CCI
Catholic Church
Insurance

Annual Report 2020

Contents

Chairman's Report

Paul A Gallagher

"Protecting tomorrow."

"In the last year, our clients have experienced unprecedented change and a new uncertainty. Our legacy of experience and knowledge of their unique challenges means we can support them through transformation however profound, now and into the future. Our mission is to help our Catholic Church community to succeed in theirs, and at this important juncture build greater confidence in our partnership through our shared values."

A year of deep impact marks the road ahead

The past year has tested most organisations and individuals and CCI is no exception.

A number of our clients have acknowledged cases of historical abuse within their organisation and have sought to settle insurance claims relating to these. We have strengthened our reserves in the expectation that there will continue to be claims relating to Professional Standards in the years ahead. This is a prudent measure given the uncertainty. I would like to acknowledge the hurt of survivors and our on-going commitment to dealing with claims in a timely and fair manner.

While COVID-19 has presented real challenges to the whole of Australia, it has not had a significant impact on our clients and our underwriting result reflects limited claims due to COVID-19.

Our core operations continue to perform well.

The Group reported a loss for the year of $247.2m. This is primarily due to the $238.9m strengthening of reserves for Professional Standards liabilities.

The Board's attention has also focused on all other areas of our business that have shown solid performance over recent years, and I'm proud of the achievements made. With the exception of the repercussions of Professional Standards claims, our core business is unquestionably sound. Investing more in resources that address the significant insurance consequences of both current and future claims benefits our clients in the longer term, and also reflects important conversations that we're having with our policyholders today.

Few could have predicted an invisible health crisis will usurp authority over bushfires and hailstorms. Amid high uncertainty about the economy and the impact of the COVID-19 pandemic, CCI continued to protect assets on behalf of our clients across all segments of the Church. These included cathedrals and smaller Parish buildings, schools across the country, and health facilities that care for the vulnerable within our community. The Board also maintained its steady and conservative approach to its investment strategy, as global lockdown measures and a subsequent freeze on business activity affected organisations everywhere. Our investment business is driven by the eccentricities of the global capital markets, and this year was no different.

The implications of a pandemic made life and business very difficult to manage for some of our clients; placing further affordability burden on Parishes and other organisations. In fact, never before have we felt such compelling reasons to find new ways to fulfil our obligations to our clients. In recent months, we've witnessed havoc in many forms. There has been devastation to the landscape through fire and hail that destroyed homes, damage to personal and communal property, and the emergence of a virus that threatened the global population's health. But faith sustains us, and we have endured turbulence to varying degrees through more than a century of service to the Church. The resilience and growth of welfare services encourages us all to continue learning and sharing ways of coping in times of need. Your Board and Management are working to ensure CCI is prepared to tackle the road ahead, and to continue to protect the assets of the next generation of Catholic and Christian faith-based clients. We'll do this by applying the very best of our expertise; working even more closely with clients to help them manage risks both physical and virtual.

A time to recover our strength

Helping clients to succeed in their mission means that we need to offer more for the future. Our shared values and history of providing certainty of protection now extends to help with navigating the unfamiliar and changing risk landscape ahead. There is no other insurer more suited to advising the Catholic Church and Christian communities when it comes to mitigating risk. I know we have the right people who consistently demonstrate an unwavering commitment to service, and operational agility for the benefit of clients.

In protecting the assets of the Catholic community for the future it's important that we exercise judicious management of our own organisation. Tenaciously defending our financial resilience is absolutely necessary, and unfortunately, in the face of significant liability claims this year we will not be able to make payments of Dividends to shareholders and Catholic Entity Distributions (CEDs) to clients. The Board will however, continue to honour its relationships with clients in other ways; ensuring support for Catholic work and mission continues. The task of restoring our capital position is already underway and will be given priority going forward. Meeting obligations to our business must be viewed in the context of protecting client needs in the future. I'm confident that our collaboration with the Church has deepened in ways that are reducing risk and supporting business continuity.

Looking ahead, more than 250 delegates are involved in the Fifth Plenary Council of Australia. We recognise the historical significance of this event for the Catholic Church in Australia, for its opportunity for dialogue and listening of one another's stories of faith. We will support the work of the Plenary, and contribute to matters involving risk management and look forward to the success of this significant event.

Chairman's Report (Continued)

This year marks the tremendous milestone of 200 years of Catholic Education in Australia. We honour this legacy for its unequivocal contribution to Australia's growth as a modern nation. Safeguarding the future learning of our youngest members of society must take precedence in advocating Catholic values.

An inspiring decade

Jane A Tongs
B.BUS (ACTG), EMBA, FCPA, FACA, MAICD

Jane joined the CCI Board in 2010, and over the last decade has held special responsibilities as Chair of the Board of Reinsurance, and Committee and Member of the Board Investment Committee. We wish to extend our sincere thanks to Jane, for her generous work and commitment to her role and for her expertise in driving excellence in shareholder value.

Jane's vast experience and knowledge of Board Governance and Risk Management has served to strengthen our support for clients while preserving a legacy of protecting the interests of the Church community. She is recognised at home and abroad across the financial and insurance services industry for her leadership and skills in: Funds Management, Infrastructure, General Insurance, and Financial Services, as well as Audit and Remuneration. We wish Jane all the very best in her future endeavours and thank her for the privilege of the last ten years of sharing CCI's vision.

Today, we are the largest insurer of schools in the country. There are more than 1,750 Catholic schools nationally, teaching approximately 765,000 students.

Our transformation journey continues to bring major changes to CCI's technology, processes, and people. All developments help to modernise the organisation. I'm pleased that technology and infrastructure goals are on track, and we've launched an important new phase that will carry us forward, more competent to operate in a digital and agile business environment.

Judicious management to secure our future

Our focus is on building a sustainable business for the next century. CCI has enjoyed growth over the past four years and achieved important milestones in its transformation program. I know that we will apply this excellent momentum to the crucial task of preserving the business stability of our organisation, and addressing the financial strains of historic liability claims. It's a duty that requires the imposition of tough and considered rectification measures, but we have the advantage of strong leadership, the expertise of bright financial minds, and the experience of more than a century. The collaborative efforts of our Professional Standards teams and legal professionals in this area are not new, but have now expanded and will remain dedicated to this critical work.

Governance is fixed at the top of our agenda across CCI and the Board, whose approach to compliance and regulation means we consistently meet the regulatory requirements of APRA, ACNC, and ASIC. It gives me great optimism for the future knowing that our obligations as an insurer are properly fulfilled and our relationships with governing bodies have shown strength once again. CCI has worked hard to develop a highly intelligent risk culture, and risk perception is high and embedded across the entire organisation.

On behalf of the Board and CCI, I wish to express sincere thanks to Jane Tongs who retires from the Board this year, after a decade of valued service. Jane brought a wealth of experience having been Chair of numerous Boards, and for CCI she held special responsibilities as Chair of the Board Reinsurance Committee and as Member of the Board Investment Committee. We wish her all the best in her future endeavours.

I also welcome new Directors Greg Cooper and Noel Condon. Greg joined our Board in June and Noel joins in October. The selection of new Board members requires the important mix of skills necessary to complete a well-functioning Board. Both Greg and Noel bring significant technical and personal skill to our Board table.

