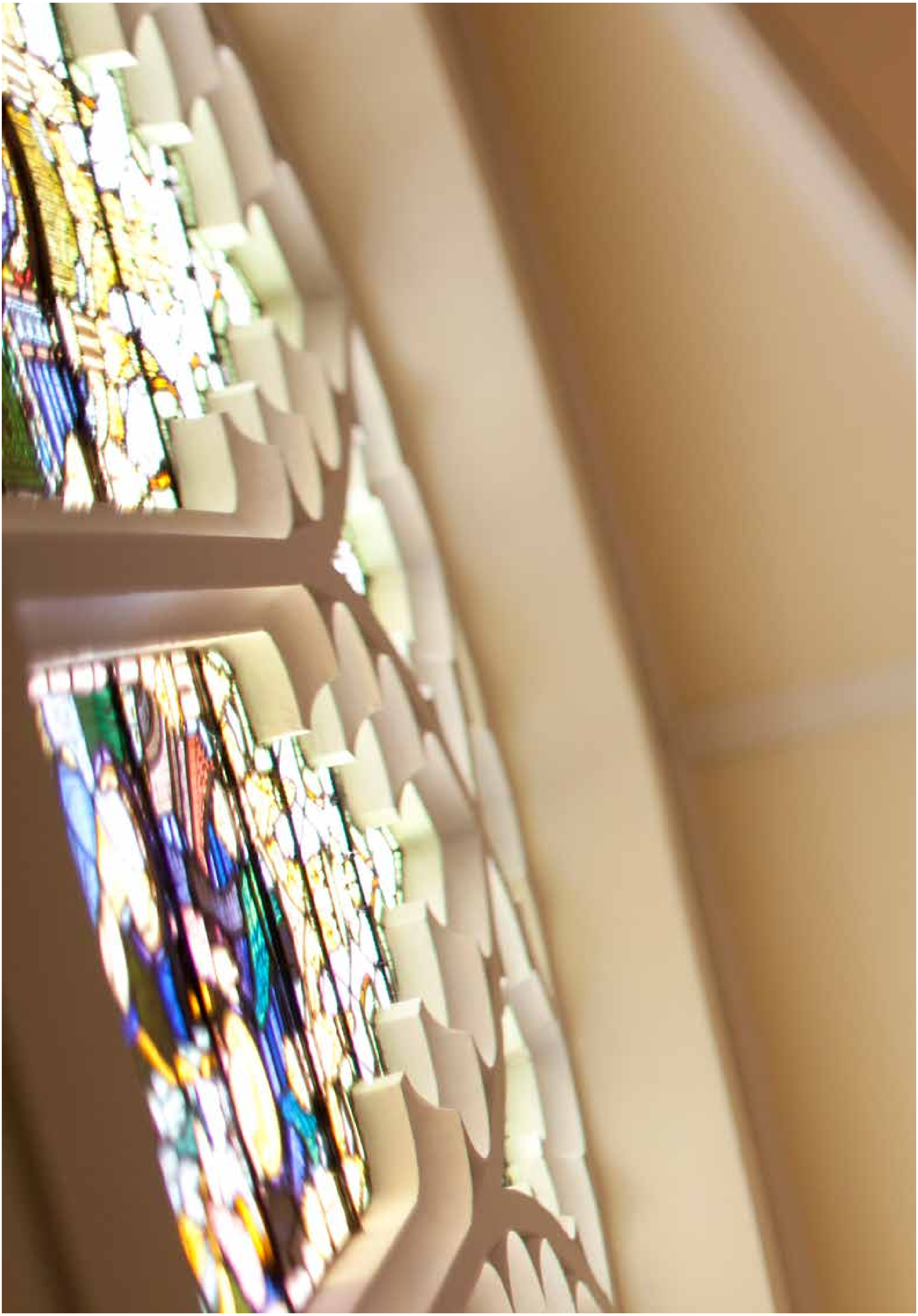
CCI
Catholic Church Insurance

Annual Report 2013



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The new CCI brand

When it came to rebranding CCI, our aim was to refresh the look and feel of the company while remaining true to history and our relationship with the Church.

The exciting result is a vibrant, flexible and modern design capable of taking the company into our next 100 years of operation.

Our new logo is built on a strong symbol of Church – a modern interpretation of a Church stained glass window – while elements of our previous logo have been retained as an important link, and in respect, to our past.

While our brand may have been refreshed, our vision remains true – to serve Church.

CCI
Catholic Church Insurance

Company profile

Catholic Church Insurance 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 exists 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.

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 and our Church community.

A genuine commitment to client care

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.

When our clients need us, we are there for them.

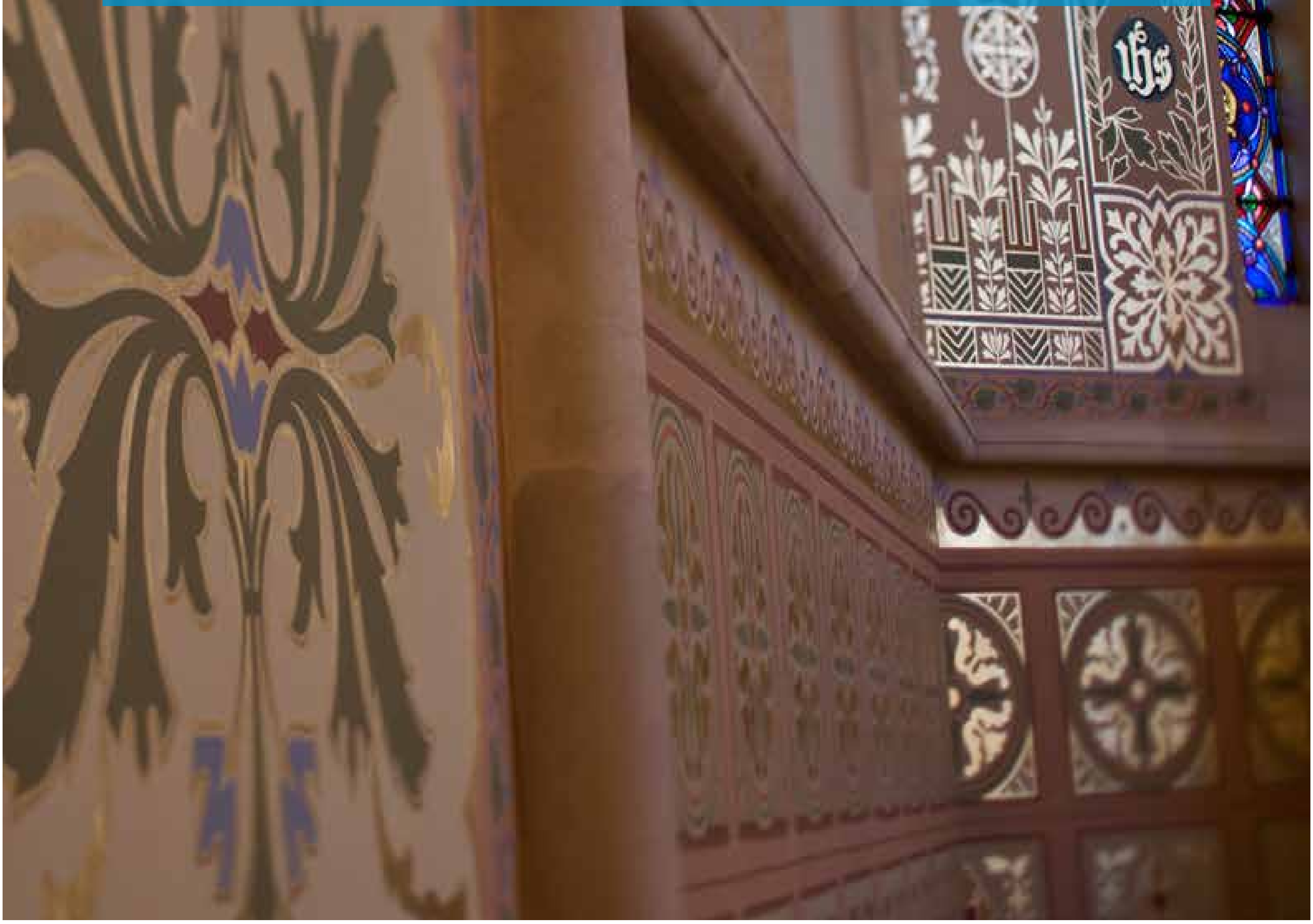
Vision
Serving Church

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

Values
♦ Honesty ♦ Fairness
♦ Commitment to Serve

Highlights of the year

- Solvency coverage of almost 2 times APRA's minimum
- Outstanding investment return of 13.3%
- Distributions to policyholders of more than $20 million
- Total distributions in the past 35 years of more than $272 million
- Recommendation of an ordinary dividend of 40 cents per share
- Compliance with new prudential standards for capital and corporate risk
- Positive outcome from staff engagement survey
- Strengthening of financial reserves



Chairman's report

Paul Gallagher
Chairman

The 2013 financial year saw a strengthening of the company's financial position and the ongoing development of its prudential management standards.

Financially the company has performed very well. A year of exceptional investment returns coupled with lower than expected catastrophic claims have contributed to the company achieving returns in excess of our budget.

This result has enabled us to strengthen our reserves and further reinforce the company against future risks, as well as pay distributions to policy holders of more than $20 million and make a recommendation of an ordinary dividend of 40 cents per share.

The Australian Prudential Regulation Authority's (APRA) Life and General Insurance Capital (LAGIC) reforms came into force on 1 January 2013. Amongst other things, LAGIC introduced more risk-sensitive capital requirements, strengthening the link between capital and risk management.

APRA has since formalised its standards around risk governance and risk culture, making it a requirement for all insurers to have a clearly articulated Risk Appetite Statement, which is being imbedded across the company.

CCI has always regarded sound risk management as fundamental to its operation. The company's long history is testament to its ability to understand its risks and manage them effectively. The new standards have provided greater formalisation and a more robust system of measurement, which we embrace.

The Board's own governance has also been a focus of our attention this year. The Board operates on a three-yearly evaluation cycle. Recognising that independent review of its performance is critical, two years are self-assessed while an external party assesses the third. An independent firm was engaged to manage the process this year.

