CCI
Catholic Church Insurance

Annual Report 2014

Contents

Owned by the Church and existing to serve the Church, CCI understands the unique needs of the Church community like no other.

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.

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

Chairman's report

Paul Gallagher
Chairman

As another year draws to a close, I always enjoy this opportunity to reflect upon our achievements and to consider what it is that defines us, what shapes us and makes us the company that we are. The answer I come back to time and time again is, you.

The relationships we enjoy with our clients are the very reason we've been in business for more than 100 years. It is the needs of the Church that have shaped us and our ability to understand and respond to the challenges faced by each and every one of you, large and small, that defines us.

The value of a good relationship can, in my opinion, never be underestimated. While we pride ourselves on our ability to deliver competitive products, we are so much more than that. We are the familiar voice on the end of the phone in the early hours of the morning when a school principal wakes to discover a fire. We are the trusted advisor able to make sense of the myriad of insurance decisions required while navigating the tricky process of amalgamation. And we are the partner who always has the time to talk about the future and how best to prepare for the challenges ahead.

The Board's role in all of this is to balance the needs of our policyholders with those of our shareholders, ensuring we are able to meet both our commitment to exceptional service and to the support of Church mission. Your Board is a remarkable group of individuals who, through their vocations and associations, represent the needs of shareholders with assuredness, sensitivity and exceptional skill.

The CCI Board possesses a breadth of expertise and a depth of understanding of the industry and the Church that is, in my opinion, without equal. I would like to thank my fellow directors for their hard work over the past year, for their focus on the strategic priorities of the organisation and in particular for their work on the various Board committees around governance, investments, insurance and financial reporting.

The Executive Team is the critical link between the Board and our clients. They understand the value of our clients and have the skills and experience necessary to take the company into the future. I would like to congratulate them, and in particular, Chief Executive Officer Peter Rush, for their excellent work throughout the year. Peter's ability to drive the team to deliver against the company's key strategic priorities is absolutely critical to our success and the support he has provided to the Church through the various commissions and inquiries has been invaluable.

During the year there have been many opportunities for the Board and Executive Team to work together. Most notable perhaps has been the formalisation of

Highlights of the year

- Solvency coverage of almost double APRA's minimum requirement
- Outstanding investment return of 11.2%
- Distributions to policyholders of more than $10 million
- Total distributions in the past 36 years of more than $282 million
- Recommendation of an ordinary dividend of 40 cents per share
- 4% increase in already positive staff engagement score
- Strengthening of financial reserves

the company's strategic thought process into our three-year strategic plan. This document provides the entire company with a clear path for the next few years and I would like to take this opportunity to thank everyone for their support and commitment.

Financially, the company has performed very well, continuing to balance our needs for appropriate provisioning with distributions and funding back to our clients. I am pleased that we have achieved a financial result which not only allows us to provide appropriately for future claims and our prudential requirements, but also allows us to make distributions to policyholders of more than $10 million and make a recommendation of an ordinary dividend of 40 cents per share.

We have continued to work with the Australian Prudential Regulation Authority (APRA) throughout the year to meet our financial and governance responsibilities. The regulator undertook a review of the company as part of their normal supervisory process late in the financial year and we are taking on a number of initiatives in the coming year as a result of that review. New reforms introduced by APRA and aimed at encouraging a sound risk management culture come into effective from 1 January 2015 and will further enhance CCI's already strong risk management and governance practices.

In closing I would like to extend my thanks to Peter, the Executive Team and all the staff for their dedication and hard work. To our loyal shareholders and policyholders, thank you for your ongoing support. We look forward to continuing to serve you and serve Church in the coming year.

Paul Gallagher
Chairman

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

Corporate governance statement

For the year ended 30 June 2014

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 General Insurance Code of Practice (as amended from time to time)
- 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 2001.* 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.

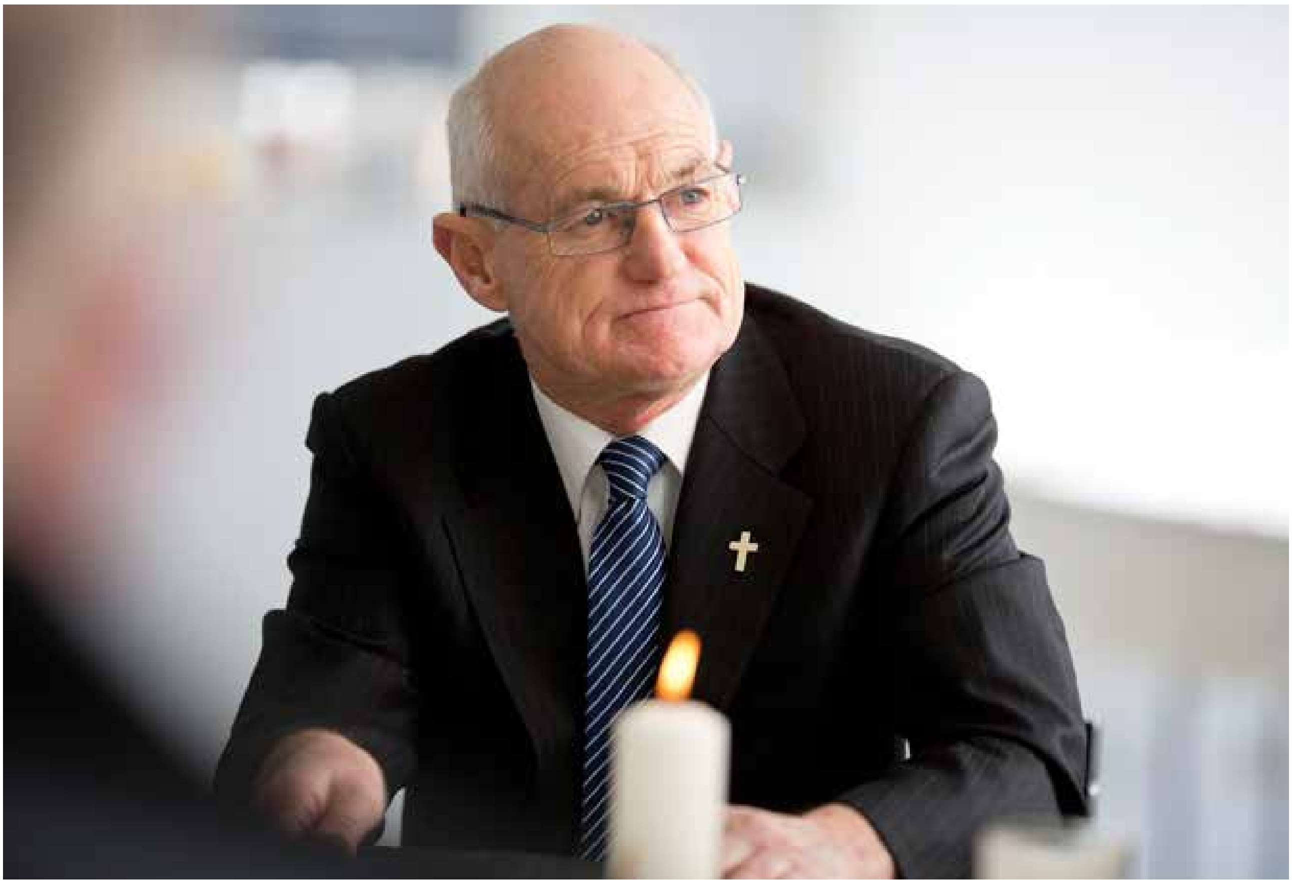
It is the practice of Directors that when a potential conflict of interest may arise, the Director concerned does not receive a copy of the information contained in Board papers, and that Director withdraws from the Board meeting whilst such matter is being considered and subsequently takes no part in 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



Chief Executive Officer's review of operations

Peter Rush
Chief Executive Officer

I am pleased to present to you a summary of the operations of CCI for the 2013/14 financial year.

Reflective of our commitment to serve the Church, we have continued to respond to the needs of a changing Church environment, to provide excellent service to the Catholic community and to deliver a strong financial result.

The company has achieved another excellent financial outcome for the year. A positive investment return and better than expected claims experience have both contributed to our overall result, which will allow the payment of Catholic Entity Distributions to our policyholders of $10 million. This will take the total of these distributions to $282 million over the past 36 years.

Very solid investment returns have been achieved despite a range of economic and geopolitical challenges. World share markets delivered their second consecutive year of double-digit returns and we enjoyed good gains from the local market, leading to an outstanding investment result.

Our underwriting result was affected by the Government review of workers' compensation arrangements in New South Wales, and by our decision to strengthen the company's reserves to meet potential future claims in our liability portfolio, based on independent and sound actuarial advice.

All insurers regulated by APRA are required to carry sufficient financial reserves to meet future claims at all times. The volatile nature of CCI's particular environment has encouraged us to set aside a larger amount than we may have in different circumstances.
As with most areas of our business, our approach to reserving has been and remains cautious and conservative. We believe this continues to be the most prudent approach for the company, for our clients and for our shareholders.