Refreshment of your Board is an important component of good governance. This most importantly applies to the Board Chair. After thirteen years as a Board member, ten as chair, this will be my last Chair's Report. To have been involved in a company that has, at all times, maintained a singular focus on its mission to protect and serve our Catholic community has been an honour. I thank the CCI community for their support during this time. I would particularly like to thank my fellow Directors and the CEO's Peter Rush and Roberto Scenna. CCI has been blessed to have the unwavering leadership and vision of many throughout its history. I congratulate Joan Fitzpatrick as new Chair. Under Joan's leadership, your Board and management team has the experience and knowledge to meet the unique challenges that the future will bring.

I wish all at CCI success in your future.

Sincerely,

Paul A Gallagher
Chairman

CEO's Message

Roberto Scenna

In 2020, the impact of change for CCI was forceful and profound. Against this backdrop our work has begun; realigning our course to meet new financial objectives.

After more than a century, CCI continues to lead clients through a myriad of risks.

With increased uncertainty now affecting organisations across the world, CCI is focussed on ensuring that we are in a sound position to continue to offer total risk solutions for a changing environment.

Reflection and resolve

This year's claims and underwriting functions were a critical focal point for many. In looking back, I see that CCI has addressed Professional Standards Claims, along with the uncertainty of a growing pandemic, and the economic downturns and other changes resulting from volatile global financial markets. While we cannot undermine the reality of the impact of Professional Standards claims on our financial position, nor its demand for ongoing remediation efforts in this important area of our business, we are a company that is now stronger and more capable of executing the right strategies to manage highly complex challenges as we move forward. This is a difficult moment in our history as an insurance organisation. CCI supports and assists legal authorities and the Catholic Church in all matters relating to Professional Standards claims. We extend sincere compassion to those in need of support, and acknowledge the role of justice towards healing for survivors of abuse. We will reach higher and with determination meet the protection needs of our clients, well into another century. Investing more in enhanced support better protects the assets and investments of clients and assists them in the daily work of serving communities, including caring for vulnerable people young and old.

The work ahead requires focused leadership, and I am confident in our new motivated teams and their preparation to drive the organisation through the next challenging financial year. There is no doubt that addressing substantive impacts to our business has intensified, with necessary measures introduced so we can respond to the longevity of significant claims. The considerable action required to meet compensation obligations is already underway, as is the design of internal scenario planning and programs to overcome business uncertainty.

Our financial position

Overall, CCI's financial results show positive performance in relation to our core business. Economic turmoil associated with the COVID-19 pandemic has affected the global economy, leaving businesses bewildered and deeply concerned about the future. The implications for many clients are serious and still developing, and we recognise the impact of multiple determining factors in our financials for 2019 / 2020. CCI recorded a significant loss of $247.2 million for the year, manifestly tied to claims expenses in the area of Professional Standards Liability. We know that it is not possible to control the imposition nor magnitude of historical external forces on our progress, but we must honour our responsibilities as an insurance partner by responding to them with discipline and foresight. We will continue to place particular emphasis on the supervision of this area of our business, for the benefit of our clients and with due respect to the long-term sustainability of our organisation's financial health. We know that engaging fully with the complexity of this task is vital for our stakeholders, and for the many communities they serve across our nation, including the workforces we insure within education, healthcare, welfare, and aged care.

The core portfolio result is an underwriting profit of $3.6 million. With an overall Premium revenue of $264.2m, CCI continues to grow albeit steadily and prudently.
The managed growth in operating revenue remains an essential part of running a healthy core insurance business. We also contained costs during an unpredictable fiscal year. I'm pleased that our business continues to demonstrate proficiency in all areas of CCI Asset Management, Allianz Personal Lines, AIG travel, and Risk Services.

This year, CCI Asset Management (CCIAM) celebrated 20 years of outstanding ethical investing on behalf of the Church. Demand for our bespoke investment expertise continues to grow among existing and new clients.

Our deep knowledge of client needs, today and for the future, drives decisions that financially protects them for the longer term.

While we are monitoring the potential material impact of the COVID-19 pandemic on our business in the near term, I feel confident in our ability to protect and support the assets of the Catholic Church and its mission into the future. The fact is that volatile markets present opportunity as well as risks. Accordingly, we have engaged more closely and meaningfully with our existing clients to address their risk challenges and discuss what the future looks like. No doubt, the next financial year will be an arduous journey for many but with the right framework I believe we can identify and exploit these challenges as opportunities.

Insuring the Catholic Church is an obligation to support a longstanding partnership, and we do this through helping clients to restore financial strength and build resilience.
Our strategy going forward will see capabilities expand to support our core business performance in meeting challenges and benchmarks for success.

Putting to work resilience, built over the course of a century

There's been much excitement with the launch of our technology transformation project Phoenix, because it marks further steps towards operating as a more dynamic and digitally capable insurer in the future. Harnessing technology, and embracing new systems and data analytics provides tangible benefits in decision-making around our products and pricing. This offers clear benefits to clients, particularly in the work of claims management. Upon completion clients will experience a superior level of service and responsiveness. As of 2020, the program is in flight and represents a pathway for us to work effectively and with operational excellence; supporting a more client-centred, and data driven experience for all stakeholders.

CEO's Message (Continued)

Each year we follow the progress of our Catholic Church clients across all segments, and in meeting the needs of those in education, welfare, aged care, and Parishes we also track our own development. The significant bushfire and hailstorm events preceded something altogether unparalleled in the insurance industry in the last year. The COVID-19 pandemic remains a developing story that is touching the lives of everyone and we have monitored, analysed, and reviewed our policies to ensure clients have the most up-to-date information and clarity with regards to their protection.

As an organisation, we have demonstrated resilience in 2020 in ways that have exceeded the expectations of many clients. Our COVID-19 response translated into an early and rapid redeployment of staff to remote working environments, supporting ongoing and uninterrupted business operations. I'm confident this has helped all stakeholders during the difficult months of remote learning and work that we've experienced and continue to face.

CCI's Senior Leadership Team has set operational performance benchmarks, while monitoring trends and revising our Risk and Compliance imperatives. In 12 months, we have strengthened our risk awareness; appointing an Assurance Lead for each business unit within CCI to monitor the implementation of risk frameworks and processes.

> We've invested in our people, processes, and overall performance measures.

Results are reflected in a higher Employee Engagement Score. Our people are assets we value highly, and the work of developing our skills means providing time for reflective practices, discussion, and debate. Critical thinking allows us to deepen our understanding around what we can do and what we can do better to meet future challenges.

Never before has the demand for attention to the topic of mental health been more acute. We formed a special committee in recognition of the serious obligation we have to manage mental health risks in our workplace, and ensure that our staff are supported in their wellbeing, including when working remotely. A range of professional counselling services is now enhanced by new initiatives promoting positive minds, including a staff Mental Health Day and opportunities to connect with others through volunteering.

CCI proudly received a nomination, once again, as a finalist for the prestigious Mansfield Claim Awards. This is an honour within the claims industry and testament to the excellent work of our Claims team in the Property & Casualty space. It recognises a tremendous collaboration across the business, for the benefit of our clients.

Performance measures, strategy, and kindness

We are in the process of embedding new strategic objectives, business plans, and key performance measures for the next year. Ultimately, the purpose of this work will help us to address important areas of the business. The strategy clarifies what being our best looks like, the business plan details what each team should implement, and the key performance measures assist us to achieve our goals. It's a simple format, but a very powerful one when aligned with client needs. It also supports our renewed focus to do more to achieve their objectives and ours. Attention to data information security and cyber security measures will be sharper, and overall client experience far superior. It's vital that our clients access the information they need digitally, safely and efficiently. Data governance and management capability is now the focus of a special team handling this task.