Evaluations are an opportunity to check our alignment with stakeholder needs and search for further enhancements. This year's review indicated that the Board is very strong collectively, with the right balance of skills and a strong understanding of Church.

The important role the Board has to play in driving company strategy was reinforced, as was the importance of our strong in-service and Board education process.

Operationally, the restructure of senior management at CCI has enabled us to continue to meet our stakeholder responsibilities and respond to the demands of a changing Church environment.

CCI has always regarded sound risk management as fundamental to its operation. The company's long history is testament to its ability to understand its risks and manage them effectively.

Where appropriate, we have promoted internally, giving our own people the opportunity to move into new and challenging roles. However, finding the right people is critical and in some circumstances we have gone to the market to find capable candidates to fill key roles, who have brought with them new ideas.

Throughout the past year, the Board has provided clear direction and leadership, driving company culture and the strategic vision of the organisation. I would like to take this opportunity to thank my fellow Directors for their support and hard work.

The Board continues to operate on a strong sub-committee framework. The operation of these committees is an important part of our governance process and the Board's Directors have made a substantial contribution to the strategic and operational requirements of the many committees on which they serve.

To our shareholders and policyholders I would like to extend my thanks for their ongoing loyalty and support.

Thank you also to our Chief Executive Officer, Peter Rush, his executive team and all the staff who continue to drive the success of the company.

Paul Gallagher
Chairman

Directors of the Board of Catholic Church Insurance Limited from left to right:
Standing: Richard Haddock, Reverend Brian Lucas, Paul Gallagher - Chariman, Tony Killen, Jane Tongs.
Seated: Julie-Anne Schafer, Sister Clare Condon, Jo Dawson.

Corporate governance statement

For the year ended 30 June 2013

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 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 employee has concerns.

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

- review the company's annual accounts and the external auditor's annual report
- review the appointment of the external auditor and actuary
- review the scope of the external and internal audits
- review the reports of the external and internal auditors to assess internal controls and monitor for suitability, reliability and compliance
- review the external auditors' management letter and management's response
- ensure compliance with the Insurance Act, APRA guidelines and other relevant legislation
- review the Compliance Plan and assess reports on compliance with relevant legislation, regulations, standards and 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 and professional 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 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.

Workplace Gender Equality Agency

Under the *Workplace Gender Equality Act 2012* (WGE Act), all non-public sector employers with 100 or more employees are required to report annually under the WGE Act.

The WGE Act aims to promote and improve gender equality outcomes for both women and men in the workplace.

The company adheres to the WGE Act and has lodged its annual report to the Workplace Gender Equality Agency. A copy of the report can be accessed by following a link on our website located at: www.ccinsurance.org.au/about/annual-reports.htm

Operationally, the restructure of senior management at CCI has enabled us to continue to meet our stakeholder responsibilities and respond to the demands of a changing Church environment.

Chief Executive Officer's review of operations

Peter Rush
Chief Executive Officer

The company has performed extremely well over the year. We have grown in financial strength and further enhanced our prudential management, achieving solid returns and delivering excellent service to the Catholic community.

The fundamentals of the company's underwriting result were pleasing and reflective of a year without a significant catastrophic event. This was supported by an outstanding investment result.

Considerable changes have been made across the organisation over the past 12 months, with the company's governance having been the focus of much of the Executive Group's and the Board's time.

We are beginning to see the benefits of the work invested in our organisational restructure, with particular efficiencies gained through the joining of our technical and client service areas. The restructure of the Executive Group is complete and has been strengthened through a combination of key internal promotions and the appointment of several highly skilled people from outside the company.

APRA released prudential standards for risk management in general and life insurance companies effective 1 January 2013. Aimed at encouraging behaviours that support a company's long-term financial soundness and its risk management framework, the new standards provide a useful structure to apply to CCI's already strong risk management practices.

They have also required the development of a Risk Appetite Statement at Board level. The Risk Appetite Statement puts clear guidelines in place around the level of risk the business is prepared to accept and how that risk is to be measured, monitored and managed. We have now begun the process of embedding this across the organisation. The framework is only as strong as its implementation at an operational level, so this will be our focus in the next 12 – 18 months.

CCI has always operated well above any prudential limits set by APRA as well as our own guidelines. After the introduction of APRA's new capital standards in January, the company continues to exceed APRA's minimum requirements by a factor of almost two.

Important work is being undertaken through various state and federal public inquiries and CCI remains committed to assisting these inquiries in any way we can. So far, this has been primarily through the provision of data and documentation. While this process will deliver a range of social benefits, the financial impact these inquiries will have on the company is difficult to measure at this time.

As such, in a year in which we have recorded a strong financial result and increased the level of Catholic Entity Distributions, the Board and management have accepted actuarial advice indicating the reserves of the company should also be strengthened to meet potential future claims. We believe this is a prudent decision in the current climate and one that reflects both the unique nature of the times and the company's inherent conservatism.

This strengthening of our reserves has had an impact on the company's end-of-year return. The final underwriting result reflects our strategic response to uncertainty and our ongoing commitment to the needs of our shareholders and policyholders.

Working with our clients

The successful launch of the company's new visual identity on 3 December 2012 marked the beginning of a new chapter in the history of CCI. The associated brand behaviours of Professional, Progressive and Partnership are now imbedded in the company's business plans, performance measurements and induction process and will guide and shape the company into the future.

This new focus is evident in the launch of several new systems over the year. Our new Customer Relationship Management (CRM) system aims to enhance the company's ability to manage our valued relationships, while promoting operational efficiency. CCI Learning Manager, our new web-based client training system, is designed to help our clients to meet their various training and compliance obligations.

Both systems are already widely in use and have been well received by clients and staff alike.

Throughout the year the Client Services team has also continued to support those engaged in the complex process of amalgamations, ensuring adequate covers are in place during any transition period and beyond.

New Bishop of Ballarat

Bishop Paul Bird was appointed the eighth Bishop of Ballarat by Pope Benedict XVI on 1 August 2012. He was ordained as Bishop on 16 October 2012, replacing retiring Bishop, Peter Connors.

Born in Newcastle, New South Wales in 1949, Bishop Bird joined the Congregation of the Most Holy Redeemer (the Redemptorists) in 1968. After completing his seminary studies he was ordained as a priest in 1975.

For twenty years from 1987 Bishop Bird was an editor with Majellan Publications in Melbourne. From 2008 until the announcement of his appointment as Bishop of Ballarat, he served as Redemptorist Provincial with overall responsibility for the communities and missions in Australia, New Zealand, the Philippines, Singapore and Malaysia.

Over the years, Bishop Bird took an active role in parish mission programs. He completed a Master of Arts with a specialisation in liturgy at the Catholic University of America and taught liturgy in Australia and abroad, serving three terms as Director of the Institute of Pastoral Liturgy in Brisbane. He is a member of the National Liturgical Council.

"All through my life, but particularly as a priest, I have had a great love for celebrating the liturgy," says Bishop Bird.

As a Redemptorist, Bishop Bird says he brings with him that spirit and approach to Christian life, which he describes as an emphasis on communicating basic thoughts about the gospel and practical Christian living in simple language.

"I look forward to being with the people of the Diocese," says Bishop Bird. "I see the Bishop as a unifying person, reflecting on the questions people are wrestling with and encouraging a common working together for solutions."

When he was appointed, Bishop Bird was asked to choose a motto. He chose 'Peace be with you', the greeting a bishop usually gives at the beginning of Mass.

"It touches on a lot of what I would like to promote," he says. "I would like to foster a genuine peace amongst people, not only in the Christian community, but throughout society. I hope my basic message as a bishop will be 'Peace be with you'."

Investments

It was a solid year for the investment portfolio despite some late softening of global investment markets, with a return of 13.3% for the year exceeding its benchmark by 0.36% after hedging costs.

The decision to implement a higher than benchmark weighting to shares benefitted the portfolio as we were able to capitalise on solid improvements in both Australian and global investment markets.

CCI continues to implement its derivative hedging program, which protects the portfolio's exposure to equities and the higher returns available from this asset class. The maintenance of the hedging program ensures downside risks are minimised in periods of high volatility.

Our people and culture

We pride ourselves on having a highly engaged team at CCI who understand and believe in the company's vision and mission. We conduct a staff engagement survey every two years and carried out a shorter Pulse Survey in April 2013 to gauge our position following the restructure and rebranding programs.

The results of the Pulse Survey were very pleasing, indicating that, if we were to conduct the full survey now, CCI would outperform our staff engagement objective and would be placed in the 'best employer' category. Renewed effort is underway to ensure we continue to improve in the lead-up to the staff engagement survey in early 2014.

The results of the Pulse Survey also indicated a significant improvement in the way CCI staff perceive the level of leadership within the company. Improving leadership capabilities across the business through workshops, formal training and profiling has been a focus for the past two years which is very encouraging.

Innovation

Following the brand project CCI has built four new websites which deliver significant improvements in navigation, visual capability and functionality. They are the CCI corporate site www.ccinsurance.org.au, Personal Lines www.catholicinsurance.org.au, CCI Asset Management www.cciassetmanagement.org.au and Super Administration www.ccisuperadmin.com.au. Work is scheduled to increase online functionality for all sites over the coming year.

There have also been significant changes to the structure and management of two of CCI's other businesses. CCI Super Administration successfully implemented a number of demanding system changes, including those required under the Federal Government's *Stronger Super* reforms. The changes to our investment business, which coincided with the launch of a new name, CCI Asset Management, are aimed at increasing efficiency and reducing client costs while delivering products more closely aligned with our core Catholic values.

Summary

CCI exists to serve the Church, to provide our expertise and assistance when and how it is needed. Our mutual principles and core values align us with our clients and we are immensely proud of our reputation as a trusted and reliable partner. This position, it could be said, is best reflected in the unique and loyal relationships that exist between our clients and our staff, many of whom have a history with the company spanning several decades.

I would like to take this opportunity to acknowledge the significant contribution made by two long-serving members of the CCI team. State Managers Tony Cassar and Gary Esler celebrated 38 and 40 years of service respectively this year. Tony retired early in 2013 while Gary continues to provide exceptional service and support to our clients in Queensland. You can read more about their time with the company on page 15.

I would also like to extend my thanks to the Board of Directors and our Chairman, Paul Gallagher, for their contribution and support over the year. Thank you also to our Executive Group and our staff for their hard work and commitment.