While the strengthening of our reserves has reduced the company's end-of-year return, it is important to acknowledge that we have been able to maintain a solvency ratio of 1.90 - almost double APRA's minimum requirement. I believe this is a more accurate measurement of a company's financial strength and stability than the results for any particular financial year.

Planning for the Future

Exciting work has continued on the company's three-year strategic plan. This important work reinforces our long-term focus, ensures we continue to be well placed to cater for the changing needs of Church, and aligns the entire company from the Board down behind four key priorities.

Selective Growth

Finding new growth opportunities continues to be a challenge for CCI due to the high market share we enjoy already in most Catholic sectors. The Catholic health network holds opportunities for us, particularly within aged care however, as a predominantly intermediated sector, it also presents a different competitive landscape for us.

Pleasingly, we are beginning to realise the benefits of the restructure of our investment management business to respond better to clients' needs. The changes to CCI Asset Management Limited (CCIAM) made in the previous financial year have been directly linked to an increase in the number of investors and funds deposited in the CCIAM trusts are up by more than 16%. As with CCI's investments, the returns for CCIAM clients have been very sound.

Similarly, the changes to our personal lines division have been successful, yielding a profit result well above budget this year and have positioned us to grow strongly in the future.

Client Connection

Maintaining a strong connection with our clients remains a high priority for CCI. Our mutual principles and core values naturally align us with the Catholic network, yet we are constantly looking for ways to strengthen this link.

During the financial year, we improved our internal operations to enhance our response to our clients in their biggest moments of need, that is when they make a claim. Our operations team participated in a pilot program working with St Mary's Catholic Primary School in Beaudesert, south of Brisbane, after the school suffered a major fire earlier this year.

Growing into a new communion

The fusion of the Tasmanian, Goulburn, Whanganui (New Zealand) and Perthville Congregations with the Sisters of St Joseph of the Sacred Heart has been a precious time in the sisters' history.

The story of their separation and gradual reunion began in 1876 when Bishop Quinn brought the Josephites in the Diocese of Bathurst under his authority, forming a separate congregation. In the years that followed, five diocesan congregations were founded and became the Australian – New Zealand Federation of Sisters of St Joseph.

Now the sisters have been reunited and all describe it as a time of great joy.

Sister Monica Cavanagh

"Fusion has released new energy into the congregation," says Congregational Leader, Sister Monica Cavanagh. "There is something bigger than us happening here. This is the work of the Spirit."

While the sisters embrace the gifts of fusion, there have been many practical and logistical considerations.

"Sensitivity has been essential," says Sister Monica. "We don't want the individual groups to feel they are being swallowed up. We want to respect each other's history. When I speak to the groups I often tell them - your sisters will always be your sisters, but now you will also be part of this wider story."

As with any merger, there have been logistical considerations. For example, properties and finances have needed to be transferred from the individual congregations to the larger group.

"Managing the challenges associated with fusion requires good communication, patience and understanding," says Sister Monica. "Where necessary we have called on people both from within the congregation and beyond to help us."

CCI has been very pleased to be able to provide some assistance. "Our main aim has been to make sure the sisters are protected as they go through this process, so they can continue to do what they do so well," says Simone Ferro, Underwriting Team Leader at CCI.

"We've been able to draw on our experience working with clients in similar situations and we've worked closely with the sisters to understand exactly how they would like their insurance program to run. From an insurance perspective, we want to make the transition process no effort for them at all."

The Sisters of St Joseph of the Sacred Heart will celebrate their 150th anniversary in 2016 and are excited to be sharing this momentous occasion as one congregation.

"This is the new communion," says Sister Monica. "And the experience has brought life and possibility."

Through this we were able to provide a wholly integrated, company-wide approach to the management of this claim, achieving a very positive outcome for the client and providing valuable insights for our planning process.

Taking advantage of available technology is an important element of our connection with Catholic entities and over the year we made a number of improvements to our online services.

This included the launch of a new facility to enable clients to access key workers' compensation information and data online. This technology is currently being trialled with a small group of Catholic entities before being rolled out to a broader audience in the next few months.

We also launched a dedicated risk management website that provides an extensive range of new online risk management resources for the Catholic network (www.risksupport.org.au). This has added to the already substantial program of risk management publications, forums and workshops delivered by CCI's risk*support* division. It is also pleasing to see the high level of engagement by our clients in our online learning management system, called *Learning Manager*, which offers a suite of training courses specifically designed for the Catholic sector.

Operational Excellence

The goal of operational excellence is the foundation for consistently improving the services we offer to the Catholic community. CCI's objective is to provide maximum value with limited resources available. This ensures we minimise the expenses that must be carried through into premiums.

This year we began a two-year initiative to identify, reassess and, if appropriate, restructure some of our key processes which will enhance client experience and improve internal operational efficiency. Some of our clients are experiencing improvements in their services already under the banner of *Client First* – CCI's Service Excellence Program.

Engaged People

At CCI, we strive to empower employees, to give them a voice and to provide them with a clear sense of responsibility. One of the ways we measure our success against this goal is through our biennial staff engagement survey which measures engagement across the company and compares our performance to industry benchmarks throughout Australia.

Our 2014 survey results were very pleasing, showing that overall engagement at CCI has increased by 4% to 63% since our last survey in 2012. This is just 2% short of the benchmark for achieving 'Best Employer' status.

In addition to measuring a company-wide score, the survey reveals a range of insights which influence those strategies which concentrate on our employees. Over the next 12 to 18 months we will continue to build on this strong base of engagement, especially in key areas such as career development and improved communication.

We are continuing to experience the benefits of our organisational restructure across the company and have attracted new talent into the business with several senior appointments. A number of staff celebrated significant milestones during the year, featured separately on page 16, a testament to the fact that CCI continues to be 'a great place to work'.

Investments

As reported earlier, it was a solid year for CCI's investment portfolio with returns of 11.2% for the year. This exceeded the company's benchmark by 0.2% after the cost of hedging.

Investors witnessed another year of solid gains as sharemarkets posted double-digit returns benefitting from the low interest rate environment. The strength of the local and international sharemarkets contributed significantly to CCI's investment result for the year.

A great leader of the North

The Most Rev. Michael Putney, Bishop of Townsville, passed away early in the morning on 28 March 2014. Described by the President of the Australian Catholic Bishops Conference, Archbishop Denis Hart, as a "dedicated leader, a great and priestly shepherd, a gifted theologian and ecumenist", Bishop Putney had been battling ill health for some time.

Bishop Putney's death came one day after he celebrated his 13th year as Bishop of Townsville and only a week after he launched a book on his great passion – ecumenism. The book is entitled *'My Ecumenical Journey'* and copies are available from the Townsville Diocesan Office.

On the morning of his death, more than 140 parishioners from around Townsville Diocese gathered for a workshop on evangelisation, one of the Bishop's initiatives launched in what he described as his 'miracle year' of 2013.

When Bishop Putney learnt of his inoperable stomach cancer in late 2012 he was not expected to live to see much of the following year. When he got to continue, initiate and tidy up many of his projects, 'miracle year' seemed apt for 2013.

Born in Gladstone in 1946, Bishop Putney studied for the priesthood at Banyo Seminary from 1963 and was ordained in 1969. His intense interest in ecumenism came during his time as a seminarian during the Second Vatican Council and his doctorate in theology from the Gregorian University Rome in 1985 was on ecumenism.

He was installed as Bishop of Townsville on 27 March 2001. Prior to this he was one of Brisbane's auxiliary bishops and held several key roles linked to ecumenical dialogue.

"Often in death people are lionised as superhuman, but there is no need to embellish Michael Putney," said Mundingburra MP David Crisafulli in a speech given in the Legislative Assembly on 1 April. "His life and how he lived it is testament enough."

Bishop Putney

The Minister for Local Government, Community Recovery and Resilience described Bishop Putney as "one of North Queensland's greatest leaders".

Townsville diocese's communication/vocations officer Neil Helmore said Bishop Putney had reinvigorated the local Church with new life over the last 13 years.

"His vision was so big he brought us into the world Church, the national Church and yet he was very involved at a local level."

Farewell to two State Managers

In last year's *Annual Report* we celebrated Queensland State Manager Gary Esler's 40 years of service. Gary retired in April this year having played a major role in shaping the company we are today. State Manager for Western Australian, Bob Fragomeni, also announced his retirement this year after an impressive 30 years in the role and 35 with the company.

Bob Fragomeni joined CCI in 1979 as a chief clerk in the Western Australian office. He spent just two years in the New South Wales Office as assistant manager from 1982 – 1984 before returning to his home state to take up the State Manager's role. A position he was to hold for the next 30 years.

"My time at CCI has been a terrific journey," says Bob. "I am essentially a person who likes to serve. I love doing what I do; using my skills and training to assist the Church. It's what has motivated me and given me purpose."

Bob Fragomeni

"My goal has always been to try to improve what we're doing from one year to the next," He adds. "In the early days in the 80s we were small and our clients were growing faster than we were, but we caught up. I've embraced the changes within the organisation over the years and I can see they have brought enormous benefits for clients, especially in the area of technology."