Our clients have relied on us to deliver certainty for more than 100 years. Security is a shared and perpetual goal that I know we can achieve when facing new risks together. Some call it 'managing a new normal'. Being forward-thinking, and active risk advisors has served us well in creating unique and comprehensive solutions for our Catholic Church clients, and I'm proud of the outstanding reputation we have for fairness in claims settlements.

Giving back to the Catholic community has been our 'normal' for decades, through grants and sponsorships, financial support, and donations.

Our charitable foundation, CCI Giving, has made 73 grants totalling more than $1,115,575.69 since it began. The Impact Grants Program consisting of the *In A Good Place* program, helps communities to combat social isolation, increase social participation and connectedness and increase help-seeking. Grants totalling $720,000 to date, are going some way to help people in rural, remote, and regional areas of the country, in a five-year initiative in partnership with the Foundation for Rural and Regional Renewal (FRRR). The Small Grants Program has seen 64 grants totalling over $387,500 distributed and assists organisations who support those facing various types of challenges. The programs' key areas support refugees and people seeking asylum, families affected by mental illness, young people experiencing educational disadvantage, and those affected by domestic violence.

My heartfelt thanks go to the entire CCI team for their focus, energy, and dedication to our work programs during 2020, and to our senior leaders for managing the logistics of a swift and orderly transition to working remotely. Their dedication ensured clients were fully supported when they most needed it. I'm grateful to the Board for their continued support through times of significant change for our organisation.

It is a privilege to make a meaningful difference in the lives of our clients and the communities they serve. I appreciate the willingness of all CCI staff to work together in new ways, for the wellbeing of our clients. I also acknowledge the endorsement of our shareholders.

To the Board I express my gratitude and thank our Chairman Paul Gallagher for his tremendous contribution and stewardship. Many share my best wishes for his happy retirement.

Sincerely,

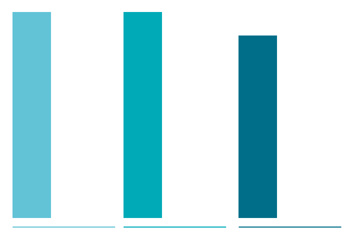
Roberto Scenna
Chief Executive Officer

CCI Highlights

2019-20

Operational

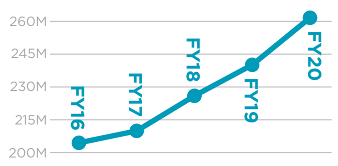
Client Retention



98.1% Overall | 98.4% Catholic | 85.7% Broader Christian

Premium Revenue

$264m



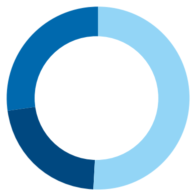
New Business Growth

$21m

Finalist in the **Mansfields** Claim Awards

Financial

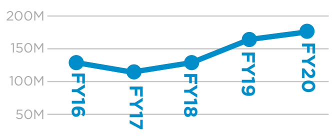
Gross Written Premium by product class



22% Casualty | 27% Workers compensation | 51% Property

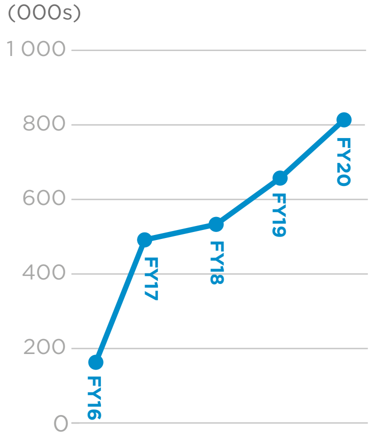
Gross Paid Claims

$173m



Asset Management Funds under management

$813.5m



Corporate Social Responsibility

Environmental NABERS Rating**

5/6

Leadership Gender Ratio

45/55

Employment Engagement Score

78

up from **60***

Employee Volunteer Hours

264hrs

CCI Giving

Small Grants Program has provided

64 grants

to assist people facing hardship. Totalling over***

$387k

Net Promoter Score

45

Sponsorships, Grants and Staff Donations to the Catholic community

$1.62m 2020

$1.67m 2019

$1.59m 2018

$1.62m 2017

$1.28m 2016

*2015 Employee Engagement score
**Head office (Melbourne) tenancy
***Running total from 2018

Corporate Governance Statement

For the year ended 30 June 2020

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 CCI, including:

- the appointment and periodical review of the performance of the Chief Executive Officer,
- setting the strategic direction of CCI, reviewing and monitoring progress, and refining the direction where considered appropriate,
- establishing and monitoring the achievement of goals and targets,
- overseeing the revenue, expense and capital budgets prepared by management,
- ensuring regulatory compliance and adequate risk management processes, including internal controls and external audit reports,
- nominating and appointing Directors when vacancies arise 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. CCI has no executive Directors.

The Constitution provides:

- for not less than three nor more than eight 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 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 must have a quorum of a minimum of 50% of its members, and they report and make recommendations to the Board.

The Board committees are Audit, Risk, Nominations, Remuneration & Culture, Investment and Reinsurance.

Audit Committee

The Chairman of the Board may be a member (but not chair) of this committee.

The members of this committee must satisfy themselves as to the adequacy and independence of the internal and external audit functions. They must have free and unfettered access to senior management, the internal auditor, the heads of all risk management functions, CCI's Appointed Auditor and Appointed Actuary at all times.

This committee must invite CCI's Appointed Auditor and Appointed Actuary to committee meetings.

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

The role of the Audit Committee is to review:

- the Company's consolidated annual accounts and the external auditor's annual report,
- the appointment of the external auditor and the actuary,
- the scope of the external and internal audits,
- the reports of the external and internal auditors to assess internal controls and monitor for suitability, reliability and compliance,
- the external auditor's management letter and management's response,
- the Statement of Integrity of Financial Reporting from the Chief Executive Officer and the Chief Financial Officer, and
- APRA reports and management's response, and APRA mandated policies.

Risk Committee

The Chairman of the Board may be a member (but not chair) of this committee.

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 may invite the Company's Appointed Auditor and Appointed Actuary to committee meetings.

The role of the Risk Committee is to:

- ensure effective oversight of material risks to which the Company is or may be exposed,
- oversee the risk management and control systems for adequacy and effective function,
- oversee the governance, risk management and compliance framework,
- ensure compliance with the Insurance Act, APRA guidelines and other relevant legislation,
- monitor the Company's compliance with the Risk Management Strategy, Capital Management Plan, Reinsurance, Risk Appetite Statement, Business Continuity Plan, Internal Capital Adequacy Assessment Process and other governance and risk related policies,
- 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), and
- ensure safeguards are in place for the independence of the Chief Risk Officer.

Nominations, Remuneration & Culture 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,
- monitor Board effectiveness, plan for Directors' retirements and identify and recommend suitable candidates for appointment to the Board,
- make recommendations on CCI's job evaluation, remuneration reward systems and policies, using the advice of external consultants as appropriate, and
- review and make recommendations to the Board in relation to the Company's Culture.

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 specific responsibilities to:

- examine the percentages of the present asset mix in the portfolio and direct management to make any changes considered necessary, 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 responsibilities of this committee are to make recommendations to the Board regarding:

- the formulation of the Reinsurance Management Strategy, including reinsurance policy and objectives and the establishment of controls, retentions and limits,
- empowering management to make reinsurance decisions consistent with policy and to take advice from external experts as appropriate,
- ensuring that reports from management are adequate to determine compliance with the policy and with statutory and regulatory requirements, and
- education programs to ensure an understanding of the level of uncertainty in catastrophe models and the approach used to manage catastrophe risk exposures.