In closing, to our clients and our shareholders, thank you for your loyalty and support. I look forward to continuing to serve you in the future.

Peter Rush
Chief Executive Officer

Close to a century of CCI service

Tony Cassar and Gary Esler began their careers with CCI barely a year apart. Both progressed through a variety of roles in their respective 38 and 40 years of service, building strong relationships and playing major roles in shaping the company we are today.

Tony, who joined the insurance industry fresh from the seminary, began his relationship with the company while working in another insurer's claims department. CCI was one of his clients.

From his original role as a claims manager in New South Wales, Tony progressed quickly to account service, eventually becoming the Manager of Client Services for the state. He established close, personal relationships with everyone from the Parish Priests, school principals, directors, Bishops and leaders of religious congregations, traveling to every corner of the state.

"It became quite evident very early on that I was in the right career," he says. "For me it was a natural progression in terms of my vocation in life. From a strong desire at a young age to serve God through what I thought God was calling me to, to a very different career serving God in the secular world."

Tony Cassar

Tony left New South Wales to take up the Branch Manager's job in the Australian Capital Territory in 1994. A position he held for nearly 20 years, until his retirement in April 2013.

"It has been a privilege to do this job," says Tony. "The majority of clients we deal with today are lay people but what inspired their predecessors has not changed," he adds. "Every communication with the client is an opportunity to prove yourself. To develop a trusting relationship and always do what you promised you would do – walk the talk."

Gary's first role was as an insurance clerk in Queensland in 1973. He began his career straight from school, or, in short pants, as he describes it.

He worked as a service officer until the late 1980s when the company launched CCI Personal Insurance. He took the opportunity to try something new and commenced a period of his career he describes as immensely rewarding.

Local success with personal insurance, including the establishment of the Parish Benefits program, a pre-curser to Community Assist, led to a promotion and relocation to Melbourne. What followed was a series of roles including National Business Development Manager, Regional Manager for Victoria and Tasmania and Assistant General Manager Client Services.

In 2001, Gary found the offer to spend the later stage of his career as state manager of his home state too attractive. He continues to serve our clients brilliantly as Queensland State Manager.

Gary Esler

"Looking back it is my relationships with clients that have given me the greatest payback," says Gary. "Recent years have seen enormous growth in sectors like education, welfare and health, contrasted by a visible decline in parish life. This has led to more lay involvement and we are seeing Religious Orders re-group into new canonical entities to carry forward their work and charism."

"This can be a very challenging and unsettling process. It requires us to really get close to our clients. To understand what they want to do, provide practical solutions and ensure they have the proper protection in place."

"I have found myself listening very closely and perhaps even sharing their sense of anxiety," says Gary. "My association with many of these people spans 40 years so I have a genuine connection and an interest in what's happening."

We would like to take the opportunity to thank Gary and Tony for their contribution to the company and the Church over the last 40 years. We wish Tony well in his retirement and look forward to working with Gary well into the future.

Our mutual principles and core values align us with our clients and we are immensely proud of our reputation as a trusted and reliable partner.

Directors' report

The Directors of Catholic Church Insurance 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 2013. 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
- J A (Tony) Killen
- Richard M Haddock
- Reverend Brian J Lucas
- Julie-Anne Schafer
- 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

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

Sister Clare T Condon
MPS, GRAD DIP ED ADM, BA, MAICD

Sister Clare joined the Board in October 2004. She is congregational leader of the religious congregation of the Sisters of the Good Samaritan and Chair of the National Professional Standards Committee. 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 Board Remuneration Committee and member of the Audit, Risk Management & Compliance Committee, Directors' Governance Committee and Reinsurance Committee.

Jo Dawson
B.COMM, MBA, CA, CFP, MAICD

Jo 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 director of CCI Asset 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.

Richard M Haddock
A.M., B.A. LL.B

Richard joined the Board in October 2010. He 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. Richard 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 Asset Management Limited.

Special responsibilities held in the company:

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

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

Tony joined the Board in April 2003. He 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 both Equity Trustees Limited and Templeton Global Growth Fund Limited. Tony is also a member of the Diocesan Finance Council of the Archdiocese of Melbourne and Chairman of CCI Asset Management Limited.

Special responsibilities held in the company:

Chairman of the Board 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

Father Brian 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, Adjunct Professor of the Australian Catholic University and a member of the Charities Consultative Committee of the Australian Taxation Office.

Father Brian is also a director of CCI Asset Management Limited.

Special responsibilities held in the company:

Member of the Directors Governance Committee, Audit, Risk Management & Compliance Committee and Investment Committee.

Julie-Anne Schafer

LLB (Hons) GAICD ANZIIF

Julie-Anne joined the board in February 2012. She has extensive legal and corporate experience, including in 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 Board Budget Committee, Directors' Governance Committee and Reinsurance Committee.

Jane A Tongs

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

Jane joined the Board in July 2011. She is presently Chair of the Netwealth Group of Companies, Warakirri Agricultural Trusts and the Australian Prime Property Investor Board. She is a non-executive Director of Warakirri Asset Management Ltd, Warakirri Dairies Pty Ltd, Run Ltd and the Australian Energy Market Operator. Her areas of expertise include risk, financial services, general insurance and funds management. Jane is also a director of CCI Asset Management Limited.

Special responsibilities held in the company:

Chair of the Board Reinsurance Committee and member of the Budget Committee, Investment Committee and Remuneration Committee.

Chief Executive Officer
Peter A Rush
DIP.BUS, ANZIIF, CIP

Peter was appointed General Manager of Catholic Church Insurance in January 1999. Prior to his appointment he had held the position of Manager – Underwriting, Reinsurance and Risk Management with Catholic Church Insurance 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 40 years.

Peter was appointed Chief Executive Officer in 2009 and is also the General Manager of CCI Asset 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

Dominic was appointed as Company Secretary in February 2008. The role is also responsible for the assurance function of the company including governance, corporate risk management, compliance and audit. He has over 19 years' experience in the financial services industry in the areas of general insurance, superannuation and funds management. Dominic commenced his career at Catholic Church Insurance in 1994 and has held various roles in accounting and management including that of Chief Financial Officer.

He is also the Company Secretary of CCI Asset Management Limited.

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 Insurance, under the terms of the agreement, commission on each contract of insurance business entered into by Allianz which was referred by Catholic Church Insurance.

Catholic Church Insurance 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 Asset Management Limited acts as Trustee/manager of the CCI Asset Management trusts. During the current year, CCI Asset Management implemented a new business model (board approval October 2012). The change included a reduction in the number of investment options from 11 to 2.

There have been no other significant changes during the year.

Dividends

In respect of the financial year ended 30 June 2013, the Directors recommend the payment of a final unfranked dividend of $1.176M (2012:$1.176M) to the holders of fully paid ordinary shares on 22 October 2013. The dividend has not been provided for in the 30 June 2013 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.

Ecclesiatical

Directors note with sadness the deaths of:

Most Rev Douglas J Warren – *Bishop Emeritus of Wilcannia-Forbes*

Most Rev William E Murray – *Bishop Emeritus of Wollongong*

Most Rev Joseph P O'Connell – *Auxiliary Bishop Emeritus of Melbourne*

Most Rev William Brennan – *Bishop of Wagga Wagga*

Review of operations

The review of operations has been outlined by the Chief Executive Officer on pages 12 to 14.

Results of Operations

	2013	2012
	$'000	$'000
Consolidated Profit/(Loss)	63,663	2,995

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

Employees

The consolidated entity employed 241 employees as at 30 June 2013 (2012: 238 employees).

Risk management

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.

State and federal inquiries

Important work is being undertaken by the Victorian Parliamentary Inquiry, the Special Commission of Inquiry NSW and the Royal Commission. CCI is the insurer of a number of parties that may be subject to investigation by these inquiries. CCI fully supports the work of each inquiry and has been required to provide data and documentation. The outcomes of these inquiries have not been determined and for that reason the ultimate financial impact on CCI is not known at this stage.

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 Insurance 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, 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' 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).

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.

Directors' meetings

The table on the right sets out the number of meetings of the company's Directors (including meetings of committees of Directors) held during the year ended 30 June 2013 and the number of meetings attended by each Director.

Number of meetings attended by:	Directors' Meetings		Audit, Risk Management & Compliance		Budget	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
P A Gallagher	9	9	4	4	1	1
C T Condon	9	9	4	4	–	–
J Dawson	9	9	4	4	1	1
R Haddock	9	9	–	–	1	1
J A Killen	9	9	–	–	–	–
B J Lucas	9	9	4	4	–	–
J A Schafer	9	7	–	–	1	1
J A Tongs	9	7	–	–	1	1

Number of meetings attended by:	Directors' Governance		Investment	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
P A Gallagher	2	2	–	–
C T Condon	2	2	–	–
J Dawson	–	–	7	7
R Haddock	–	–	7	7
J A Killen	–	–	7	6
B J Lucas	2	2	7	6
J A Schafer	2	1	–	–
J A Tongs	–	–	7	7

Number of meetings attended by:	Reinsurance		Remuneration	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
P A Gallagher	–	–	3	3
C T Condon	2	2	3	3
J Dawson	2	2	–	–
R Haddock	–	–	3	3
J A Killen	–	–	3	3
B J Lucas	–	–	–	–
J A Schafer	2	1	–	–
J A Tongs	2	2	3	3

Auditor's independence declaration

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

Signed in accordance with a resolution of the Directors.