The relationships Bob has built with staff and clients hold some of the most powerful memories he will take with him into his retirement.

"Building and maintaining relationships is the most important element of a state manager or any management role," he says. "From those relationships come trust and mutual respect. I think some of the people I have enjoyed working with most over the years have probably had the least understanding of insurance. Knowing they trusted me and the advice I gave them was extremely rewarding."

"I've always felt welcomed by my clients and respected for what I do and who I am."

While his role has involved some travel, having a balanced family life has always been an important priority for Bob.

Gary Esler

"I started working for CCI in 1979 and married my wife Leanne the same year," says Bob. "So I have essentially shared my whole family life with the company I work for."

"I feel a great sense of loyalty towards the organisation. The support given to me by the people at CCI throughout my career has been so important. The values that made me want to join the organisation all those years ago are still alive today."

Bob will leave CCI in late November, and is already in demand on various boards and committees in Perth. He is looking forward to the possibility of some travel with wife Leanne, time with his five grown children and new baby grandson as well as relaxing into a less structured way of life.

> The values that made me want to join the organisation all those years ago are still alive today.
>
> Bob Fragomeni

Significant staff milestones

Mick Newell

National Client Services Manager – 30 years service

Mick joined CCI in 1984 as an underwriter in our Victorian office. Over the years he's held various roles in claims, underwriting and client services. He became an account executive in 1995 looking after clients directly for the first time and after holding this position for ten years, was promoted to State Manager for Victoria and Tasmania. When the company underwent its restructure in 2012 Mick was appointed to the newly created position of National Client Services Manager.

"The staff and the clients make CCI such a great place to work," says Mick. "I enjoy the interaction with staff and working together to try and find solutions to meet our client's needs. I also thoroughly enjoy the face-to-face contact with clients both professionally and socially."

The staff and the clients make CCI such a great place to work.

Mick Newell

Sylvia Wong

State Manager Victoria and Tasmania – 25 years service

Sylvia Wong began her career at CCI in 1989, soon after migrating from Malaysia. Starting out as a commercial underwriter, Sylvia worked her way up to become the Victoria and Tasmania Branch Underwriting Manager in 1992 and, when CCI's underwriting operations were centralised in 1997, she was made Underwriting Coordinator.

In 2000, keen to use her technical skills and knowledge to more directly assist clients, Sylvia moved into client services and took on the role of Account Executive for Victoria and Tasmania. In 2013 she was promoted to the position of State Manager with responsibility for those two states.

"I love meeting with clients and assisting them with their insurance problems," says Sylvia. "I also really enjoy working in a leadership role, developing an efficient, client focused and cohesive team."

Congratulations to both Mick and Sylvia for achieving these significant milestones at CCI.

Leading the way

Building, supporting and encouraging strong leadership has been integral to our strategy at CCI for the last three years. Human Resources Manager, Sally Stares explains.

"At CCI we want to develop and attract strong leaders. People who know how we want our business to be delivered and who understand the value we place in our relationships with clients." says Sally.

"We launched a new leadership training program at CCI in 2011 with the aim of building the skills we believed our staff needed to be successful leaders. The program was based on strong analytics and behavioural modelling and focused on building trust and developing meaningful communication."

"The essential question for us is always: how is this going to benefit clients?" she says. "We want to empower those in leadership positions and share with them the knowledge and skills to make things happen."

"This is very different to just coming in and managing people in their day-to-day job. We want leaders who can facilitate and manage change, who can innovate and encourage other people to do the same, so we're able to deliver the best possible outcomes for clients."

"We're extremely committed to creating a culture of leadership" she adds. "Since implementing this program we're running leaner, we've improved many of our processes and we have better cohesion between departments, especially in the area of client service."

Sally Stares

The company continues to maintain a hedging strategy designed to protect our exposure to Australian shares.

As an APRA regulated entity, CCI invests within a strict governance framework. The company's investment strategy, which is set by the Board and its Investment Committee, aims for long-term security rather than short-term gains and has in place the parameters to ensure funds are prudently invested.

CCI manages over $1 billion in funds through CCI and its wholly-owned subsidiary CCIAM. With over 50 years combined investment experience, exceptional in-house research capabilities and advice from external advisors, CCI has an enviable history of returns which exceed their benchmarks.

Commissions and inquiries

Early in its deliberations, the Royal Commission into Institutional Responses to Child Sexual Abuse ("Royal Commission") identified CCI as a repository for detailed information. Over the past few years, we have worked hard to respond appropriately to the many requests to assist the Royal Commission and other, now closed, public inquiries. We have put in place a structure to facilitate good governance and a high level of oversight, up to and including the Board.

I would like acknowledge the important work being undertaken by the Royal Commission and entities such as the Church's Truth Justice and Healing Council, and to reiterate our commitment to assisting in any way we can.

Summary

I would like to take this opportunity to recognise the retirements of two long-serving members of the CCI team and to acknowledge the significant contribution they have made to the company and to our Catholic Church clients.

We shared the story of former Queensland State Manager, Gary Esler, in the *2013 Annual Report* when he reached his 40th year of service. Gary has since announced his retirement, leaving us earlier this year. Bob Fragomeni, who has been with the company for 35 years, including 30 years as State Manager for Western Australia, will retire in November this year. Please turn to page 15 to read more about Bob's time with CCI. We wish both Gary and Bob the very best for the future.

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

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

Peter Rush
Chief Executive Officer

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 2014. 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, GAICD

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 Chair of the Board of St Joseph's College Gregory Terrace.

Special responsibilities held in the company:

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

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

Sister Clare joined the Board in October 2004. She is Congregational leader of the religious congregation of the Sisters of the Good Samaritan and Co-Chair of the National Professional Standards Committee. Sister Clare was awarded the 2013 Human Rights Medal. She was President of Catholic Religious Australia from 2008 to 2010. Sister Clare has held various leadership positions within the Congregation. 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. Jo is also a non-executive Director of Templeton Global Growth Fund Limited, Vision Super, Victoria Teachers Mutual Bank and a board member 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. Richard commenced his professional life as a lawyer with Blake Dawson Waldron then spent a great part of his career with BNP Paribas and was Deputy General Manager at the time of his leaving. He is the Chairman of CFX Ltd, CatholicCare, Australian Catholic Superannuation and Retirement Fund and the Sisters of Charity Foundation. 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 board member of CCI Asset Management Limited.

Special responsibilities held in the company:

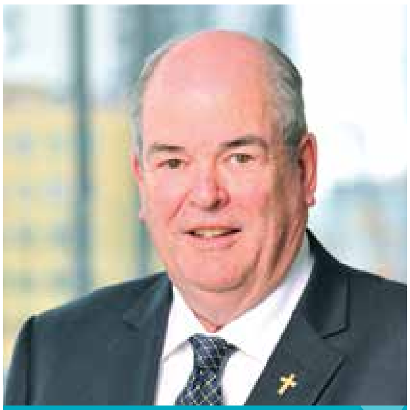
Chairman of the Board Budget Committee and member of the Investment Committee and Remuneration Committee.

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

Tony joined the Board in April 2003. Tony 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 and a director of Victoria Golf Club Ltd. He 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 Not for Profit Advisory Group of the Australian Taxation Office.

Father Brian is also a board member of CCI Asset Management Limited.

Special responsibilities held in the company:

Chairman of the Board Directors' Governance Committee and member of the 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 in financial services and other sectors. 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, Collection House Limited, Aviation Australia Pty Ltd and Calvary Ministries Limited. She is Chair of Church Resources and CNA Limited.

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 and the Australian Prime Property Investor Committees. She is a non-executive Director of Warakirri Asset Management Ltd, Warakirri Dairies Pty Ltd and the Australian Energy Market Operator. Her areas of expertise include risk, financial services, general insurance, funds management and infrastructure. Jane is also a board member 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 Chief Executive Officer of Catholic Church Insurance in 2009 having commenced his career with CCI in the role of Manager – Underwriting, Reinsurance and Risk Management in 1998 before being appointed to General Manager in 1999. Prior to joining this company Peter spent 15 years with Munich Reinsurance Company specialising in fire and casualty reinsurance. He is a Fellow of the Australian and New Zealand Institute of Insurance and Finance, President of the Australian Insurance Association and has been involved in the insurance industry for over 40 years. Peter is also the General Manager of CCI Asset Management Limited.

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 20 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 an underwriting agreement with Allianz Australia Insurance Limited.

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.

There have been no other significant changes during the year.

Dividends

In respect of the financial year ended 30 June 2014, the Directors recommend the payment of a final unfranked dividend of $1.176M (2013:$1.176M) to the holders of fully paid ordinary shares on 27 October 2014. The dividend has not been provided for in the 30 June 2014 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 Reverend William Brennan
– *Bishop Emeritus of Wagga Wagga*

Most Reverend Michael Putney
– *Bishop of Townsville*

Most Reverend John Jobst
– *Bishop Emeritus of Broome*

His Eminence Edward Clancy
– *Cardinal Archbishop Emeritus of Sydney*

Most Reverend Edmund Collins
– *Bishop Emeritus of Darwin*

Review of operations

The review of operations has been outlined by the Chief Executive Officer on pages 12 to 17.