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 CCI. Directors or their associated firms or companies may act in a professional capacity for CCI, but may not act as the Company's auditor.

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 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.

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

CCI 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

Steps Towards a Better World

Safe and efficient use of the planet's natural resources helps us honour the shared gifts of the global community, and protects the earth for future generations.

Environmental sustainability

We tread lightly, and operate in an environmentally ethical manner

We have developed a range of projects to ensure that our environmental blueprint stays green. We recognise the urgency of *Laudato Si* of the Holy Father Francis and invest responsibly knowing it effects all Catholic Church and broader Christian communities in some way. Our organisation is divested of industries such as tobacco, gambling, weapons, thermal coal and remains governed by the Catholic Values Policy framework that identifies industries and conducts we exclude. Our contribution to carbon emissions over the last two years declined through a 35% reduction in printing production, and a 20% reduction in landfill. Our recycling program has grown to include an organic waste stream, to recycle our coffee pods, snack wrappers, and batteries. Our bottle cap station supports Envision Hands in the production of children's mobility aids (prosthetics).

Social responsibility

We are active in our social responsibilities, promoting cultural diversity and inclusion across our business. We strive to empower all communities with our support

Investment in our people, processes, and overall performance measures makes our organisation stronger. CCI's Employee Engagement Score increased in the last 12 months from 60 to 78, which is a great achievement against the median global benchmark of 70. Annual remunerations for all staff were adjusted to ensure parity, and enhanced policies support parents so they have more flexibility and superannuation for unpaid parental leave. We also maintained our 50/50 gender ratio targets at a leadership level.

A special committee manages the serious obligation we have to support staff mental health and wellbeing. Our people have access to professional services including counselling and new initiatives promoting positive minds. CCI observes a staff Mental Health Day to allow for rest and reflection.

Compassion delivers the strongest support to people in need, and we value the strong Catholic traditions of kindness and giving back. We do this as an organisation through several ways. Our foundation, CCI Giving, is our way of extending support to organisations both large and small within the Catholic community. The foundation supports a growing number of causes that are underfunded, focusing on gaps in current social welfare areas, and assisting community groups in their work of helping the most marginalised in society.

Our staff Give Back Committee work on a range of initiatives and events to raise money for charities. In the last year, the committee donated $69,000 with staff contributing $7,933 through collective fundraising efforts of their own. The Christmas Wishing Appeal in New South Wales and Victoria provided more than 200 children's gifts. The Committee also recognised the vital work of community-based grassroots organisations caring for people young and old by supporting programs of crisis support, accommodation, childcare, respite, and dementia care. CCI staff were privileged to also support Melbourne's Sacred Heart Mission who assist people facing hardship and homelessness. Our donation covered the cost of 485 meals for those experiencing social disadvantage or isolation. As bushfires ravaged communities across many states, forcing people into emergency shelters or to seek medical care, we thanked the tireless work of St Vincent de Paul's Bushfire Appeal with the Committee's biggest single donation to date of $37,650.

CCI recorded almost 300 volunteering hours with the launch of a dedicated Volunteer Day. It's an initiative that strengthens ties with our Catholic community and promotes personal contribution to charitable causes.

Megan Peterson, CCI, Marketing Manager spent a day volunteering within Sacred Heart Mission, St. Kilda's Dining Hall. The charity is open every day of the year for breakfast and lunch for anyone seeking a meal.

"The dining hall is known as the heart of the mission. It feeds hundreds of people who are dealing with isolation, social disadvantage, homelessness, and loneliness. For some people, it's the only meal they'll have for the day and having this service means they can continue to look for work, support their families, or simply survive a difficult time. It was clear to me that this was a special place, a real anchor for this St Kilda community. It's a testament to the relationships that regular volunteers have built. For many, being in the dining hall is more than just having a meal – it's a chance to have human interaction and conversation in a safe environment. It's a place to feel a part of a community."

Supporting clients and their work continues through sponsorships and grants, Catholic Entity Distributions (CED) and our Investment Profits Sharing Program, and in-kind insurance and risk management advice. Some client events we support are small but no less important in their mission than the milestone of the Australian Catholic Church's Plenary Council, taking place in 2021 after 80 years. CCI is proud to support the important work of the Plenary Council and we look forward to the success of this significant event.

Corporate governance

We recognise that our ethical business behaviour is the foundation of strong corporate governance. It's how we honour commitments to ourselves and to our clients.

Our many environmental and social initiatives are guided by the CCI Corporate Governance Framework. This ensures appropriate safeguards exist for dealing fairly and ethically with staff, suppliers, and other stakeholders. Policies include a Risk Management Framework, Whistle-blower Policy, Conflicts of Interest, Procurement Policy, and multiple codes of conduct.

The Board and senior management recognise equal gender mix representation and diversity. Leadership teams direct us towards the best practices and outcomes for all stakeholders through strict procedures around the management of governance documents and revision to our Code of Conduct protocols. CCI has a disciplined and active approach to managing risk, physical assets, personnel, cyber security, and the protection of our data.

CCI has assigned resources and personnel to effectively manage, monitor, and adjust our COVID-19 response and ongoing regulatory obligations and compliance when required. We understand the specific hardships, issues, and risk concerns arising from the pandemic, and the unique ways it is making an impact on all of our segments.

We've reduced our carbon emissions

Landfill waste reduction lowered by at least **20%** since 2018

Staff donated $69k plus goods to Catholic charities

More than 200 children's gifts were given to the Christmas Wishing Appeal

264 volunteering hours recorded with the launch of a dedicated Volunteer Day

Donations to Melbourne's Sacred Heart Mission covered the cost of **485 meals**.

A Century of Purpose Built Protection

CCI's legacy of providing insurance and risk management support is based on a trusted partnership built over more than a century. Change and destabilising forces may persist, but certainty about protection helps clients to meet today's complex risk threats. Through unexpected events and the experience of loss, we've built solidarity and strength with our clients, supporting and enabling them to emerge stronger each year.

1985

Brisbane Hailstorm
Brisbane Hailstorm resulted in 86,000 home insurance claims and an estimated $804 million in damage

2009

Black Saturday Fires
Black Saturday bushfire in Victoria caused the greatest loss of life from fire since colonisation, claiming 173 lives. More than a million wild and domesticated animals perished and 450,000 hectares of land were burned

2020

COVID-19
COVID-19 disease was first confirmed in Australia shortly before the WHO declared the outbreak as a global health emergency and pandemic

Black Summer Fires
Black Summer bushfires in Victoria claim 173 lives, destroys wildlife and agriculture 450,000 hectares of land

1909
Death of Mary Mackillop
Founder of the Sisters of St Joseph of the Sacred Heart (the Josephites)

1911
CCI Established
Catholic Church Insurance (CCI) is established

1939
Balgo Mission
The Catholic mission at Balgo WA is established

1965
Bishops Conference
Australian Catholic Bishops Conference established

1970
Pope VI visit
Paul VI becomes first Pope to visit Australia

1974
First Aboriginal Priest
Patrick Dodson ordained, first Aboriginal priest

2010
Australia's First Saint
Mary McKillop canonised making her Australia's first saint

2011
CCI Centennial
CCI's centennial celebrates 100 years of insuring Catholic organisations

2018
St Vincent's Hospital
St Vincent's Hospital celebrates 125 years of their healing ministry in Australia

2019
St Vincent de Paul Society
St. Vincent de Paul Society celebrates 125 years of community service in Australia

2020
Catholic Education
Celebration of 200 years of Catholic education in Australia

1939

Black Friday Fires
Victorian Black Friday fires claimed 71 lives, destroyed 650 buildings, leaving profound damage environmentally