P A Gallagher
Director
Melbourne, 10 September 2013

Auditor's independence declaration

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
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Fax: +61 3 8650 7777
ey.com

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

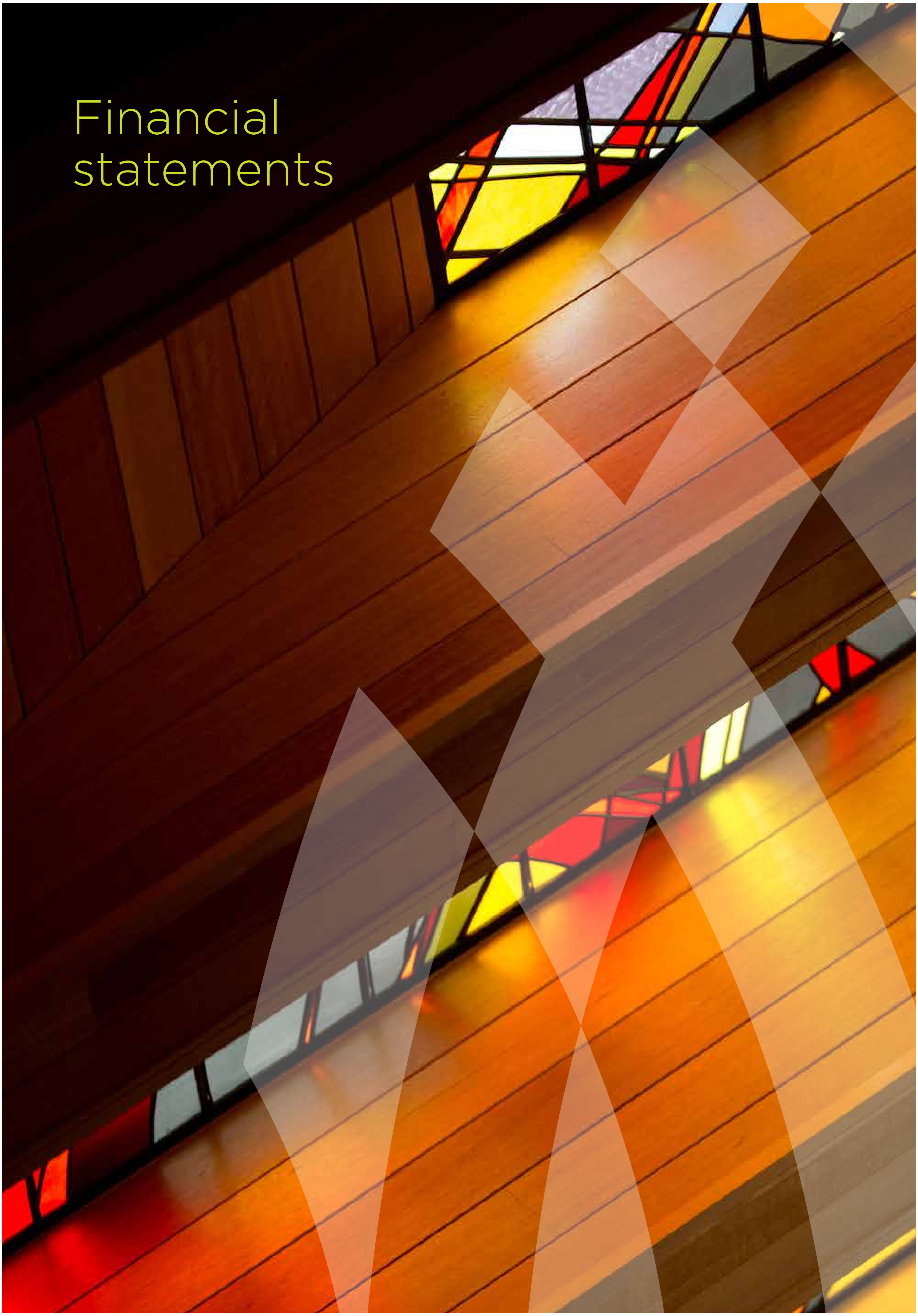
In relation to our audit of the financial report of Catholic Church Insurance Limited for the financial year ended 30 June 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

T M Dring
Partner
10 September 2013

Financial statements



Statement of comprehensive income

For the year ended 30 June

		Consolidated		Company	
	Note	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Premium revenue		209,176	196,380	209,176	196,380
Outwards reinsurance expense		(68,833)	(59,245)	(68,833)	(59,245)
Net premium revenue	7	140,343	137,135	140,343	137,135
Gross claims incurred	8	(127,074)	(117,594)	(127,074)	(117,594)
Reinsurance and other recoveries revenue	9	19,681	33,220	19,681	33,220
Net claims incurred	10	(107,393)	(84,374)	(107,393)	(84,374)
Acquisition costs		(167)	(141)	(167)	(141)
Other underwriting expenses	11	(35,779)	(35,270)	(35,779)	(35,270)
Underwriting expenses		(35,946)	(35,411)	(35,946)	(35,411)
Gross movement in unexpired risk liability	12	–	1,741	–	1,741
Reinsurance recoveries on unexpired risk liability		–	(1,006)	–	(1,006)
Net movement in unexpired risk liability		–	735	–	735
Underwriting result		(2,996)	18,085	(2,996)	18,085
Investment income/(losses)	13	98,740	(178)	98,831	(116)
General administration expenses	11	(18,855)	(17,667)	(17,967)	(16,202)
Catholic entity distributions		(19,950)	(3,933)	(19,950)	(3,933)
Other income		6,724	6,688	6,048	6,031
Profit for the period	14	63,663	2,995	63,966	3,865
Other comprehensive income for this period	14	–	–	–	–
Total comprehensive income for this period	14	63,663	2,995	63,966	3,865

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 2013 $'000	Consolidated 2012 $'000	Company 2013 $'000	Company 2012 $'000
Current Assets					
Cash and cash equivalents	16	26,724	25,528	26,524	25,227
Trade and other receivables	17	112,631	123,871	112,463	123,718
Deferred reinsurance expense	18	24,595	27,241	24,595	27,241
Financial assets at fair value through profit and loss	19	466,805	338,253	466,805	338,253
Tax assets	20	6,772	7,010	6,772	7,010
Other assets	21	8,091	9,334	8,091	9,334
Total Current Assets		645,618	531,237	645,250	530,783
Non-Current Assets					
Trade and other receivables	22	19,883	19,928	21,593	21,428
Financial assets at fair value through profit and loss	23	331,848	337,045	331,848	337,045
Plant and equipment	24	7,052	7,002	7,052	7,002
Intangible assets	25	5,992	5,302	5,992	5,302
Total Non-Current Assets		364,775	369,277	366,485	370,777
TOTAL ASSETS		1,010,393	900,514	1,011,735	901,560
Current Liabilities					
Trade and other payables	26	29,991	34,976	29,984	34,976
Outstanding claims	34	88,537	92,635	88,537	92,635
Unearned premium reserve	35	140,469	132,572	140,469	132,572
Provisions	27	25,164	8,265	25,164	8,265
Tax liabilities	28	13	69	13	69
Other liabilities	29	1,361	435	1,361	435
Total Current Liabilities		285,535	268,952	285,528	268,952
Non-Current Liabilities					
Outstanding claims	34	356,042	325,417	356,042	325,417
Provisions	30	2,316	2,132	2,316	2,132
Total Non-Current Liabilities		358,358	327,549	358,358	327,549
TOTAL LIABILITIES		643,893	596,501	643,886	596,501
NET ASSETS		366,500	304,013	367,849	305,059
Shareholders' Equity					
Contributed equity	32	8,139	8,139	8,139	8,139
Reserves	33	356,194	293,694	356,194	293,694
Retained profit		2,167	2,180	3,516	3,226
TOTAL SHAREHOLDERS' EQUITY		366,500	304,013	367,849	305,059

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 $'000	General Reserves $'000	Retained Earnings $'000	Total $'000
Consolidated				
At 1 July 2011	8,139	292,650	1,405	302,194
Net profit 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
At 1 July 2012	8,139	293,694	2,180	304,013
Net profit for the period	–	–	63,663	63,663
Transfer to reserves	–	62,500	(62,500)	–
Dividend for 2012 ($0.40 cents per share)	–	–	(1,176)	(1,176)
At 30 June 2013	8,139	356,194	2,167	366,500

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

	Contributed Equity $'000	General Reserves $'000	Retained Earnings $'000	Total $'000
Company				
At 1 July 2011	8,139	292,650	1,581	302,370
Net profit 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
At 1 July 2012	8,139	293,694	3,226	305,059
Net profit for the period	–	–	63,966	63,966
Transfer to reserves	–	62,500	(62,500)	–
Dividend for 2012 ($0.40 cents per share)	–	–	(1,176)	(1,176)
At 30 June 2013	8,139	356,194	3,516	367,849

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

		Consolidated		Company	
	Note	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Cash flows from operating activities					
Premiums received		192,730	187,731	192,730	187,731
Outwards reinsurance paid		(65,882)	(62,840)	(65,882)	(62,840)
Claims paid		(100,546)	(103,782)	(100,546)	(103,782)
Reinsurance and other recoveries received		28,003	30,612	28,003	30,612
Acquisition costs paid		(166)	(140)	(166)	(140)
Other underwriting expenses paid		(17,269)	(18,701)	(17,269)	(18,701)
Other operating expenses paid		(18,000)	(16,496)	(17,105)	(15,059)
Other operating income received		7,609	7,482	6,724	5,825
Interest received		19,128	14,121	19,219	14,183
Dividends received		25,575	29,726	25,575	29,724
Total cash flows from/(used in) operating activities	40	71,182	67,713	71,283	67,553
Cash flows from investing activities					
Investment trading		(61,561)	(52,496)	(61,561)	(52,494)
Payments for plant and equipment		(1,629)	(968)	(1,629)	(969)
Proceeds from sale of plant and equipment		806	683	806	683
Payments for intangibles		(1,905)	(2,646)	(1,905)	(2,646)
Total cash flows from/(used in) investing activities		(64,289)	(55,427)	(64,289)	(55,426)
Cash flows from financing activities					
Dividends paid		(1,176)	(1,176)	(1,176)	(1,176)
Catholic entity distributions		(4,521)	(23,738)	(4,521)	(23,738)
Total cash flows from/(used in) financing activities		(5,697)	(24,914)	(5,697)	(24,914)
Net increase/(decrease) in cash held		1,196	(12,628)	1,297	(12,787)
Cash and cash equivalents at 1 July		25,528	38,156	25,227	38,014
Cash and cash equivalents at 30 June	16	26,724	25,528	26,524	25,227

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 2013

1. Corporate Information

The consolidated financial report of Catholic Church Insurance Limited (the company) for the year ended 30 June 2013 was authorised for issue in accordance with a resolution of the Directors on 10 September 2013.