Results of Operations

	2014 $'000	2013 $'000
Consolidated Profit/(Loss)	51,856	63,663

The consolidated entity is exempt from the requirements of the *Income Tax Assessment Act 1997.*

Employees

The consolidated entity employed 246 employees as at 30 June 2014 (2013: 241 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

On 4 August 2014, Catholic Super Fund (CSF) announced that they have appointed Mercer as their fund administrator from 1 April 2015. A transition plan is being established and CCI is not expected to provide administration services to CSF beyond 31 March 2015. The impact of the announcement is not likely to have a material effect on the company.

There has not been any other 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 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.

Indemnification of auditors

To the extent permitted by law, the company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). However this indemnity does not apply to any losses which are finally determined to have resulted from Ernst & Young negligence.

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 Class Order 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 2014 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	7	7	4	4	1	1
C T Condon	7	6	4	3	-	-
J Dawson	7	7	4	4	1	1
R Haddock	7	7	-	-	1	1
J A Killen	7	7	-	-	-	-
B J Lucas	7	7	4	4	-	-
J A Schafer	7	7	-	-	1	1
J A Tongs	7	6	-	-	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	-	-	6	6
R Haddock	-	-	6	5
J A Killen	-	-	6	6
B J Lucas	2	-	6	6
J A Schafer	2	2	-	-
J A Tongs	-	-	6	6

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

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, 9 September 2014

Auditor’s independence declaration

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

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

Building a better working world

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 2014, 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.

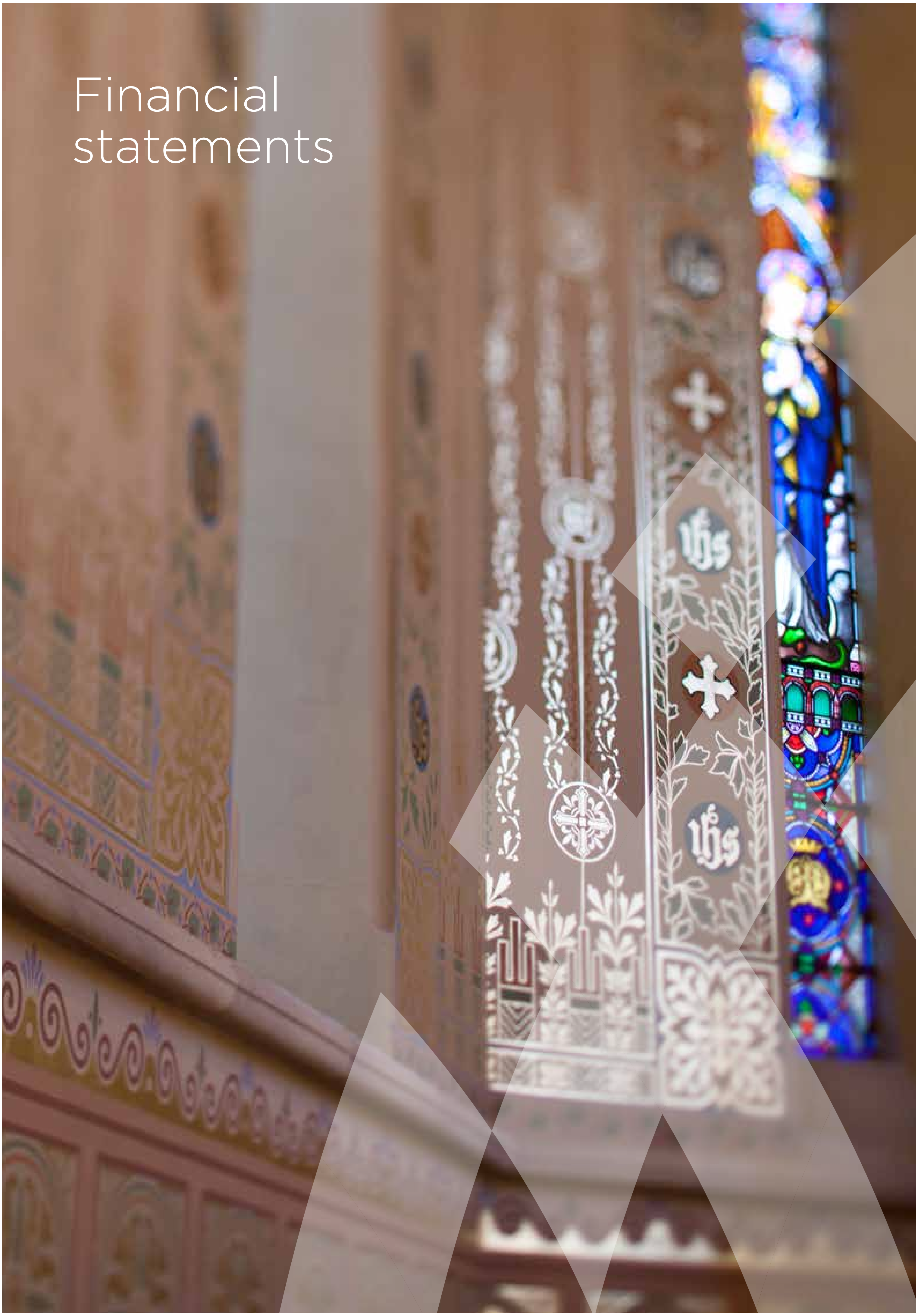
Ernst + Young

Ernst & Young

Brett Kallio

Brett Kallio
Partner
Melbourne
9 September 2014

Financial statements



Statement of comprehensive income

For the year ended 30 June

	Note	Consolidated 2014 $'000	Consolidated 2013 $'000	Company 2014 $'000	Company 2013 $'000
Premium revenue		202,360	209,176	202,360	209,176
Outwards reinsurance expense		(68,256)	(68,833)	(68,256)	(68,833)
Net premium revenue	7	134,104	140,343	134,104	140,343
Gross claims incurred	8	(172,757)	(127,074)	(172,757)	(127,074)
Reinsurance and other recoveries revenue	9	47,745	19,681	47,745	19,681
Net claims incurred	10	(125,012)	(107,393)	(125,012)	(107,393)
Acquisition costs		(169)	(167)	(169)	(167)
Other underwriting expenses	11	(28,689)	(35,779)	(28,689)	(35,779)
Underwriting expenses		(28,858)	(35,946)	(28,858)	(35,946)
Underwriting result		**(19,766)**	**(2,996)**	**(19,766)**	**(2,996)**
Investment income	13	95,334	98,740	93,714	98,831
General administration expenses	11	(22,254)	(18,855)	(21,664)	(17,967)
Catholic entity distributions		(9,904)	(19,950)	(9,904)	(19,950)
Other income		8,446	6,724	7,719	6,048
Profit for the period	14	51,856	63,663	50,099	63,966
Other comprehensive income for this period		–	–	–	–
Total comprehensive income for this period		51,856	63,663	50,099	63,966

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 2014 $'000	Consolidated 2013 $'000	Company 2014 $'000	Company 2013 $'000
Current Assets					
Cash and cash equivalents	16	61,146	26,724	60,966	26,524
Trade and other receivables	17	105,500	112,631	105,264	112,463
Deferred reinsurance expense	18	24,497	24,595	24,497	24,595
Financial assets at fair value through profit and loss	19	515,444	466,805	515,444	466,805
Tax assets	20	5,971	6,772	5,971	6,772
Other assets	21	4,784	8,091	4,784	8,091
Total Current Assets		717,342	645,618	716,926	645,250
Non-Current Assets					
Trade and other receivables	22	50,274	19,883	50,274	21,593
Financial assets at fair value through profit and loss	23	331,894	331,848	331,894	331,848
Plant and equipment	24	6,784	7,052	6,784	7,052
Intangible assets	25	2,845	5,992	2,845	5,992
Total Non-Current Assets		391,797	364,775	391,797	366,485
TOTAL ASSETS		1,109,139	1,010,393	1,108,723	1,011,735
Current Liabilities					
Trade and other payables	26	22,990	29,991	22,982	29,984
Outstanding claims	34	96,651	88,537	96,651	88,537
Unearned premium reserve	35	128,467	140,469	128,467	140,469
Provisions	27	15,399	25,164	15,399	25,164
Tax liabilities	28	96	13	96	13
Other liabilities	29	5	1,361	5	1,361
Total Current Liabilities		263,608	285,535	263,600	285,528
Non-Current Liabilities					
Outstanding claims	34	425,930	356,042	425,930	356,042
Provisions	30	2,421	2,316	2,421	2,316
Total Non-Current Liabilities		428,351	358,358	428,351	358,358
TOTAL LIABILITIES		691,959	643,893	691,951	643,886
NET ASSETS		417,180	366,500	416,772	367,849
Shareholders' Equity					
Contributed equity	32	8,139	8,139	8,139	8,139
Reserves	33	406,874	356,194	406,874	356,194
Retained profit		2,167	2,167	1,759	3,516
TOTAL SHAREHOLDERS' EQUITY		417,180	366,500	416,772	367,849