1974

Cyclone Tracy
Cyclone Tracy Darwin known as one of the worst natural disasters on our continent, the event led to the greatest peacetime evacuation and reconstruction effort ever seen by Australians

1983

Ash Wednesday Fires
Ash Wednesday fires across South Australia and Victoria claiming 75 lives and destroying more than 3,000 buildings

1989

Newcastle Earthquake
Newcastle Earthquake claimed 13 lives, and damaged 50,000 buildings. Many historical buildings were decimated. Overall estimated damage bill of $4 billion

2011

Brisbane Floods
Brisbane floods affected 3 eastern states, claiming 35 lives and causing property and other economic damages worth billions of dollars

West Coast's Rare Heritage Beauty

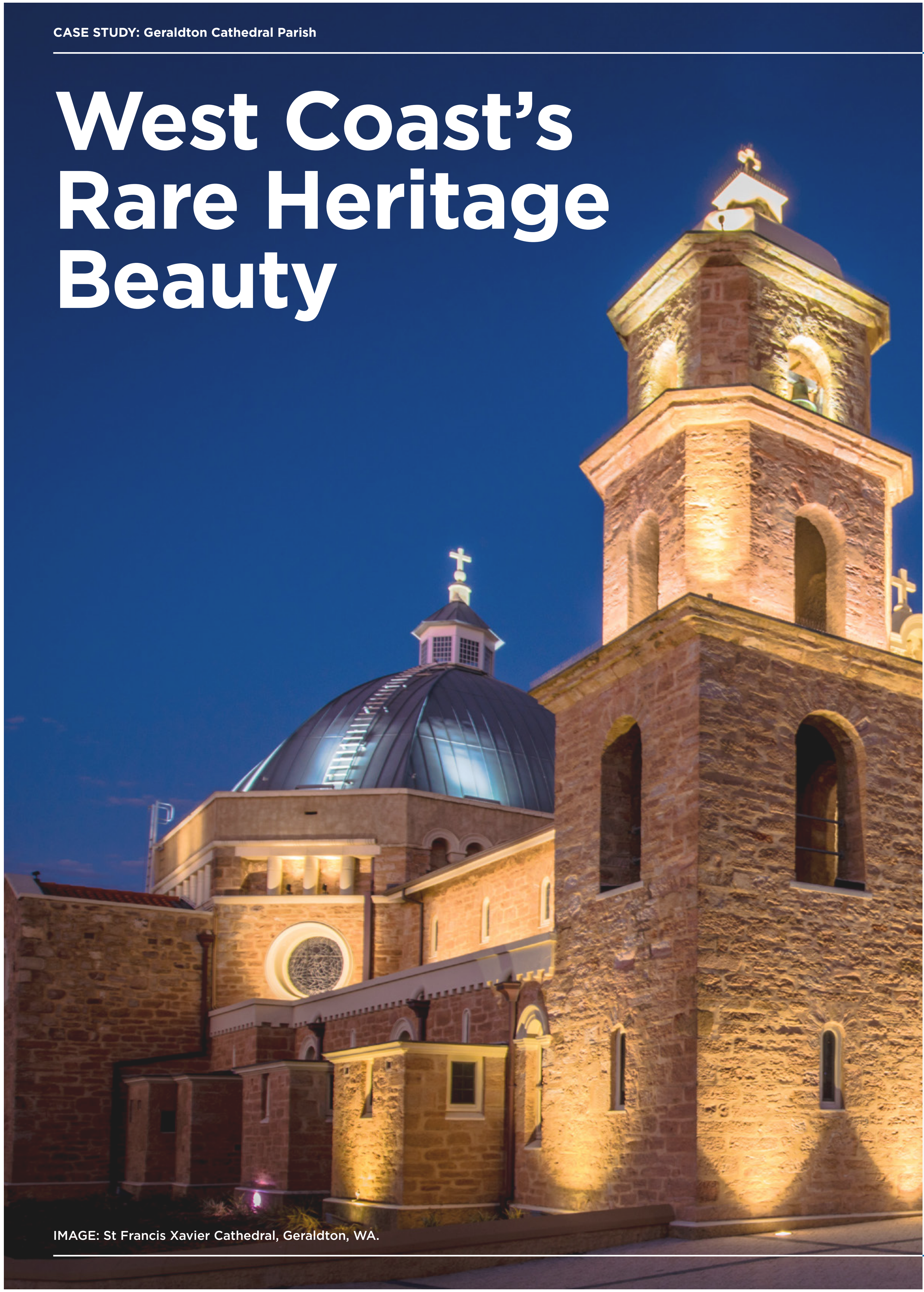


IMAGE: St Francis Xavier Cathedral, Geraldton, WA.

Geraldton Diocese has embarked on a new journey to protect its heritage assets and meet maintenance and restoration challenges. In the past year, conversations between the Diocese and CCI have led to a collaborative program focusing on the valuation and management of the prolific work of architect and priest Monsignor John Cyril Hawes. His unique buildings are located across 1000 kms of Western Australia's mid-west; forming The Monsignor Hawes Heritage Trail tourist route. A shared vision and collaboration show great promise in preserving the heritage buildings and the history of the Diocese.

Recognising and preserving heritage

With its rich history and rare heritage structures, Geraldton Diocese has the task of maintaining the unique value of many Catholic Church structures. This requires careful heritage identification, valuation, and protection. Monsignor John Hawes began his work more than a century ago. The magnificent St. Francis Xavier Cathedral was started in 1916 and completed in 1938. The body of architectural work that is his legacy includes, among many others, St. Joseph's of Perenjori, Our Lady of Mt. Carmel in Mullewa, Geraldton's Nazareth House, The Hermitage near St. John of God's Hospital and a chapel, San Spirito, in Geraldton Cemetery. His life would be an enduring commitment to pastoral work, and he designed and built other significant buildings in England and The Bahamas.

Geraldton's buildings are special for many reasons. Rare building materials notwithstanding, these are more than physical assets for the Diocese. They symbolise the heart of the pastoral mission of Monsignor Hawes and the Diocesan vision of 'joyfully living out our Christian calling across distance and diversity'. While they are significant for their architectural merit, collectively they form part of the cultural identity of the region and represent a narrative of the Parish environment.

Steps towards meeting affordability challenges

Many Dioceses face immense affordability issues in maintaining property assets, especially heritage buildings such as cathedrals and churches. Commonly, cost issues lead to underinsurance and disagreement over valuations between client and insurer. The goal of making premiums more affordable is not easily solved, but a collaborative approach to the question of how to manage heritage property marked a new way forward when Bishop Michael Morrissey of the Diocese initiated conversations with CCI.

The Diocese and CCI became immersed in an affordability project that was based on three important objectives. The first was to build a valuation program, including the re-valuation of heritage buildings. Direct contact between the Diocese and valuation professionals enabled accurate identification of significant historical features of heritage buildings. Working with the valuation team also gave the Diocese confidence in the accuracy of assessments and final reports. There are other church assets including art works, curio and cultural patrimony that are appreciated for their historical and artistic merit, and costs in cleaning statuary are a necessary element of conservation.