Catholic Church Insurance 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 2013 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 10	Consolidated Financial Statements	AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and UIG-112 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 this and other standards via AASB 2011-7 and AASB 2012-10.	1 January 2013	These amendments will have no direct impact on the amounts included in the company's financial statements.	1 July 2013
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, 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 13 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	CCI will be moving from bid price to last traded price. This is expected to have a minimal effect on the investment portfolio.	1 July 2013

Reference	Title	Summary	Application date of standard	Impact on CCI financial report	Application date for CCI
AASB 119	Employee Benefits	The main change introduced by this standard is to revise the accounting for defined benefit plans. 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
AASB 2012-5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle	AASB 2012-5 makes amendments resulting from the 2009-2011 Annual Improvements Cycle. The standard addresses a range of improvements, including the following: ◆ Repeat application of AASB 1 is permitted (AASB 1) ◆ Clarification of the comparative information requirements when an entity provides a third balance sheet (AASB 101 Presentation of Financial Statements).	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 c. Public sector entities other than the Australian Government and State, Territory and Local governments. Consequential amendments to other standards to implement the regime were introduced by AASB 2010-2, 2011-2, 2011-6, 2011-11, 2012-1, 2012-7 and 2012-11.	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 2012-3	Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities	AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.	1 January 2014	These amendments will have no direct impact on the amounts included in the company's financial statements.	1 July 2014
Interpretation 21	Levies	This Interpretation confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs. Applying the going concern assumption does not create a constructive obligation.	1 January 2014	These amendments will have no direct impact on the amounts included in the company's financial statements.	1 July 2014

Reference	Title	Summary	Application date of standard	Impact on CCI financial report	Application date for CCI
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below. a. Financial assets that are debt instruments will be 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. b. 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. d. Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: ◆ The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ◆ The remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Further amendments were made by AASB 2012-6 which amends the mandatory effective date to annual reporting periods beginning on or after 1 January 2015. AASB 2012-6 also modifies the relief from restating prior periods by amending AASB 7 to require additional disclosures on transition to AASB 9 in some circumstances. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.	1 January 2015	These amendments will have no direct impact on the amounts included in the company's financial statements.	1 July 2015

d) Basis of consolidation

The financial report covers the consolidated entity of Catholic Church Insurance Limited and its controlled entity CCI Asset 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.

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 on an ex-dividend date. 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 service levy and other charges

A liability for fire service levy 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 2013, Catholic Church Insurance 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.

Collateral debt obligation (CDO) investments

CDOs are normally floating rate debt securities that pay a margin over the 90 day bank bill rate. They pay a higher return compared with similarly rated securities in exchange for a higher risk profile. They are complex structured products typically arranged by investment banks with a range of tranches that are independently rated by a credit ratings organisation.

The performance of an investment in a CDO security is linked to the credit risk of an underlying portfolio of corporate debt. The tenor of CDO securities typically ranges from 3 to 7 years. CDOs can have different credit risk profiles such that it is possible that if only a few of the underlying portfolio of securities (often in excess of 100) default over the life of the CDO, investors will receive their capital back in full. If more than a handful default, investor's capital may be at risk. The more companies that default, the higher the probability of investors losing capital.

As at 30 June 2013, CCI held one CDO in its investment portfolio. It was announced on the 7th May 2013 that the underlying assets of this CDO was substituted with Australian Government bonds. As a result, the fair value of the CDO was determined based on the market price of the government bond as at 30 June 2013.

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 $104,000 (2012: $116,000) or increase the fair value by $104,000 (2012: $116,000).

Unlisted property assets

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

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

(iii) **Hierarchy**

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

- Quoted prices (unadjusted) in active markets for identifiable assets or liabilities (Level 1)
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2) 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 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:

	2013	2012
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.

z) Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specified amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

The Bank purchases and sells options through regulated exchanges and in the over-the-counter markets. Options purchased by the Bank provide the Bank with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Bank is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Options written by the Bank provide the purchaser the opportunity to purchase from or sell to the Bank the underlying asset at an agreed-upon value either on or before the expiration of the option.

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. Claims experience is analysed based on averages paid per claim incurred (PPCI) method, the projected case estimate (PCE) method and the Incurred Claim Development (ICD) 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 under the PPCI method, 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. The claims inflation including superimposed is implicitly included in the ICD and PCE methods. However under all methods the projected payments are discounted to allow for the time value of money.

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

Professional Indemnity

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

Discounting is also applied for this long tail class.

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 and impact of discounting.

a) Actuarial assumptions

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

2013	Short-Tail	Public Liability	Professional Indemnity	Workers' Compensation
Average weighted term to settlement (discounted)	Less than 1 year	5.4 years	8.0 years	4.2 years
Inflation	0.00%	3.25%	3.25%	3.25%
Superimposed inflation	0.00%	2.00%	5.00%	2.00%
Discount rate	0.00%	3.50%	3.50%	3.50%
Expense rate	6.00%	6.00%	6.00%	6.00%
Risk margin	9.90%	12.50%	16.00%	9.00%
2012				
Average weighted term to settlement (discounted)	Less than 1 year	5.2 years	7.7 years	5.4 years
Inflation	0.00%	2.50%	2.50%	2.50%
Superimposed inflation	0.00%	5.00%	5.00%	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%

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			
Average weighted term to settlement (years)	+0.5	(4,365)	(4,076)	(4,365)	(4,076)
	-0.5	4,464	4,170	4,464	4,170
Inflation and superimposed assumption	+1%	14,588	14,289	14,588	14,289
	-1%	(13,586)	(13,316)	(13,586)	(13,316)
Discount rate	+1%	(17,741)	(17,134)	(17,741)	(17,134)
	-1%	19,313	18,649	19,313	18,649
Expense rate	+1%	4,211	4,211	4,211	4,211
	-1%	(4,211)	(4,211)	(4,211)	(4,211)
Risk margins	+1%	3,999	3,694	3,999	3,694
	-1%	(3,999)	(3,694)	(3,999)	(3,694)
Average claim size	+10%	17,685	17,685	17,685	17,685
	-10%	(17,685)	(17,685)	(17,685)	(17,685)

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.

a) 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.

	2013	2012
Premium revenue	$'000	$'000
Commercial property	78,219	71,958
Domestic property	799	796
Motor	10,412	9,723
Marine and aviation	37	62
Professional indemnity	10,617	10,030
Public liability	33,953	32,815
Workers' compensation	63,413	59,627
Travel	132	126
Other	11,594	11,243
	209,176	196,380

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.

b) 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.

c) 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.

d) 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 15.7% of our total investment portfolio with currency risk managed by the fund manager. Catholic Church Insurance manages foreign currency by asset allocation, diversification and fund manager selection. The selection of fund managers considers 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 Insurance invests in floating rate and fixed interest financial instruments. Interest rate movements expose Catholic Church Insurance 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 Insurance 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 Insurance 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 Insurance 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
2013							
Consolidated							
Cash and cash equivalents	4	24,326	–	2,051	–	343	26,724
Interest bearing investments[1]	115,400	163,032	20,618	15,696	1,035	6,978	322,759
Reinsurance & other recoveries[2]	–	25,822	10,144	175	2,559	–	38,700
Loans receivable[3]	–	–	–	–	–	168	168
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
Loans receivable[3]	–	–	–	–	–	205	205
Financial Assets – warrants	–	–	–	–	–	6,106	6,106

[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 $200,000 for the current year and $301,000 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
2013						
Consolidated						
Premiums receivable	76,914	5,276	4,869	53	6	87,118
Reinsurance & other recoveries[1]	31,484	3,520	982	83	1,193	37,262
Loans receivable	168	–	–	–	–	168
Tax assets	6,772	–	–	–	–	6,772
Other receivables[2]	8,135	–	–	–	–	8,135
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

[1] Includes reinsurance and other recoveries on outstanding claims, reinsurance commission's 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 $168,000 for the current year and $153,000 for the prior year.

Catholic Church Insurance 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 Insurance 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 Insurance has a strong liquidity position with no interest bearing debt.

At 30 June 2013, the mean term to maturity of fixed interest securities was 2.9 years (2012: 3.9 years).

Catholic Church Insurance 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
2013					
Consolidated & Company					
Trade and other payables	–	29,990	–	–	29,990
Financial Liabilities – options	1,361	–	–	–	1,361
2012					
Consolidated & Company					
Trade and other payables	–	34,976	–	–	34,976
Financial Liabilities – options	435	–	–	–	435

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 +/-			
		2013 Net profit (loss)	2013 Equity	2012 Net profit (loss)	2012 Equity
Market risk	Movement in variable	$'000	$'000	$'000	$'000
Interest rate	2%+/-	17,933/(17,933)	17,933/(17,933)	23,812/(23,812)	23,812/(23,812)
Equities	10%+/-	28,202/(28,202)	28,202/(28,202)	20,356/(20,356)	20,356/(20,356)

	Consolidated		Company	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
7. Net premium revenue				
Direct	194,889	180,624	194,889	180,624
Fire service levies	14,287	15,756	14,287	15,756
Premium revenue	209,176	196,380	209,176	196,380
Outwards reinsurance premiums	(68,833)	(59,245)	(68,833)	(59,245)
Net premium revenue	140,343	137,135	140,343	137,135
8. Gross claims incurred				
Direct	127,074	117,594	127,074	117,594
9. Reinsurance and other recoveries revenue				
Reinsurance and other recoveries	19,681	33,220	19,681	33,220

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.