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

Statement of changes in equity

For the financial year ended 30 June

	Contributed Equity	General Reserves	Retained Earnings	Total
	$'000	$'000	$'000	$'000
Consolidated				
At 1 July 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
At 1 July 2013	8,139	356,194	2,167	366,500
Net profit for the period	–	–	51,856	51,856
Transfer to reserves	–	50,680	(50,680)	–
Dividend for 2013 ($0.40 cents per share)	–	–	(1,176)	(1,176)
At 30 June 2014	8,139	406,874	2,167	417,180

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

	Contributed Equity	General Reserves	Retained Earnings	Total
Company				
At 1 July 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
At 1 July 2013	8,139	356,194	3,516	367,849
Net profit for the period	–	–	50,099	50,099
Transfer to reserves	–	50,680	(50,680)	–
Dividend for 2013 ($0.40 cents per share)	–	–	(1,176)	(1,176)
At 30 June 2014	8,139	406,874	1,759	416,772

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	
		2014	2013	2014	2013
	Note	$'000	$'000	$'000	$'000
Cash flows from operating activities					
Premiums received		195,116	192,730	195,116	192,730
Outwards reinsurance paid		(67,602)	(65,882)	(67,602)	(65,882)
Claims paid		(93,680)	(100,546)	(93,680)	(100,546)
Reinsurance and other recoveries received		17,473	28,003	17,473	28,003
Acquisition costs paid		(168)	(166)	(168)	(166)
Other underwriting expenses paid		(14,825)	(17,269)	(14,825)	(17,269)
Other operating expenses paid		(26,320)	(18,000)	(25,664)	(17,105)
Other operating income received		8,528	7,609	7,803	6,724
Interest received		18,244	19,128	18,333	19,219
Dividends received		24,765	25,575	24,765	25,575
Total cash flows from/(used in) operating activities	40	61,531	71,182	61,551	71,283
Cash flows from investing activities					
Investment trading		(3,732)	(61,561)	(3,732)	(61,561)
Payments for plant and equipment		(1,552)	(1,629)	(1,552)	(1,629)
Proceeds from sale of plant and equipment		392	806	392	806
Payments for intangibles		(568)	(1,905)	(568)	(1,905)
Total cash flows from/(used in) investing activities		(5,460)	(64,289)	(5,460)	(64,289)
Cash flows from financing activities					
Dividends paid		(1,176)	(1,176)	(1,176)	(1,176)
Catholic entity distributions		(20,473)	(4,521)	(20,473)	(4,521)
Total cash flows from/(used in) financing activities		(21,649)	(5,697)	(21,649)	(5,697)
Net increase/(decrease) in cash held		34,422	1,196	34,442	1,297
Cash and cash equivalents at 1 July		26,724	25,528	26,524	25,227
Cash and cash equivalents at 30 June	16	61,146	26,724	60,966	26,524

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 2014

1. Corporate Information

The consolidated financial report of Catholic Church Insurance Limited (the company) for the year ended 30 June 2014 was authorised for issue in accordance with a resolution of the Directors on 9 September 2014.

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 ('A-IFRS') 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.

The standard around fair value, AASB 13, was amended from 1 July 2013. This resulted in using the last price of a quoted security instead of the bid price. This has had a minimal impact on the overall financial result.

b) Statement of compliance

The financial report complies with Australian Accounting Standards and the A-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 2014 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 CCIAM financial report	Application date for CCI
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
AASB 2013-3	Amendments to AASB 136 – *Recoverable Amount Disclosures for Non-Financial Assets*	AASB 2013-3 amends the disclosure requirements in AASB 136 Impairment of Assets. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.	1 January 2014	These amendments are only expected to affect the presentation of the company's financial report.	1 July 2014
AASB 1031	Materiality	The revised AASB 1031 is an interim standard that cross-references to other Standards and the *Framework* (issued December 2013) that contain guidance on materiality. AASB 1031 will be withdrawn when references to AASB 1031 in all Standards and Interpretations have been removed.	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 CCIAM financial report	Application date for CCI
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	IAS 16 and IAS 38 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.	1 January 2016	These amendments will have no direct impact on the amounts included in the company's financial statements.	1 July 2016
IFRS 15	Revenue from Contracts with Customers	IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 supersedes: a. IAS 11 Construction Contracts b. IAS 18 Revenue c. IFRIC 13 Customer Loyalty Programmes d. IFRIC 15 Agreements for the Construction of Real Estate e. IFRIC 18 Transfers of Assets from Customers f. SIC-31 Revenue—Barter Transactions Involving Advertising Services The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps: a. **Step 1:** Identify the contract(s) with a customer b. **Step 2:** Identify the performance obligations in the contract c. **Step 3:** Determine the transaction price d. **Step 4:** Allocate the transaction price to the performance obligations in the contract e. **Step 5:** Recognise revenue when (or as) the entity satisfies a performance obligation Early application of this standard is permitted.	1 January 2017	These amendments will have no direct impact on the amounts included in the company's financial statements.	1 July 2017

Reference	Title	Summary	Application date of standard	Impact on CCIAM 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. 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. *(continued on next page)*	1 January 2018	These amendments will have no direct impact on the amounts included in the company's financial statements.	1 July 2018

Reference	Title	Summary	Application date of standard	Impact on CCIAM financial report	Application date for CCI
AASB 9 *continued...*		The AASB issued a revised version of AASB 9 (AASB 2013-9) during December 2013. The revised standard incorporates three primary changes: 1. New hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures 2. Entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of AASB 9 at the same time 3. In February 2014, the IASB tentatively decided that the mandatory effective date for AASB 9 will be 1 January 2018.			

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 (IBNR) claims, 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. Investment income includes realised and unrealised gains or losses on financial assets which are reported on a combined basis as fair value gains or losses on financial assets. Realised investment gains or losses do not include interest and dividend income.

l) Taxation

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

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

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

m) Fire 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

As at 30 June 2014, Catholic Church Insurance investment portfolio consisted of unlisted investments where actively quoted prices were not available. As an appropriate technique to estimate the fair value of such investments the following valuation models were adopted.

Collateral debt obligation (CDO) investments

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 2014, CCI held one CDO in its investment portfolio. The underlying asset of this CDO was substituted with an updated Australian Government Bond on 15 June 2014. As a result, the fair value of the CDO was determined based on the market price of the government bond as at 30 June 2014.

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 $103,000 (2013: $104,000) or increase the fair value by $103,000 (2013: $104,000).

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. Loan assets are measured initially at fair value plus transaction costs. Subsequently, loans are carried at amortised cost using the effective interest method less impairment losses if any. Short-term receivables/payables are carried at their initial fair values.

(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:

	2014	2013
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 company purchases and sells options through regulated exchanges and in the over–the–counter markets. Options purchased by the company provide the company 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 company 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 company provide the purchaser the opportunity to purchase from or sell to the company 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 IBNR claims 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)
- 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.

2014	Short-Tail	Public Liability	Professional Indemnity	Workers' Compensation
Average weighted term to settlement (discounted)	Less than 1 year	5 years	5 years	4 years
Wage inflation	0.00%	0.00%	2.75%	2.75%
Superimposed inflation	0.00%	5.00%	5.00%	2.00%
Discount rate	0.00%	3.00%	3.00%	3.00%
Expense rate	6.00%	6.00%	6.00%	6.00%
Risk margin	9.90%	16.60%	16.00%	9.00%
2013				
Average weighted term to settlement (discounted)	Less than 1 year	5.4 years	8 years	4.2 years
Wage 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%

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	(4,877)	(4,209)	(4,877)	(4,209)
	-0.5	4,971	4,291	4,971	4,291
Inflation and superimposed assumption	+1%	15,433	14,209	15,433	14,209
	-1%	(14,485)	(13,325)	(14,485)	(13,325)
Discount rate	+1%	(19,747)	(18,082)	(19,747)	(18,082)
	-1%	21,376	19,581	21,376	19,581
Expense rate	+1%	4,945	4,350	4,945	4,350
	-1%	(4,945)	(4,350)	(4,945)	(4,350)
Risk margins	+1%	4,571	4,022	4,571	4,022
	-1%	(4,571)	(4,022)	(4,571)	(4,022)
Average claim size	+10%	24,345	21,563	24,345	21,563
	-10%	(24,345)	(21,563)	(24,345)	(21,563)

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. The portfolio is controlled and monitored by the company's Risk Management Strategy and various Board Committees. 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.