A second objective in the affordability project was addressed through a project to help the Diocese understand how premiums are determined. Understanding pricing is a focal point for working with many Dioceses to address affordability challenges, and Geraldton Diocese was able to see in a transparent way, how premiums are derived. Geraldton's location presents a higher risk exposure to cyclones and experiences a greater prevalence of storms.

Risk-management initiatives were a third objective and together with CCI, the Diocese looked at new ways to reduce their risk exposure. Innovative ideas are now taking the shared risk and insurance journey in a new direction. Geraldton's history and property are unique, but the reality of low parishioner numbers and even lower income levels is a familiar story for many Dioceses across the country.

The Catholic Church in Australia has a unique history, and many of their assets require attention and expertise to identify their heritage value. Bishop Michael Morrissey recognised the need for a Conservation Management Plan. Having a well-documented plan for managing and maintaining heritage buildings and items of liturgical value is vital to the preservation of Dioceses' assets. Primarily, it informs caretakers of the ongoing obligations for property care, including reconstruction or restoration plans required that are based on the age and heritage significance of a structure.

Specially commissioned artworks, significant liturgical items of historical value, documentation, photographs, and records containing certifications and dates are important church assets as well. Securing this material can now be done via a digital catalogue that has been developed by CCI and the Church. The Chancellor and Director of Heritage at the Diocese of Geraldton, Father Robert Cross has shown great stewardship and support of Cultura which will help all Dioceses in itemising Church assets. Geraldton will be the first Diocese to officially launch Cultura, in 2020. Recording cultural patrimony provides greater understanding of the value of assets for the Church, and is a rich source of information connecting a community to its history.

Working together helped Geraldton Diocese understand how rapidly costs rise from a disaster event. Specialist building materials are often required for restoration works, and experts for consultations around heritage repairs.

Forecasting and planning likely reconstruction timeframes associated with historic structures may be the combined work of many experts. In some cases, sourcing materials to rebuild or rectify damaged church structures can draw out a claim over several years; becoming complicated where external parties are involved (such as heritage trust bodies or local councils). The work of addressing heritage building protection can be daunting. The partnership and collaboration between Geraldton Diocese and CCI created a plan for the preservation and maintenance of their unique churches.

Walking down a new road together

Identifying key issues involved in maintenance puts a spotlight on the distant location of Geraldton's heritage buildings, reduced parishioner numbers, lack of available building materials, and insurance costs. Together with Bishop Morrissey, CCI created an action plan with a difference, and one that involves the Heritage Council WA.

Understanding Heritage Council expectations in relation to the restoration, maintenance, and continuity of a heritage site in WA is important for Geraldton Diocese. It also presents an opportunity to learn more about available grant applications, and to investigate options for support through government funding. Initial discussion with the Heritage Council will provide an agenda to consider; outlining common objectives for the Diocese and CCI to ensure the legacy of Monsignor Hawes remains for future generations of locals and visitors.

Bishop Morrissey has inspired the Geraldton Diocese to take a proactive approach to preserving its heritage assets. The collaborative effort of the Diocese and CCI in formulating a coordinated response to the cost challenges of maintaining and restoring these historic properties, through research, planning, and preparing to engage with Heritage Council, is an entirely new path for all involved. The work of meeting challenges in protecting heritage buildings is more meaningfully applied when working in partnership with others to achieve the same goals. Parishioner numbers are trending downward in many countries, but heritage buildings are still cherished by locals and visitors who appreciate the nation's ecclesiastical buildings. While income streams for many Dioceses are a persistent hurdle they can be reimagined. Today Catholic heritage buildings form part of a community's identity, and frequently support community life and activities.

Insuring and maintaining these prayerful and beautiful churches is a real challenge for the present local Parishes and Dioceses due to the extraordinary shift in population, from the rural areas of Australia to the major cities and the coast. Little Parish communities, who have great love for these churches find it impossible to care for them by themselves, because mass attendance drops as well in these places.

CCI has established a partnership with the Diocese to help develop manageable maintenance schedules and assist us in understanding heritage requirements which can be quite onerous. This will greatly assist in developing manageable maintenance and insurance premiums for our Parishes and Diocese. This work is ongoing, and I am most grateful for the support of CCI to the Diocesan Office in reaching workable outcomes to preserve this rich heritage for future generations

Bishop Michael Morrissey, Diocese of Geraldton, Western Australia

IMAGE: Inside St Francis Xavier Cathedral, Geraldton Diocese

Directors' Report

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 2020. In order to comply with the provisions of the Corporations Act, 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)
- Gregory Cooper (Appointed 29 June 2020)
- Matthew Doquile
- Joan Fitzpatrick
- Richard M Haddock
- Reverend Dr Philip Marshall
- Sister Louise Reeves
- Julie-Anne Schafer
- Jane A Tongs (Retired 25 May 2020)
- Roberto Scenna (Alternate Director for Richard M Haddock)

Paul A Gallagher
B.COMM, FCA, CPA, GAICD
Chairman of the Board, Member of the Board Audit, Risk, Nominations, Remuneration & Culture and Investment Committees

Paul joined the Board in 2007. A partner at BDO (QLD) in the Audit and Assurance Services division, Paul has expertise in the area of statutory and special purpose audits, special investigations, due diligence and corporate governance. He is currently Chair of the Edmund Rice Foundation Australia. He is also a Director on the Boards of BDO Australia, Queensland Investment Corporation (QIC) and AABP Investments.

Gregory Cooper
BEc (Actuarial Studies), FIA, FIAA
Non Executive Director, Member of the Board Investment Committee

Gregory joined the Board in June 2020. He retired as Chief Executive Officer of Schroder Investment Management Australia in December 2019. His professional career spans actuarial consulting and funds management across Asia Pacific and the UK. He has worked in various roles across Hong Kong, Singapore, London and Sydney. Gregory is a Director of Perpetual Limited, Colonial First State Investments Limited and Avanteos Investments Limited (collectively known as Colonial First State), a group subsidiary of Commonwealth Bank of Australia, NSW Treasury Corporation, the Australian Indigenous Education Foundation, Kincoppal Rose Bay School of the Sacred Heart and OpenInvest Holdings Limited. He is also a member of St Ignatius College Investment Committee. Gregory was previously Chairman, Deputy Chairman and Director of the Financial Services Council, the industry body representing funds management, retail superannuation and the life insurance industries for 10 years.

Matthew Doquile
B.EC, MBA (exec), GAICD
Non Executive Director, Member of the Board Audit and Risk Committees and the CCIAM Board

Matthew joined the Board in 2018. He is a long-standing and accomplished insurance professional with more than 20 years of industry experience in Australia and Asia Pacific. Matthew has held senior executive roles at Chubb Insurance Group in Asia and Australia, including that of Chief Operating Officer and CEO of Chubb in Australia, and most recently as Director, Partnerships at Auto & General Insurance.

Earlier in his career, Matthew also held various roles at National Australia Bank, where he developed expertise in corporate and business banking. Matthew's areas of expertise include General Insurance and Reinsurance, Distribution, Financial Services and Risk. He holds a Bachelor of Economics Degree along with an Executive MBA from the Australian Graduate School of Management, and is a Graduate Member of the Australian Institute of Company Directors.