	2013			2012		
	Current Year	Prior Years	Total	Current Year	Prior Years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Direct business						
Gross claims incurred and related expenses - undiscounted	107,709	49,074	156,783	105,420	(50,633)	54,786
Reinsurance and other recoveries - undiscounted	(18,851)	(2,516)	(21,367)	(19,957)	(11,107)	(31,064)
Net claims incurred - undiscounted	88,858	46,558	135,416	85,462	(61,740)	23,722
Discount and discount movement - gross claims incurred	(20,458)	(9,251)	(29,709)	(12,586)	75,393	62,807
Discount and discount movement – reinsurance and other recoveries	10,448	(8,762)	1,686	6,695	(8,851)	(2,156)
Net discount movement	(10,010)	(18,013)	(28,023)	(5,890)	66,542	60,651
Net claims incurred	78,848	28,545	107,393	79,572	4,801	84,374

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

	Consolidated		Company	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
11. Other underwriting and general administration expenses				
Expenses by function:				
Levies and charges	18,091	14,374	18,091	14,374
Administration expenses	30,746	28,935	30,746	28,935
Reinsurance commission	(13,058)	(8,039)	(13,058)	(8,039)
Other underwriting expenses	35,779	35,270	35,779	35,270
Investment expenses	950	797	950	797
Marketing expenses	937	556	937	556
Lease expenses	2,056	1,701	2,046	1,681
Depreciation charges (note 24)	1,319	1,505	1,319	1,505
Information technology expenses	2,594	2,594	2,594	2,594
Employee expenses	7,748	5,959	7,432	5,586
Other expenses	3,251	4,555	2,689	3,483
General administration expenses	18,855	17,667	17,967	16,202

	Consolidated		Company	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
12. Unexpired risk liability				
a) **Unexpired risk liability**				
Unexpired risk liability as at 1 July	–	(1,741)	–	(1,741)
Recognition of additional unexpired risk liability in the period	–	1,741	–	1,741
Gross unexpired risk liability as at 30 June	–	–	–	–
b) **Deficiency recognised in the statement of comprehensive income**				
Gross unexpired risk liability	–	–	–	–
Reinsurance recoveries (expense) on unexpired risk liability	–	–	–	–
Net unexpired risk liability	–	–	–	–
Write down of deferred acquisition costs	–	–	–	–
Total deficiency recognised in the statement of comprehensive income	–	–	–	–

c) Deficiency recognised in the statement of comprehensive income

Year ended 30 June 2013

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.

	Consolidated		Company	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
13. Investment income/(expenses)				
Dividend income	25,324	25,379	25,324	25,379
Interest income	18,987	16,509	19,078	16,571
Changes in fair value				
- Unrealised gains/(losses) on investments	43,959	(9,980)	43,959	(9,980)
- Realised gains/(losses) on investments	10,470	(32,086)	10,470	(32,086)
	98,740	(178)	98,831	(116)
14. Operating profit				
Gross written premiums	213,910	204,943	213,910	204,943
Unearned premium movement	(4,734)	(8,563)	(4,734)	(8,563)
Gross earned premium	209,176	196,380	209,176	196,380
Outward reinsurance expense	(68,833)	(59,245)	(68,833)	(59,245)
Net earned premium	140,343	137,135	140,343	137,135
Gross claims incurred	(127,074)	(117,594)	(127,074)	(117,594)
Reinsurance and other recoveries	19,681	33,220	19,681	33,220
Net claims incurred	(107,393)	(84,374)	(107,393)	(84,374)
Acquisition costs	(167)	(141)	(167)	(141)
Net movement in unexpired risk liability	–	735	–	735
Underwriting expenses	(35,779)	(35,270)	(35,779)	(35,270)
	(143,339)	(119,050)	(143,339)	(119,050)
Underwriting profit/(loss)	**(2,996)**	**18,085**	**(2,996)**	**18,085**
Dividend income	25,324	25,379	25,324	25,379
Interest income	18,987	16,509	19,078	16,571
Changes in fair value:				
- Unrealised gains/(losses) on investments	43,959	(9,980)	43,959	(9,980)
- Realised gains/(losses) on investments	10,470	(32,086)	10,470	(32,086)
Other income	6,724	6,688	6,048	6,031
Investment and other income	105,464	6,510	104,879	5,915
General administration expenses	(18,855)	(17,667)	(17,967)	(16,202)
Catholic entity distributions	(19,950)	(3,933)	(19,950)	(3,933)
Profit from ordinary activities	**63,663**	**2,995**	**63,966**	**3,865**

	Consolidated		Company	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
15. Dividends paid and proposed				
Declared and paid during the year:				
Dividends on ordinary shares: Final unfranked dividend for 2012: $0.40 cents (2011: $0.40 cents)	1,176	1,176	1,176	1,176
Proposed for approval at AGM (not recognised as a liability as at 30 June):				
Dividends on ordinary shares: Final unfranked dividend for 2013: $0.40 cents (2012: $0.40 cents)	1,176	1,176	1,176	1,176

	Consolidated		Company	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
16. Cash and cash equivalents				
Cash and cash equivalents comprises:				
- Cash on hand	3	3	2	2
- Cash at call	26,721	25,525	26,522	25,225
	26,724	25,528	26,524	25,227
Reconciliation of cash Cash at the end of the financial year as shown in the Cash Flow Statement is reconciled to items in the Balance Sheet as follows:				
– Cash	26,724	25,528	26,524	25,227
	26,724	25,528	26,524	25,227

The consolidated entity has a combined bank overdraft facility of $150,000 (2012: $150,000). This facility was unused at 30 June 2013.

	Consolidated		Company	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
17. Trade and other receivables (current)				
Premiums receivable (i)	87,118	79,239	87,118	79,239
Reinsurance commissions receivable (ii)	(192)	(190)	(192)	(190)
Reinsurance and other recoveries on outstanding claims and claims paid (iii)	22,855	30,169	22,855	30,169
Provision for doubtful debts on reinsurance recoveries	(5,284)	(4,322)	(5,284)	(4,322)
	17,571	25,847	17,571	25,847
Investment income accrued (iv)	7,439	7,276	7,439	7,276
Sundry debtors (v)	695	11,699	527	11,546
	112,631	123,871	112,463	123,718

The current period balance of premiums receivable includes $55.056 million (2012: $51.894 million) relating to the renewal of workers' compensation premiums expiring at 4pm 30 June 2013.

(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	27,241	25,723	27,241	25,723
Reinsurance premiums written during the year	83,731	76,022	83,731	76,022
Reinsurance premiums earned during the period	(86,377)	(74,504)	(86,377)	(74,504)
Deferred reinsurance expense as at 30 June	24,595	27,241	24,595	27,241

The current period balance of deferred reinsurance expense includes $3.523 million (2012: $4.997 million) relating to the renewal of workers' compensation premiums expiring at 4pm 30 June 2013.

	Consolidated		Company	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
19. Fair value of financial assets (current)				
- Government and semi-government bonds	12,284	4,021	12,284	4,021
- Other fixed interest securities	4,493	8,302	4,493	8,302
- Shares in other corporations	284,841	203,556	284,841	203,556
- Units in other unit trusts	126,348	81,705	126,348	81,705
- Units in property unit trusts	38,839	40,669	38,839	40,669
Total current investments	466,805	338,253	466,805	338,253
20. Tax assets				
Imputation credits	5,259	5,814	5,259	5,814
Deferred GST refund	1,513	1,196	1,513	1,196
	6,772	7,010	6,772	7,010
21. Other current assets				
Deferred fire service levy expenses	6,747	7,495	6,747	7,495
Other assets	1,344	1,839	1,344	1,839
	8,091	9,334	8,091	9,334
22. Trade and other receivables (non-current)				
Reinsurance and other recoveries on outstanding claims and claims paid	19,883	19,928	19,883	19,928
Loan to subsidiary (note 37)	–	–	1,710	1,500
	19,883	19,928	21,593	21,428

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 2013 $'000	Consolidated 2012 $'000	Company 2013 $'000	Company 2012 $'000
23. Fair value of financial assets (non-current)				
- Government and semi-government bonds	234,044	239,048	234,044	239,048
- Other fixed interest securities	71,938	69,886	71,938	69,886
- Financial asset-warrants	–	6,106	–	6,106
- Units in other unit trusts	25,698	21,799	25,698	21,799
- Loans - secured	168	206	168	206
Total non-current investments	331,848	337,045	331,848	337,045

24. Plant and equipment

	Consolidated				
	Motor Vehicles	Office Equipment	Computer Equipment	Leasehold Improvements	Total
Year ended 30 June 2013	$'000	$'000	$'000	$'000	$'000
Gross carrying amount					
Balance at 1 July 2012	2,429	5,125	8,715	4,546	20,815
Additions	760	37	477	355	1,629
Disposals	(839)	–	–	–	(839)
Balance at 30 June 2013	2,350	5,162	9,192	4,901	21,605
Accumulated depreciation					
Depreciation charge for the year	(348)	(238)	(269)	(464)	(1,319)
Accumulated depreciation	(541)	(3,655)	(8,120)	(918)	(13,234)
Balance at 30 June 2013	(889)	(3,893)	(8,389)	(1,382)	(14,553)
Net carrying amount at 30 June 2013	1,461	1,269	803	3,519	7,052

There has been no change to depreciation rates or useful lives at 30 June 2013.
The balance of plant and equipment for the consolidated entity is the same as the company.

Year ended 30 June 2012					
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

25. Intangible assets

Consolidated

Year ended 30 June 2013

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

	Computer Software $'000
Gross carrying amount	
Balance at 1 July 2012 net of accumulated amortisation	7,243
Additions	1,905
Disposals	–
Balance at 30 June 2013	9,148
Accumulated amortisation	
Amortisation charge for the year	(1,214)
Accumulated amortisation	(1,942)
Balance at 30 June 2013	(3,156)
Net carrying amount at 30 June 2013	5,992

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 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	4,596
Additions	2,646
Disposals	–
Balance at 30 June 2012	7,243
Accumulated amortisation	
Amortisation charge for the year	(1,093)
Accumulated amortisation	(849)
Balance at 30 June 2012	(1,942)
Net carrying amount at 30 June 2012	5,302

	Consolidated		Company	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
26. Trade and other payables (current)				
Trade creditors	20,833	23,543	20,833	23,543
Accrued expenses	2,952	1,803	2,945	1,803
Sundry creditors	6,206	9,630	6,206	9,630
	29,991	34,976	29,984	34,976

The current period balance of the trade creditors includes $3.523 million (2012: $4.997 million) relating to the renewal of workers' compensation premiums expiring at 4pm 30 June 2013.