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 15.8% 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
2014							
Consolidated							
Cash and cash equivalents	3	60,341	–	–	–	802	61,146
Interest bearing investments[1]	89,947	200,961	23,288	20,353	–	12,365	346,914
Reinsurance & other recoveries[2]	–	55,294	8,839	436	2,080	–	66,649
Loans receivable[3]	–	–	–	–	–	14	14
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]	–	24,384	10,144	175	2,559	–	37,262
Loans receivable[3]	–	–	–	–	–	168	168

[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 $180,000 for the current year and by $200,000 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				
	On demand	Less than 3 months	3 to 6 months	6 months to 1 year	Greater than 1 year	Total
	$'000	$'000	$'000	$'000	$'000	$'000
2014						
Consolidated						
Premiums receivable	63,489	9,639	1,863	61	1	75,053
Reinsurance & other recoveries[1]	60,731	3,350	31	1,135	1,402	66,649
Loans receivable	14	–	–	–	–	14
Tax assets	5,971	–	–	–	–	5,971
Other receivables[2]	14,072	–	–	–	–	14,072
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

[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 $235,000 for the current year and $168,000 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 2014, the mean term to maturity of fixed interest securities was 2.5 years (2013: 2.9 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
2014					
Consolidated & Company					
Trade and other payables	–	22,990	–	–	22,990
Financial Liabilities – Options/Futures	5	–	–	–	5
2013					
Consolidated & Company					
Trade and other payables	–	29,991	–	–	29,991
Financial Liabilities – Options/Futures	1,361	–	–	–	1,361

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 +/-			
		2014 Net profit (loss)	2014 Equity	2013 Net profit (loss)	2013 Equity
Market risk	Movement in variable	$'000	$'000	$'000	$'000
Interest rate	2%+/-	16,756/(16,756)	16,756/(16,756)	17,751/(17,751)	17,751/(17,751)
Equities	10%+/-	28,394/(28,394)	28,394/(28,394)	27,124/(27,124)	27,124/(27,124)

	Consolidated		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
7. Net premium revenue				
Direct	191,492	194,889	191,492	194,889
Fire service levies	10,868	14,287	10,868	14,287
Premium revenue	202,360	209,176	202,360	209,176
Outwards reinsurance premiums	(68,256)	(68,833)	(68,256)	(68,833)
Net premium revenue	134,104	140,343	134,104	140,343
8. Gross claims incurred				
Direct	172,757	127,074	172,757	127,074
9. Reinsurance and other recoveries revenue				
Reinsurance and other recoveries	47,745	19,681	47,745	19,681

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.

	2014			2013		
	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	94,439	71,089	165,528	107,709	49,074	156,783
Reinsurance and other recoveries - undiscounted	(10,901)	(39,781)	(50,682)	(18,851)	(2,516)	(21,367)
Net claims incurred - undiscounted	83,538	31,308	114,846	88,858	46,558	135,416
Discount and discount movement - gross claims incurred	(11,321)	18,550	7,229	(20,458)	(9,251)	(29,709)
Discount and discount movement – reinsurance and other recoveries	6,066	(3,129)	2,937	10,448	(8,762)	1,686
Net discount movement	(5,255)	15,421	10,166	(10,010)	(18,013)	(28,023)
Net claims incurred	78,283	46,729	125,012	78,848	28,545	107,393

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

	Consolidated		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
11. Other underwriting and general administration expenses				
Expenses by function:				
Levies and charges	12,809	18,091	12,809	18,091
Administration expenses	29,559	30,746	29,559	30,746
Reinsurance commission	(13,679)	(13,058)	(13,679)	(13,058)
Other underwriting expenses	28,689	35,779	28,689	35,779
Investment expenses	847	950	847	950
Marketing expenses	1,013	937	1,013	937
Lease expenses	2,187	2,056	2,177	2,046
Depreciation charges **(note 24)**	1,577	1,319	1,577	1,319
Impairment of Assets **(note 25)**	2,309	–	2,309	–
Information technology expenses	3,053	2,594	3,053	2,594
Employee expenses	7,440	7,748	7,138	7,432
Other expenses	3,828	3,251	3,550	2,689
General administration expenses	22,254	18,855	21,664	17,967

12. Unexpired risk liability

Year ended 30 June 2014

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	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
13. Investment income/(expenses)				
Dividend income	25,119	25,324	25,119	25,324
Interest income	19,434	18,987	19,524	19,078
Changes in fair value				
- Unrealised gains/(losses) on investments	42,483	43,959	42,483	43,959
- Realised gains/(losses) on investments	8,298	10,470	6,588	10,470
	95,334	98,740	93,714	98,831

	Consolidated		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
14. Operating profit/(loss)				
Gross written premiums	198,452	213,910	198,452	213,910
Unearned premium movement	3,908	(4,734)	3,908	(4,734)
Gross earned premium	202,360	209,176	202,360	209,176
Outward reinsurance expense	(68,256)	(68,833)	(68,256)	(68,833)
Net earned premium	134,104	140,343	134,104	140,343
Gross claims incurred	(172,757)	(127,074)	(172,757)	(127,074)
Reinsurance and other recoveries	47,745	19,681	47,745	19,681
Net claims incurred	(125,012)	(107,393)	(125,012)	(107,393)
Acquisition costs	(169)	(167)	(169)	(167)
Net movement in unexpired risk liability	–	–	–	–
Underwriting expenses	(28,689)	(35,779)	(28,689)	(35,779)
	(153,870)	(143,339)	(153,870)	(143,339)
Underwriting profit/(loss)	**(19,766)**	**(2,996)**	**(19,766)**	**(2,996)**
Dividend income	25,119	25,324	25,119	25,324
Interest income	19,434	18,987	19,524	19,078
Changes in fair value:				
- Unrealised gains/(losses) on investments	42,483	43,959	42,483	43,959
- Realised gains/(losses) on investments	8,298	10,470	6,588	10,470
Other income	8,446	6,724	7,719	6,048
Investment and other income	103,780	105,464	101,433	104,879
General administration expenses	(22,254)	(18,855)	(21,664)	(17,967)
Catholic entity distributions	(9,904)	(19,950)	(9,904)	(19,950)
Profit from ordinary activities	**51,856**	**63,663**	**50,099**	**63,966**

15. Dividends paid and proposed				
Declared and paid during the year:				
Dividends on ordinary shares: Final unfranked dividend for 2013: $0.40 cents (2012: $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 2014: $0.40 cents (2013: $0.40 cents)	1,176	1,176	1,176	1,176

	Consolidated		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
16. Cash and cash equivalents				
Cash and cash equivalents comprises:				
- Cash on hand	3	3	2	2
- Cash at call	61,143	26,721	60,964	26,522
	61,146	26,724	60,966	26,524
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	61,146	26,724	60,966	26,524
	61,146	26,724	60,966	26,524

The consolidated entity has a combined bank overdraft facility of $150,000 (2013: $150,000). This facility was unused at 30 June 2014.

	Consolidated 2014 $'000	Consolidated 2013 $'000	Company 2014 $'000	Company 2013 $'000
17. Trade and other receivables (current)				
Premiums receivable (i)	75,053	87,118	75,053	87,118
Reinsurance commissions receivable (ii)	–	(192)	–	(192)
Reinsurance and other recoveries on outstanding claims and claims paid (iii)	24,079	22,855	24,079	22,855
Provision for doubtful debts on reinsurance recoveries	(7,704)	(5,284)	(7,704)	(5,284)
	16,375	17,571	16,375	17,571
Investment income accrued (iv)	9,662	7,439	9,662	7,439
Sundry debtors (v)	4,410	695	4,174	527
	105,500	112,631	105,264	112,463

The current period balance of premiums receivable includes $46.962 million (2013: $55.056 million) relating to the renewal of workers' compensation premiums expiring at 4pm 30 June 2014.

(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.

	Consolidated		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
18. Deferred reinsurance expense				
Deferred reinsurance expense as at 1 July	24,595	27,241	24,595	27,241
Reinsurance premiums written during the year	90,523	83,731	90,523	83,731
Reinsurance premiums earned during the period	(90,621)	(86,377)	(90,621)	(86,377)
Deferred reinsurance expense as at 30 June	24,497	24,595	24,497	24,595

The current period balance of deferred reinsurance expense includes $2.414 million (2013: $3.523 million) relating to the renewal of workers' compensation premiums expiring at 4pm 30 June 2014.

	Consolidated 2014 $'000	Consolidated 2013 $'000	Company 2014 $'000	Company 2013 $'000
19. Fair value of financial assets (current)				
- Government and semi-government bonds	38,234	12,284	38,234	12,284
- Other fixed interest securities	6,017	4,493	6,017	4,493
- Shares in other corporations	268,431	284,841	268,431	284,841
- Units in other unit trusts	146,730	126,348	146,730	126,348
- Units in property unit trusts	56,032	38,839	56,032	38,839
Total current investments	515,444	466,805	515,444	466,805

	Consolidated 2014 $'000	Consolidated 2013 $'000	Company 2014 $'000	Company 2013 $'000
20. Tax assets				
Imputation credits	4,581	5,259	4,581	5,259
Deferred GST refund	1,390	1,513	1,390	1,513
	5,971	6,772	5,971	6,772

	Consolidated 2014 $'000	Consolidated 2013 $'000	Company 2014 $'000	Company 2013 $'000
21. Other current assets				
Deferred fire service levy expenses	2,799	6,747	2,799	6,747
Other assets	1,985	1,344	1,985	1,344
	4,784	8,091	4,784	8,091

	Consolidated 2014 $'000	Consolidated 2013 $'000	Company 2014 $'000	Company 2013 $'000
22. Trade and other receivables (non-current)				
Reinsurance and other recoveries on outstanding claims and claims paid	50,274	19,883	50,274	19,883
Loan to subsidiary (note 37)	–	–	–	1,710
	50,274	19,883	50,274	21,593

Reinsurance and other recoveries on outstanding claims are settled in accordance with the terms of the contract.