Joan Fitzpatrick
BA, LLB, ANZIIF Fellow, CIP, FAICD
Non Executive Director, Chair of the CCIAM Board and Member of the Board Reinsurance and Nominations, Remuneration & Culture Committees

Joan joined the Board in 2016 and has more than 35 years of commercial business experience. An experienced change management leader, Joan has delivered successful business results including strong engagement of people throughout her career.

Qualified as a barrister, she has senior operations management experience in a range of industries, working for multinational companies in several countries, including 16 years as CEO and Director of the Australian and New Zealand Institute of Insurance Finance. She is a Fellow of ANZIIF and the Australian Institute of Company Directors. She is the Chair of the Boards of ESS Super and Sacré Cœur Independent School Glen Iris, a non-executive Director on the Boards of Defence Bank, Maurice Blackburn Lawyers, AFL Players Injury and Hardship Fund, and an executive Director of her consulting firm, Alvearium Pty Ltd.

Richard M Haddock
BA, LLB, FAICD
Non Executive Director, Chair of the Board Investment Committee and Member of the Board Reinsurance Committee and CCIAM Board

Richard joined the Board in October 2010. He commenced his professional life as a lawyer, and worked with an international bank for most of his career. Richard has been recognised by being appointed an Officer in the Order of Australia (AO).

He is the Chair of the Boards of CatholicCare Sydney, Trustees of Mary Aikenhead Ministries, St Vincents Curran Foundation and the Sisters of Charity Foundation, and a Director of the University of Notre Dame and Aid to the Church in Need. He is Chair of the Investment Committee of the Archdiocese of Sydney, and a Fellow of the Australian Institute of Company Directors and the Financial Services Institute of Australasia.

Directors' Report (Continued)

Reverend Dr Philip Marshall Ph.D
Non Executive Director, Chair of the Nominations, Remuneration & Culture Committee and Member of the Board Reinsurance Committee and CCIAM Board

Fr Philip joined the Board in 2015 and is currently Vicar General of the Adelaide Archdiocese. He studied at Adelaide University and then worked in the area of community welfare, before joining the St Francis Xavier Seminary at Rostrevor. Following his ordination, Fr Philip served in several parishes, and was Principal of Adelaide Theological College for many years.

He is a Doctor of Philosophy in the area of ecclesiology. In Canada, he studied with well-known Dominican theologian Father Jean-Marie Tillard. Fr Philip currently has oversight of the Adelaide Archdiocese "Renewing Parishes" program, which embraces ongoing Parish Visitation and the support of clergy and lay leaders in church renewal.

Julie-Anne Schafer
LLB (Hons), FAICD, ANZIIF
Non Executive Director, Chair of the Board Audit and Risk Committees and Member of the Nominations, Remuneration & Culture Committee

Julie-Anne joined the Board in February 2012 and is an accomplished company director, with extensive experience in diverse and highly regulated sectors including insurance. She is the President of the National Competition Council, Chair of the National Injury Insurance Agency (Qld) and Independent External Chair of the Audit and Risk Committee of the Department of Transport and Main Roads (Qld).

She is a Director of AV Super, CS Energy, Queensland Urban Utilities and Mercy Community Services SEQ Ltd. She is a Fellow of the Australian Institute of Company Directors and a Member of ANZIIF. She facilitates in Governance, Risk and Strategy in the AICD Company Directors Course, is a former Queensland Telstra Business Women's award winner and the recipient of an award from the Queensland Law Society for exceptional services to Australian society.

Sister Louise Reeves
MEd, MA, LLB
Non Executive Director, Member of the Board Audit and Risk Committees

Sister Louise joined the Board in February 2017. She is a Trustee of the Sisters of Saint Joseph and has just been re-appointed to the Congregational Leadership Team for a further six years.

She has previously been a non-executive Director in the Education, NGO and Aged Care sectors. Sister Louise has a background in Education and Law, holds a Practicing Certificate with the Law Society of NSW, and has worked at the Legal Aid Commission NSW and in Community Legal Centres.

Dividends and Catholic Entity Distributions

In respect of the financial year ended 30 June 2020, the Directors have recommended that no dividend be paid (2019: $nil). No dividend has been provided for in the 30 June 2020 financial statements.

The Company's results as at and for the year ended 30 June 2020 mean that Directors were unable to approve a Catholic Entity Distribution to be paid in 2020 for CCI (2019: $7.2m) but were able to approve a Catholic Entity Distribution to be paid in respect of CCI Asset Management of $0.4m (2019: $0.1m).

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

Principal activities

The principal activities of the company during the year were to underwrite the property, workers' compensation and liability risks of entities of the Catholic Church in Australia including the investment of funds relating thereto. The company also provided some residential and personal accident insurance business to the Catholic community via a referral agreement with Allianz Australia Insurance Limited.

The entity's wholly owned subsidiary, CCI Asset Management Limited acts as Responsible Entity of the CCI Asset Management trusts and Individually Mandated Accounts.

Review of operations

Results of operations

The Group reported a loss for the year of $247.2m that was primarily due to a $238.9m strengthening of reserves for Professional Standards liabilities. The core portfolio delivered an underwriting profit of $3.6m, representing a net combined operating ratio of 97.6%.

COVID-19 has not had a significant impact to our clients and our underwriting result reflects limited claims due to COVID-19. Despite the overall loss for the year, the core operations are performing well.

Gross Written Premium (including FSL) of $272.5m was up $29.8m or 12.3% compared to last year and was due to the successful execution of our strategy to expand our value offering to clients aligned with Catholic values.

Net Incurred Claims of $346.4m were up $147.6m or 74.3% due to the strengthening in Professional Standards Claims. This was driven by continued adverse experience in the volume of claims being lodged for abuse claims of more than 30 years ago. Net Incurred Claims in the core portfolio (excluding Professional Standards) increased by $20.7m largely due to our clients experiencing property losses from the major bushfires and floods during the year and a deterioration in our workers compensation portfolio, partly offset by recoveries under our reinsurance program where we maintain strong relationships with our reinsurance partners.

Net Investment Income saw a loss of $8.9m for the year as the COVID-19 global pandemic caused significant volatility across global investment markets, which now sees historically low interest rates.

We continue to look for ways we can add value to our clients and the broader Catholic community. Our asset management business continues to grow profitably with a $156.2m or 23.7% increase in assets under management, whilst our white-label insurance arrangements for home, motor and travel all recorded strong years.

The reserve strengthening in Professional Standards has significantly reduced our capital coverage, with the coverage for the Prescribed Capital Amount (PCA) reducing from 2.35x in 2019 to 1.31x in 2020. The higher level of capital in 2019 was held precisely for the potential for additional strengthening for Professional Standards liabilities. CCI's core operations are performing well and we are working to strengthening our capital position back towards our target capital level. We aim to resolve this by the end of 2020.

Results of operations	**2020 $'000**	**2019 $'000**
Consolidated profit / (loss)	(247,220)	(15,770)

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

Capital adequacy

	2020 $'000	**2019 $'000**
Common equity Tier 1 capital		
Paid-up ordinary shares	8,139	8,139
Reserves	299,807	546,640
Retained earnings	494	1,267
	308,440	556,046
Technical provisions in surplus of liability valuation:		
- Surplus from Liability Adequacy Test	14,665	16,704
	14,665	16,704
Tier 1 capital		
Less: deductions		
Intangible assets	(11,863)	(14,174)
Common equity Tier 1 capital	**(11,863)**	**(14,174)**
Total capital base	**311,242**	**558,576**
Prescribed capital amount		
Insurance risk charge	136,690	105,067
Insurance concentration risk charge	7,000	10,878
Asset risk charge	134,265	164,918
Operational risk charge	22,962	18,406
Less Aggregation benefit	(62,569)	(61,114)
Total PCA	**238,348**	**238,155**
PCA multiple	**1.31**	**2.35**

Directors' Report (Continued)

Employees

The group employed 240 employees as at 30 June 2020 (2019: 221 employees).