	Consolidated 2013 $'000	Consolidated 2012 $'000	Company 2013 $'000	Company 2012 $'000
27. Provisions (current)				
Catholic entity distributions	20,586	4,572	20,586	4,572
Risk management	–	13	–	13
Employee benefits	4,578	3,680	4,578	3,680
	25,164	8,265	25,164	8,265

Catholic entity distributions

Catholic Church Insurance 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 Insurance 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 2013 $'000	Consolidated 2012 $'000	Company 2013 $'000	Company 2012 $'000
28. Tax liabilities				
GST provision	13	69	13	69

	Consolidated			
	Actual 2013	Actual 2012	Notional 2013	Notional 2012
29. Other liabilities (current)				
Financial liability – options	770	435	5,201	20,908
Financial liability – futures	591	–	93,871	–
	1,361	435	99,072	20,908

	Company			
	Actual 2013	Actual 2012	Notional 2013	Notional 2012
Financial liability – options	770	435	5,201	20,908
Financial liability – futures	591	–	93,871	–
	1,361	435	99,072	20,908

	Consolidated		Company	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
30. Provisions (non-current)				
Employee benefits	901	897	901	897
Make good of premises	1,415	1,235	1,415	1,235
	2,316	2,132	2,316	2,132

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 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 2013					
Carrying amount at 1 July 2012	4,572	14	4,577	1,235	10,398
Additional provisions	20,586	–	1,548	180	22,314
Amounts utilised during the year	(4,565)	–	(646)	–	(5,211)
Reversal of unused provision	(7)	(14)	–	–	(21)
Carrying amount at 30 June 2013	20,586	–	5,479	1,415	27,480
Current (note 27)	20,586	–	4,578	–	25,164
Non-current (note 30)	–	–	901	1,415	2,316
	20,586	–	5,479	1,415	27,480
Year ended 30 June 2012					
Carrying amount at 1 July 2011	23,805	37	4,863	1,235	29,940
Additional provisions	4,572	–	409	–	4,981
Amounts utilised during the year	(23,805)	(18)	(695)	–	(24,518)
Reversal of unused provision	–	(5)	–	–	(5)
Carrying amount at 30 June 2012	4,572	14	4,577	1,235	10,398
Current (note 27)	4,572	14	3,680	–	8,266
Non-current (note 30)	–	–	897	1,235	2,132
	4,572	14	4,577	1,235	10,398

	Consolidated		Company	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
32. Contributed equity				
Authorised 10,000,000 ordinary shares of $2.00 each	20,000	20,000	20,000	20,000
Ordinary shares issued & paid-up 2,939,676 (2012: 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	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
33. Reserves				
(a) **Composition**				
General reserve	356,194	293,694	356,194	293,694
	356,194	293,694	356,194	293,694
(b) **Movements**				
General reserve				
Opening balance	293,694	292,650	293,694	292,650
Transfers to and from retained profits	62,500	1,044	62,500	1,044
Closing balance	356,194	293,694	356,194	293,694

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.

		Consolidated		Company	
		2013 $'000	2012 $'000	2013 $'000	2012 $'000
34. Outstanding claims liability					
(a) **Outstanding claims liability**					
Undiscounted central estimate	(A)	461,115	414,077	461,115	414,077
Discount to present value		(82,118)	(52,450)	(82,118)	(52,450)
		378,997	361,627	378,997	361,627
Claims handling costs	(B)	22,637	17,936	22,637	17,936
		401,634	379,563	401,634	379,563
Risk margin	(C)	42,945	38,489	42,945	38,489
Gross outstanding claims liability – discounted		444,579	418,052	444,579	418,052
Gross claims liability – undiscounted	(A)+(B)+(C)	526,697	470,502	526,697	470,502
Current		88,537	92,635	88,537	92,635
Non-current		356,042	325,417	356,042	325,417
Total		444,579	418,052	444,579	418,052

(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	2013 %	2012 %
Short-tail	9.9	9.7
Professional indemnity	16.0	16.0
Public liability	12.5	12.4
Workers' compensation	9.0	9.0

(c) Reconciliation of movement in discounted outstanding claims liability

	Gross $'000	Reinsurance $'000	Net $'000
2013			
Brought forward	418,052	41,960	376,092
Effect of changes in assumptions	29,750	2,191	27,559
Increase in claims incurred/recoveries anticipated over the year	97,218	15,006	82,212
Claim payments/recoveries during the year	(100,441)	(26,948)	(73,493)
Carried forward	444,579	32,209	412,370
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
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.

(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 and workers' compensation.

(i) Gross

Accident year	2007 & prior	2008	2009	2010	2011	2012	2013	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Estimate of ultimate claims cost:								
At end of accident year	582,785	69,164	65,810	63,115	53,814	52,466	60,650	947,804
One year later	560,282	60,892	58,928	50,770	47,613	57,767	–	836,252
Two years later	538,134	54,732	46,675	45,885	47,301	–	–	732,727
Three years later	523,921	41,081	41,668	47,745	–	–	–	654,415
Four years later	537,851	35,571	37,353	–	–	–	–	610,775
Five years later	511,112	37,935	–	–	–	–	–	549,047
Current estimate of cumulative claims cost	589,438	37,935	37,353	47,745	47,301	57,767	60,650	878,189
Cumulative payments	(332,537)	(25,780)	(25,970)	(25,785)	(21,540)	(18,279)	(7,052)	(456,943)
Outstanding claims – undiscounted	256,901	12,155	11,383	21,960	25,761	39,488	53,598	421,246
Discount								(69,138)
Outstanding claims								352,108
Short-tail outstanding claims								23,547
Claims handling expenses								22,637
Risk margins								46,287
Total gross outstanding claims as per the Balance Sheet								444,579

(ii) **Net**

Accident year	2007 & prior $'000	2008 $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	Total $'000
Estimate of ultimate claims cost:								
At end of accident year	505,042	65,752	64,301	62,918	53,484	51,800	58,651	861,948
One year later	476,313	58,596	57,827	49,610	46,988	55,384	–	744,718
Two years later	452,069	52,841	45,987	44,674	46,684	–	–	642,255
Three years later	432,023	39,127	41,390	42,056	–	–	–	554,596
Four years later	463,406	34,566	37,114	–	–	–	–	535,086
Five years later	433,084	36,934	–	–	–	–	–	470,018
Current estimate of cumulative claims cost	503,824	36,934	37,114	42,056	46,684	55,384	58,651	780,647
Cumulative payments	(254,947)	(24,915)	(25,798)	(25,627)	(21,365)	(18,126)	(7,023)	(377,801)
Outstanding claims – undiscounted	248,877	12,019	11,316	16,429	25,319	37,258	51,628	402,846
Discount								(66,774)
Outstanding claims								336,072
Short-tail outstanding claims								10,714
Claims handling expenses								22,637
Risk margins								42,947
Total net outstanding claims as per the Balance Sheet								412,370

	Consolidated		Company	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
35. Unearned premium reserve				
Unearned premium liability as at 1 July	132,572	120,231	132,572	120,231
Deferral of premiums on contracts written in the period	168,807	163,375	168,807	163,375
Earning of premiums written in current and previous periods	(160,910)	(151,034)	(160,910)	(151,034)
Unearned premium liability as at 30 June	140,469	132,572	140,469	132,572

The current period balance of the unearned premium reserve includes $55.056 million (2012: $51.894 million) relating to the renewal of Workers' Compensation premiums expiring at 4pm on 30 June 2013.

36. Director and executive disclosures

(a) Details of key management personnel

(i) Directors

The names of persons who were Directors of Catholic Church Insurance 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)
R M Haddock	Director (non-executive)
J A Killen	Director (non-executive)
B J Lucas	Director (non-executive)
J A Schafer	Director (non-executive)
J A Tongs	Director (non-executive)
P A Rush	Alternate Director for B J Lucas

(ii) Executives

P Rush	Chief Executive Officer
D Chila	Company Secretary
D Muscari	Chief Financial Officer
C Nettleton	Chief Operating Officer
R Redlich	Head of Superannuation
I Smith	Chief Investment Officer
N Smith	Information, Communication and Technology Manager
D Trevorah	Head of Strategy and Brand – Appointed 23 October 2012

(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	
	2013	2012	2013	2012
	$	$	$	$
Directors				
Short-term	362,252	350,128	310,027	299,669
Post employment	29,100	26,342	24,400	21,801
	391,352	376,470	334,427	321,470

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

	Consolidated		Company	
	2013	2012	2013	2012
	$	$	$	$
Executives				
Short-term	3,073,598	3,072,734	3,073,598	3,072,734
Post employment	148,663	190,776	148,663	190,776
Other long-term	110,215	150,083	110,215	150,083
Termination benefits	–	1,385	–	1,385
	3,332,476	3,414,978	3,332,476	3,414,979

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 Insurance 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 2013	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
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	1,250	–	1,250
Total	9,750	–	9,750
Year ended 30 June 2012			
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	1,250	–	1,250
Total	9,750	–	9,750

(d) Loans to key management personnel

There are no loans to key management personnel.

	Consolidated		Company	
	2013	2012	2013	2012
	$	$	$	$
37. Related parties				
Wholly owned group transactions				
The entities within the wholly owned group are Catholic Church Insurance Limited (consolidated entity), and CCI Asset Management Limited (subsidiary). Catholic Church Insurance Limited is the ultimate parent entity.				
The company provided loans to its subsidiary totalling $1,710,000 (2012: $1,500,000) with no fixed repayment date.				
Balance of loan to subsidiary	–	–	1,710,000	1,500,000
The Company have also provided a guarantee of continued financial support to CCI Asset Management Limited up until 30 September 2014 in the amount of $2,500,000 (2012: $2,500,000).				
Catholic Church Insurance Limited has invested funds into the investment trusts managed by its subsidiary under normal terms and conditions.				
Market value of investment in Catholic Values Unit Trust.	–	–	25,697,473	21,798,541
Expenses charged to CCI Asset Management Limited.	–	–	979,874	1,528,378
Balance of intercompany payables from CCI Asset Management Limited.	–	–	88,884	104,624

	Consolidated		Company	
	2013	2012	2013	2012
	$	$	$	$
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	268,513	171,550	193,735	159,150
(b) other services in relation to the entity and any other entity in the consolidated entity				
– Taxation services	–	–	–	–
– Other services	97,829	87,818	97,829	87,818
Total other services	97,829	87,818	97,829	87,818

	Consolidated		Company	
	2013	2012	2013	2012
	$	$	$	$
39. Expenditure commitments				
Operating lease expenditure commitments:				
– Within one year	4,059	3,970	4,059	3,970
– After one year but not more than five years	14,881	11,027	14,881	11,207
– More than five years	4,098	10,744	4,098	10,744
	23,038	25,921	23,038	25,921
Lease payments recognised as an expense in the period				
Minimum lease payment	2,382	2,172	2,373	2,151
Contingent rents	(326)	(471)	(327)	(471)
	2,056	1,701	2,046	1,680