These amounts are normally settled after twelve months.

	Consolidated		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
23. Fair value of financial assets (non-current)				
- Government and semi-government bonds	196,486	234,044	196,486	234,044
- Other fixed interest securities	106,177	71,938	106,177	71,938
- Units in other unit trusts	29,217	25,698	29,217	25,698
- Loans - secured	14	168	14	168
Total non-current investments	331,894	331,848	331,894	331,848

	Consolidated				
	Motor Vehicles	Office Equipment	Computer Equipment	Leasehold Improvements	Total
24. Plant and equipment					
Year ended 30 June 2014	$'000	$'000	$'000	$'000	$'000
Gross carrying amount					
Balance at 1 July 2013	2,350	5,162	9,192	4,901	21,605
Additions	590	23	863	76	1,552
Disposals	(502)	(2,484)	(3,081)	–	(6,067)
Balance at 30 June 2014	2,438	2,701	6,974	4,977	17,090
Accumulated depreciation					
Depreciation charge for the year	(485)	(228)	(358)	(506)	(1,577)
Accumulated depreciation	(522)	(1,523)	(5,309)	(1,375)	(8,729)
Balance at 30 June 2014	(1,007)	(1,751)	(5,667)	(1,881)	(10,306)
Net carrying amount at 30 June 2014	1,431	950	1,307	3,096	6,784

There has been no change to depreciation rates or useful lives at 30 June 2014.
The balance of plant and equipment for the consolidated entity is the same as the company.

Year ended 30 June 2013					
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

25. Intangible assets

Consolidated

Year ended 30 June 2014

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

	Computer Software
Gross carrying amount	$'000
Balance at 1 July 2013 net of accumulated amortisation	9,148
Additions	590
Disposals	(22)
Impairment of intangible assets	(2,309)
Balance at 30 June 2014	7,407
Accumulated amortisation	
Amortisation charge for the year	(1,406)
Accumulated amortisation	(3,156)
Balance at 30 June 2014	(4,562)
Net carrying amount at 30 June 2014	2,845

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 2013

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

	Computer Software
Gross carrying amount	$'000
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

	Consolidated		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
26. Trade and other payables (current)				
Trade creditors	19,069	20,833	19,069	20,833
Accrued expenses	1,606	2,952	1,598	2,945
Sundry creditors	2,315	6,206	2,315	6,206
	22,990	29,991	22,982	29,984

The current period balance of the trade creditors includes $2.414 million (2013: $3.523 million) relating to the renewal of workers' compensation premiums expiring at 4pm 30 June 2014.

	Consolidated 2014	Consolidated 2013	Company 2014	Company 2013
27. Provisions (current)				
Catholic entity distributions	10,619	20,586	10,619	20,586
Employee benefits	4,780	4,578	4,780	4,578
	15,399	25,164	15,399	25,164

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.

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 2014	Consolidated 2013	Company 2014	Company 2013
28. Tax liabilities				
GST provision	96	13	96	13

	Consolidated			
	Actual 2014	Actual 2013	Notional 2014	Notional 2013
29. Other liabilities (current)				
Financial liability – options	–	770	–	5,201
Financial liability – futures	5	591	–	93,871
	5	1,361	–	99,072

	Company			
	Actual 2014	Actual 2013	Notional 2014	Notional 2013
Financial liability – options	–	770	–	5,201
Financial liability – futures	5	591	–	93,871
	5	1,361	–	99,072

	Consolidated		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
30. Provisions (non-current)				
Employee benefits	968	901	968	901
Make good of premises	1,453	1,415	1,453	1,415
	2,421	2,316	2,421	2,316

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 2014					
Carrying amount at 1 July 2013	20,586	–	5,479	1,415	27,480
Additional provisions	10,619	–	1,523	38	12,180
Amounts utilised during the year	(20,586)	–	(1,254)	–	(21,840)
Reversal of unused provision	–	–	–	–	–
Carrying amount at 30 June 2014	10,619	–	5,748	1,453	17,820
Current **(note 27)**	10,619	–	4,780	–	15,399
Non-current **(note 30)**	–	–	968	1,453	2,421
	10,619	–	5,748	1,453	17,820
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

	Consolidated		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
32. Contributed equity				
Authorised 10,000,000 ordinary shares	20,000	20,000	20,000	20,000
Ordinary shares issued & paid-up 2,939,676 (2013: 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	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
33. Reserves				
(a) **Composition**				
General reserve	406,874	356,194	406,874	356,194
	406,874	356,194	406,874	356,194
(b) **Movements**				
General reserve				
Opening balance	356,194	293,694	356,194	293,694
Transfers to and from retained profits	50,680	62,500	50,680	62,500
Closing balance	406,874	356,194	406,874	356,194

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 2014 $'000	Consolidated 2013 $'000	Company 2014 $'000	Company 2013 $'000
34. Outstanding claims liability					
(a) **Outstanding claims liability**					
Undiscounted central estimate	(A)	512,692	461,115	512,692	461,115
Discount to present value		(74,865)	(82,118)	(74,865)	(82,118)
		437,827	378,997	437,827	378,997
Claims handling costs	(B)	25,873	22,637	25,873	22,637
		463,700	401,634	463,700	401,634
Risk margin	(C)	58,881	42,945	58,881	42,945
Gross outstanding claims liability – discounted		522,581	444,579	522,581	444,579
Gross claims liability – undiscounted	(A)+(B)+(C)	597,446	526,697	597,446	526,697
Current		96,651	88,537	96,651	88,537
Non-current		425,930	356,042	425,930	356,042
Total		522,581	444,579	522,581	444,579

(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	2014 %	2013 %
Short-tail	9.9	9.9
Professional indemnity	16.0	16.0
Public liability	16.6	12.5
Workers' compensation	9.0	9.0

(c) Reconciliation of movement in discounted outstanding claims liability

	Gross $'000	Reinsurance $'000	Net $'000
2014			
Brought forward	444,579	32,209	412,370
Effect of changes in assumptions	80,520	37,535	42,985
Increase in claims incurred/recoveries anticipated over the year	91,412	11,951	79,461
Claim payments/recoveries during the year	(93,930)	(20,228)	(73,702)
Carried forward	522,581	61,467	461,114
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

(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	2008 & prior	2009	2010	2011	2012	2013	2014	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Estimate of ultimate claims cost:								
At end of accident year	649,062	65,810	63,115	53,814	52,466	60,573	46,719	991,559
One year later	623,664	58,928	50,770	47,613	57,710	60,377	–	899,062
Two years later	609,361	46,675	45,885	47,238	52,851	–	–	802,010
Three years later	595,372	41,668	47,566	42,928	–	–	–	727,534
Four years later	554,045	37,357	42,949	–	–	–	–	634,351
Five years later	576,902	37,295	–	–	–	–	–	614,197
Current estimate of cumulative claims cost	696,305	37,295	42,949	42,928	52,851	60,377	46,719	979,424
Cumulative payments	(377,989)	(28,400)	(28,832)	(25,717)	(24,961)	(16,375)	(6,866)	(509,140)
Outstanding claims – undiscounted	318,316	8,895	14,117	17,211	27,890	44,002	39,853	470,284
Discount								(61,278)
Outstanding claims								409,006
Short-tail outstanding claims								20,732
Claims handling expenses								25,873
Risk margins								66,970
Total gross outstanding claims as per the Balance Sheet								522,581

(ii) **Net**

Accident year	2008 & prior	2009	2010	2011	2012	2013	2014	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Estimate of ultimate claims cost:								
At end of accident year	559,777	64,301	62,918	53,484	51,800	58,134	46,468	896,882
One year later	531,889	57,827	49,610	46,988	55,328	55,976	–	797,618
Two years later	514,621	45,987	44,674	46,621	52,519	–	–	704,422
Three years later	518,215	41,390	41,880	42,786	–	–	–	644,271
Four years later	476,713	37,119	38,292	–	–	–	–	552,124
Five years later	502,355	37,077	–	–	–	–	–	539,432
Current estimate of cumulative claims cost	574,420	37,077	38,292	42,786	52,519	55,976	46,468	847,538
Cumulative payments	(295,618)	(28,227)	(28,465)	(25,541)	(24,806)	(16,207)	(6,836)	(425,700)
Outstanding claims – undiscounted	278,802	8,850	9,827	17,245	27,713	39,769	39,632	421,838
Discount								(56,040)
Outstanding claims								365,798
Short-tail outstanding claims								10,563
Claims handling expenses								25,873
Risk margins								58,880
Total net outstanding claims as per the Balance Sheet								461,114

	Consolidated		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
35. Unearned premium reserve				
Unearned premium liability as at 1 July	140,469	132,572	140,469	132,572
Deferral of premiums on contracts written in the period	152,368	168,807	152,368	168,807
Earning of premiums written in current and previous periods	(164,370)	(160,910)	(164,370)	(160,910)
Unearned premium liability as at 30 June	128,467	140,469	128,467	140,469

The current period balance of the unearned premium reserve includes $46.962 million (2013: $55.056 million) relating to the renewal of Workers' Compensation premiums expiring at 4pm on 30 June 2014.