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	
	2013	2012	2013	2012
	$'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	63,663	2,995	63,966	3,865
Changes in net market value of investments	(54,035)	44,025	(54,035)	44,025
Depreciation of assets	1,319	1,506	1,308	1,489
Amortisation of intangible assets	1,214	1,093	1,214	1,092
Changes in grants and Catholic Entity Distributions	20,536	4,504	20,536	4,504
Profit/(loss) on sale of assets	33	66	33	66
Changes in assets and liabilities				
Increase/(decrease) in unearned premium	7,898	12,342	7,898	12,342
(Increase)/decrease in premiums receivable	(7,879)	(5,866)	(7,879)	(5,866)
(Increase)/decrease in reinsurance and other recoveries receivable on outstanding claims	8,321	110	8,321	110
(Increase)/decrease in reinsurance payables	1,091	(5,309)	1,091	(5,309)
Increase/(decrease) in outstanding claims	26,528	13,811	26,528	13,811
(Increase)/decrease in acquisition costs	–	–	–	–
(Increase)/decrease in statutory charge asset	747	(1,601)	747	(1,601)
Increase/(decrease) in GST tax provision	(372)	542	(372)	542
Increase/(decrease) in other provisions and sundry debtors	2,118	(505)	1,927	(1,517)
Cash flow from operating activities	71,182	67,713	71,283	67,553

41. Controlled entities

Name of entity	Country of incorporation	Ownership interest		Investment	
		2013	2012	2013	2012
		%	%	$'000	$'000
Parent entity					
Catholic Church Insurance Limited	Australia	–	–	–	–
Controlled entity					
CCI Asset Management Limited	Australia	100	100	–	–

The shares held in CCI Asset 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 prudential capital requirement (PCR) of licensed insurers. The PCR 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 PCR of Catholic Church Insurance Limited applying consolidation principles to the prudential standards is as follows:

	Company	
	2013	2012
	$'000	$'000
Tier 1 capital		
Paid-up ordinary shares	8,139	8,139
General reserves	356,194	292,650
Retained earnings at end of reporting period	3,515	4,207
Premium liability surplus	23,791	21,376
Net tier 1 capital	391,639	326,372
Less net intangible assets	5,992	5,301
Less assets under a fixed or floating charge	6,369	–
Total capital base	379,278	321,071
Minimum capital requirement	199,513	168,275
Solvency coverage	1.90	1.91

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.

2013	Average Interest Rate %	Variable Interest $'000	Less than 1 Year $'000	1 to 5 Years $'000	More than 5 Years $'000	Non-Interest Bearing $'000	Total $'000
	Fixed Interest Rate Maturity – Consolidated						
Financial assets							
Cash assets	3.29	26,721				3	26,724
Receivables and other						132,514	132,514
Government and semi-government loans	5.48			184,113	62,214		246,327
Other fixed interest securities	5.16		4,493	46,440	25,498		76,431
Loans	5.00			168			168
Shares, options & trusts						466,307	466,307
Preference shares			9,419				9,419
Convertible notes							
Total		26,721	13,912	230,721	87,712	598,824	957,890
Financial liabilities							
Trade and sundry creditors						29,991	29,991
Exchange traded options						770	770
Total						30,761	30,761

2013	Average Interest Rate %	Variable Interest $'000	Less than 1 Year $'000	1 to 5 Years $'000	More than 5 Years $'000	Non-Interest Bearing $'000	Total $'000
	Fixed Interest Rate Maturity – Parent						
Financial assets							
Cash assets	3.29	26,522				2	26,524
Receivables and other						134,056	134,056
Government and semi-government loans	5.48			184,113	62,214		246,327
Other fixed interest securities	5.16		4,493	46,440	25,498		76,431
Loans	5.00			168			168
Shares, options & trusts						466,307	466,307
Preference shares			9,419				9,419
Exchange traded options							
Total		26,522	13,912	230,721	87,712	600,365	959,232
Financial liabilities							
Trade and sundry creditors						29,984	29,984
Exchange traded options						770	770
Total						30,754	30,754

2012	Fixed Interest Rate Maturity – Consolidated						
	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		78,188
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

2012	Fixed Interest Rate Maturity – Parent						
	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		78,188
Loans	5.00			206	–		206
Shares, options & trusts						341,252	341,252
Preference shares	–		6,478	–			6,478
Convertible notes	–						
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

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.

Consolidated entity as at 30 June 2013	Quoted market price (Level 1) $'000	Valuation technique – market observable inputs (Level 2) $'000	Valuation technique – non market observable inputs (Level 3) $'000	Total $'000
Financial assets				
Financial assets at fair value through profit and loss	609,317	178,132	11,207	798,656
Total	609,317	178,132	11,207	798,656
Financial liabilities				
Derivative instruments				
Options	(1,316)	–	–	(1,316)
Total	(1,316)	–	–	(1,316)

Transfer between categories

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

Consolidated entity as at 30 June 2012	Quoted market price (Level 1) $'000	Valuation technique – market observable inputs (Level 2) $'000	Valuation technique – non market observable inputs (Level 3) $'000	Total $'000
Financial assets				
Derivative instruments				
Warrants	6,106	–	–	6,106
Financial assets at fair value through profit and loss	526,512	128,384	14,297	669,194
Total	532,618	128,384	14,297	675,300
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.

Reconciliation of Level 3 fair value movements	Consolidated 2013 $'000	Consolidated 2012 $'000
Opening balance	14,298	16,322
Total gains and losses	2,865	(2,072)
Purchases	165	986
Sales	(6,216)	(938)
Transfers from other categories	95	–
Closing balance	11,207	14,298

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 $104,000 (2012: $116,000) or increase the fair value by $104,000 (2012: $116,000).

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 2013 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 Insurance 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 2013 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, 10 September 2013

Independent auditor's report

Building a better working world

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

Report on the financial report

We have audited the accompanying financial report of Catholic Church Insurance Limited, which comprises the statements of financial position as at 30 June 2013, 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

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

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. 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 Insurance 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 2013 and of their performance for the year ended on that date; and

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

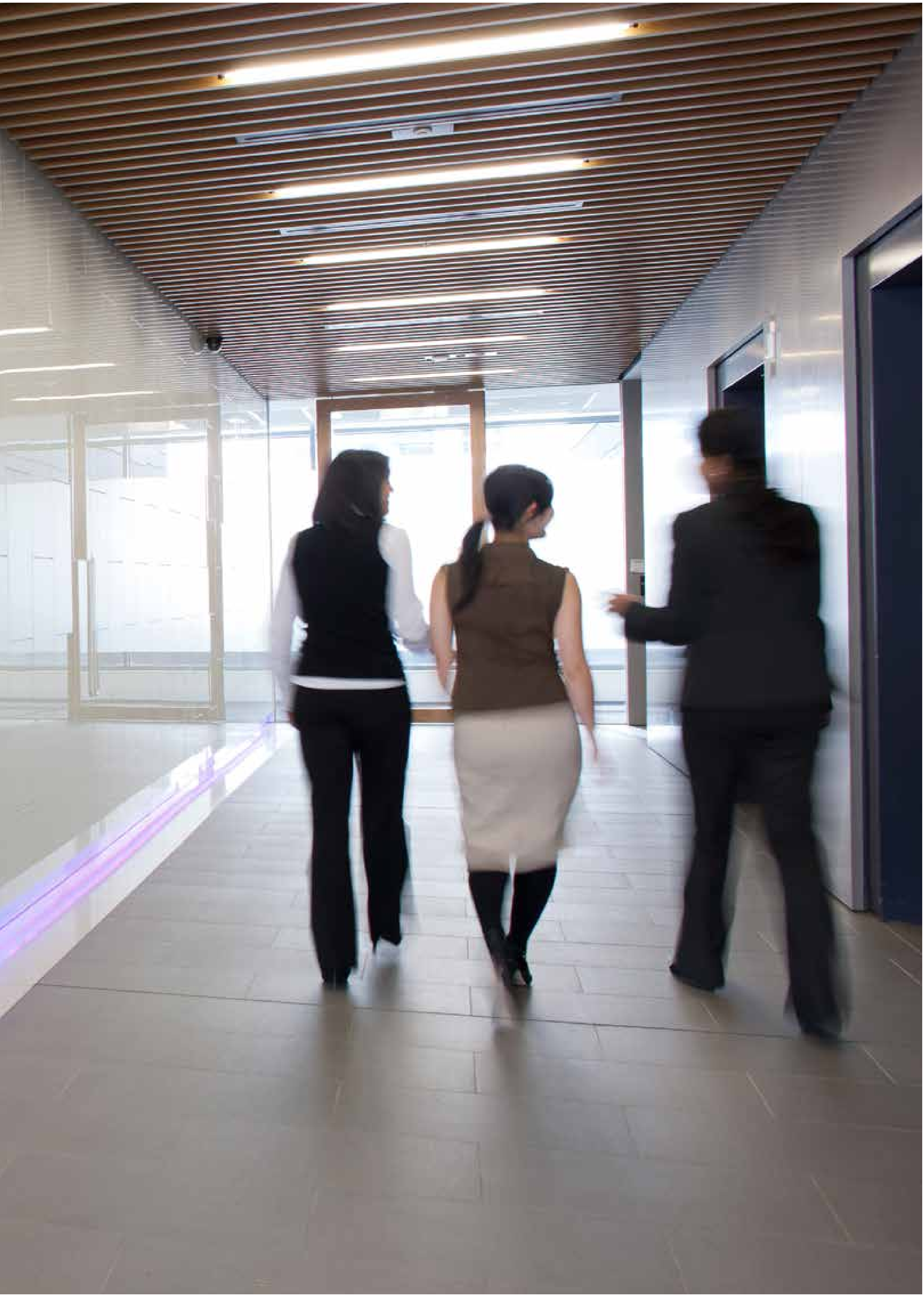
b. the financial report also complies with the Australian equivalent of the *International Financial Reporting Standards* as disclosed in Note 2(b).

Ernst & Young

Ernst & Young

T M Dring
Partner
Melbourne
10 September 2013

Financially the company has performed very well. A year of exceptional investment returns coupled with lower than expected catastrophic claims have contributed to the company achieving returns in excess of our budget.



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AFSL No. 235415

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