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

(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	
	2014 $	2013 $	2014 $	2013 $
Directors				
Short-term	379,247	362,252	324,485	310,027
Post employment	30,548	29,100	25,483	24,400
	409,795	391,352	349,968	334,427

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

	Consolidated		Company	
	2014 $	2013 $	2014 $	2013 $
Executives				
Short-term	3,246,808	3,073,598	3,246,808	3,073,598
Post employment	194,303	148,663	194,303	148,663
Other long-term	149,556	110,215	149,556	110,215
	3,590,667	3,332,476	3,590,667	3,332,476

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 2014	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 2013			
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

(d) Loans to key management personnel

There are no loans to key management personnel.

	Consolidated		Company	
	2014	2013	2014	2013
	$	$	$	$
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 $0 (2013: $1,710,000) with no fixed repayment date. The loan from 2013 was forgiven by CCI in 2014.				
Balance of loan to subsidiary.	–	–	–	1,710,000
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.	–	–	29,216,819	25,697,473
Expenses charged to CCI Asset Management Limited.	–	–	680,110	979,874
Balance of intercompany receivable from CCI Asset Management Limited.	–	–	55,785	88,884

	Consolidated		Company	
	2014	2013	2014	2013
	$	$	$	$
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	214,319	268,513	188,054	193,735
(b) other services in relation to the entity and any other entity in the consolidated entity				
– Other services	89,335	97,829	89,335	97,829
Total other services	89,335	97,829	89,335	97,829

Other services relates to the review performed by the Ernst & Young Actuary team, GS007 audit and ICAAP review.

	Consolidated		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
39. Expenditure commitments				
Operating lease expenditure commitments:				
– Within one year	4,218	4,059	4,218	4,059
– After one year but not more than five years	14,589	14,881	14,589	14,881
– More than five years	838	4,098	838	4,098
	19,645	23,038	19,645	23,038
Lease payments recognised as an expense in the period				
Minimum lease payment	2,501	2,382	2,491	2,373
Contingent rents	(314)	(326)	(315)	(327)
	2,187	2,056	2,176	2,046

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 (CPI) 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	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
40. Statement of cash flows				
Reconciliation of cash flow from operations with profit/(loss) from ordinary activities				
Profit/(loss) from ordinary activities	51,856	63,663	50,099	63,966
Changes in net market value of investments	(52,324)	(54,035)	(52,324)	(54,035)
Depreciation of assets	1,577	1,319	1,564	1,308
Amortisation of intangible assets	3,715	1,214	3,715	1,214
Changes in grants and Catholic Entity Distributions	10,506	20,536	10,506	20,536
Profit/(loss) on sale of assets	110	33	109	33
Changes in assets and liabilities				
Increase/(decrease) in unearned premium	(12,001)	7,898	(12,001)	7,898
(Increase)/decrease in premiums receivable	12,065	(7,879)	12,065	(7,879)
(Increase)/decrease in reinsurance and other recoveries receivable on outstanding claims	(29,198)	8,321	(29,198)	8,321
(Increase)/decrease in reinsurance payables	(1,379)	1,091	(1,379)	1,091
Increase/(decrease) in outstanding claims	78,002	26,528	78,002	26,528
(Increase)/decrease in statutory charge asset	4,356	747	4,356	747
Increase/(decrease) in GST tax provision	205	(372)	205	(372)
Increase/(decrease) in other provisions and sundry debtors	(5,959)	2,118	(4,168)	1,927
Cash flow from operating activities	61,531	71,182	61,551	71,283

41. Controlled entities

Name of entity	Country of incorporation	Ownership interest		Investment	
		2014 %	2013 %	2014 $'000	2013 $'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	
	2014 $'000	2013 $'000
Tier 1 capital		
Paid-up ordinary shares	8,139	8,139
General reserves	406,874	356,194
Retained earnings at end of reporting period	1,761	3,515
Premium liability surplus	22,389	23,791
Net tier 1 capital	439,163	391,639
Less net intangible assets	2,845	5,992
Less assets under a fixed or floating charge	7,727	6,369
Total capital base	428,591	379,278
Minimum capital requirement	225,472	199,513
Solvency coverage	1.90	1.90

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.

2014	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	2.50	61,143				3	61,146
Receivables and other						155,774	155,774
Government and semi-government loans	5.45		21,053	199,775	13,892		234,720
Other fixed interest securities	5.16		6,017	65,038	41,139		112,194
Loans	5.00			14			14
Shares, options & trusts						499,433	499,433
Preference shares			977				977
Convertible notes							
Total		61,143	28,047	264,827	55,030	655,210	1,064,258
Financial liabilities							
Trade and sundry creditors						22,990	22,990
Exchange traded options							
Total						22,990	22,990

2014	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	2.50	60,964				2	60,966
Receivables and other						155,538	155,538
Government and semi-government loans	5.45		21,053	199,775	13,892		234,720
Other fixed interest securities	5.16		6,017	65,038	41,139		112,194
Loans	5.00			14			14
Shares, options & trusts						499,433	499,433
Preference shares			977				977
Exchange traded options							
Total		60,964	28,047	264,827	55,030	654,973	1,063,842
Financial liabilities							
Trade and sundry creditors						22,982	22,982
Exchange traded options							
Total						22,982	22,982

2013	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	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		246,326
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 warrants							
Total		26,721	13,912	230,721	87,711	598,824	957,891
Financial liabilities							
Trade and sundry creditors						29,991	29,991
Exchange traded options						770	770
Total						30,761	30,761

2013	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	3.29	26,522				2	26,524
Receivables and other						134,056	134,056
Government and semi-government loans	5.48			184,113	62,215		246,327
Other fixed interest securities	5.16		4,493	46,440	25,498		76,430
Loans	5.00			168			168
Shares, options & trusts						466,307	466,307
Preference shares	–		9,419				9,419
Convertible notes	–						
Exchange traded options							
Total		26,522	13,912	230,721	87,712	600,366	959,233
Financial liabilities							
Trade and sundry creditors						29,984	29,984
Exchange traded options						770	770
Total						30,754	30,754

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 as at 30 June 2014	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				
Government and semi-government bonds	234,720	–	–	234,720
Other fixed interest securities	111,165	–	1,029	112,194
Shares in other corporations	267,961	267	203	268,431
Units in other unit trusts	–	175,947	–	175,947
Units in property unit trusts	4,644	45,705	5,683	56,032
Loans - secured	–	–	14	14
Total	618,490	221,919	6,929	847,338
Financial liabilities				
Derivative instruments				
Options	(5)	–	–	(5)
Total	(5)	–	–	(5)

Transfer between categories

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of level 3 fair value measurements during the year.

Consolidated 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				
Government and semi-government bonds	246,328	–	–	246,328
Other fixed interest securities	75,396	–	1,035	76,431
Shares in other corporations	284,244	289	308	284,842
Units in other unit trusts	–	152,046	–	152,046
Units in property unit trusts	3,348	25,797	9,694	38,839
Loans - secured	–	–	168	168
Total	609,316	178,132	11,206	798,654
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 fair value measurements, and no transfers into and out of level 3 fair value measurements during the year.

Reconciliation of Level 3 fair value movements	Consolidated Entity 2014 $'000	Consolidated Entity 2013 $'000
Opening balance	11,206	14,298
Total gains and losses		
- Realised	(10)	3,023
- Unrealised	(1,430)	(159)
Purchases	–	165
Sales	(2,837)	(6,216)
Transfers from other categories	–	95
Closing balance	6,929	11,206

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'.

Descriptions of significant unobservable inputs to valuation

Investment Type	Valuation Technique	Unobservable Input
Shares in other corporations	Net Tangible Asset	Net Tangible Asset
Other fixed interest securities	Independent Valuation	Independent Valuation
Units in property unit trusts	Net Tangible Asset	Net Tangible Asset

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 Level 3 fair value by up to $693,000 (2013: $1,120,600) or increase the Level 3 fair value by $693,000 (2013: $1,120,600).

45. Events occurring after the reporting period

On 4 August 2014, Catholic Super Fund (CSF) announced that they have appointed Mercer as their fund administrator from 1 April 2015. A transition plan is being established and CCI is not expected to provide administration services to CSF beyond 31 March 2015. The impact of the announcement is not likely to have a material effect on the company.

There has not been any other 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 state of affairs of the consolidated entity in future financial years.

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 2014 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, 9 September 2014

Independent auditor's report

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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 2014, 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.

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 2014 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

Brett Kallio

Brett Kallio
Partner
Melbourne
9 September 2014

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