Risk management

The financial condition and operation of the group 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 group'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 financial statements or notes thereto.

Subsequent events after the reporting date

Subsequent to 30 June 2020, the Board have approved steps to be taken by management to improve the short-term capital position by rebalancing the investment portfolio to improve capital efficiency. Management have completed a $375m sell down of growth to defensive assets and this has resulted in a favourable movement in the investment risk charge.
Had this transaction been completed at 30 June 2020 this would have increased the reported Prudential Capital Requirement ratio coverage from 1.31 to 1.62. Other than the impact of the investment portfolio rebalance, 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 group, the results of those operations, or state of affairs of the group 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 group and the expected results of those operations of the Group are contained in the Chairman's, Chief Executive Officer's, and Review of Operations Report.

State and federal inquiries

The Royal Commission delivered its final report into Institutional Responses to Child Sexual Abuse in December 2017.

The Royal Commission made many recommendations and a significant one was the establishment of a National Redress Scheme. That recommendation was adopted by the Federal Parliament and came into operation on 1 July 2018.

The Victorian Parliamentary Inquiry (2012) previously resulted in change to the legislation in Victoria regarding limitation of actions. In July 2017 the Victorian Parliament passed further changes shifting the onus of proof in sexual abuse cases so that the Institution will now be required to prove it took steps to prevent abuse occurring. Legislative change has been enacted requiring organisations to identify an entity to sue in respect of civil claims.

Western Australia, Queensland and Victoria have adopted changes to limitation periods for sexual abuse claims as well as mechanisms for the revisiting of past claims. New South Wales has announced an intention to explore legislative change to enable revisiting past settlements, which is still under consideration.

Legislative change arising from the various State and Federal Inquiries continues to evolve and the ultimate financial impact on CCI continues to be monitored as the substantive impact of those changes emerge.

National Redress Scheme

The National Redress Scheme commenced operations on 1 July 2018. Many of CCI's clients have voluntarily opted into the Scheme. CCI has identified that its policies cannot respond to liabilities which arise solely by virtue of the Scheme. CCI is continuing to monitor the position of policyholders in respect of the Scheme but currently does not anticipate the Scheme altering CCI's exposure to claims for sexual abuse under insurance policies issued by the company.

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 32(c)).

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 auditor, 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.

No payment has been made to indemnify Ernst & Young during or since the financial year.

Directors' meetings

The following table sets out the number of meetings of the company's Directors (including meetings of committees of Directors) held during the year ended 30 June 2020 and the number of meetings attended by each Director.

	Director's Meetings		Risk Management		Audit	
Number of meetings attended by:	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended
P Gallagher	10	10	4	4	4	4
G Cooper	1	1	-	-	-	-
M Doquile	10	10	4	4	4	4
J Fitzpatrick	10	10	-	-	-	-
R Haddock	10	9	-	-	-	-
P Marshall	10	7	-	-	-	-
L Reeves	10	8	4	4	4	4
J Schafer	10	9	4	4	4	4
J Tongs	9	8	-	-	-	-

	Investment		Reinsurance		Nominations, Remuneration & Culture	
Number of meetings attended by:	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended
P Gallagher	4	4	-	-	4	4
G Cooper	1	1	-	-	-	-
M Doquile	-	-	-	-	-	-
J Fitzpatrick	-	-	-	-	4	3
R Haddock	4	4	4	4	-	-
P Marshall	-	-	-	-	4	4
L Reeves	-	-	-	-	-	-
J Schafer	-	-	-	-	4	4
J Tongs	3	2	4	4	-	-

Directors' Report (Continued)

Director's 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 32(b)).

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 legislative instrument 2016/191. The company is an entity to which the class order applies.

Auditor's independence declaration

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

Signed in accordance with a resolution of the Directors.

P A Gallagher, Director
Melbourne, 9 September 2020

Auditor's Independence Declaration

EY
Building a better working world

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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 2020, and in accordance with the requirements of Subdivision 60-C of the *Australian Charities and Not-for profits Commission Act 2012*, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of any applicable code of professional conduct.

This declaration is in respect of Catholic Church Insurance Limited and the entities it controlled during the financial year.

Ernst & Young

T M Dring
Partner
Melbourne
9 September 2020

Financial Statements

Statement of Comprehensive Income

For the financial year ended 30 June 2020

	Note	Group 2020 $'000	Group 2019 $'000	Company 2020 $'000	Company 2019 $'000
Premium revenue	8	264,203	242,205	264,203	242,205
Outwards reinsurance expense	8	(96,650)	(83,445)	(96,650)	(83,445)
Net premium revenue	8	167,553	158,760	167,553	158,760
Gross claims incurred	9	(457,692)	(253,489)	(457,692)	(253,489)
Reinsurance & other recoveries revenue	9	111,304	54,720	111,304	54,720
Net claims incurred	9	(346,388)	(198,769)	(346,388)	(198,769)
Gross commission expense		(2,437)	(913)	(2,437)	(913)
Reinsurance commission revenue		18,834	14,623	18,834	14,623
Net commission	14	16,397	13,710	16,397	13,710
Other underwriting expenses	10	(61,821)	(58,219)	(61,821)	(58,219)
Underwriting result		(224,259)	84,518	(224,259)	84,518
Investment income	13	(8,960)	91,741	(8,960)	91,741
General administration expenses	10	(18,729)	(19,995)	(17,010)	(18,540)
Catholic entity distributions		(387)	(7,306)	-	(7,228)
Donations – CCI Giving Trust	12	(256)	(253)	(256)	(253)
Revenue from contracts with customers		5,287	4,522	2,815	2,697
Other Revenue		84	39	62	30
Profit / (Loss) for the period	14	(247,220)	(15,770)	(247,608)	(16,071)
Total comprehensive income for the period		(247,220)	(15,770)	(247,608)	(16,071)

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

AASB 16 has been applied using the modified retrospective method and comparatives have not been restated, refer to note 2(c)

Statement of Financial Position

As at 30 June 2020

	Note	Group 2020 $'000	Group 2019 $'000	Company 2020 $'000	Company 2019 $'000
Assets					
Cash and cash equivalents	16	193,922	155,829	192,837	155,376
Trade and other receivables	17	111,678	131,828	111,049	131,303
Reinsurance recoveries	17	178,154	101,366	178,154	101,366
Financial assets at fair value through profit and loss	20	972,824	1,006,868	972,824	1,006,868
Deferred reinsurance expense	18	43,638	34,964	43,638	34,964
Deferred acquisition costs	19	427	553	427	553
Plant and equipment	23	25,816	9,160	25,816	9,160
Other assets	22	5,657	4,839	5,657	4,840
Tax assets	21	4,763	9,553	4,763	9,553
Intangible assets	24	11,863	14,174	11,863	14,174
TOTAL ASSETS		1,548,742	1,469,134	1,547,028	1,468,157
Liabilities					
Trade and other payables	25	52,136	40,125	52,094	40,125
Other liabilities	27	28,477	4,038	28,477	4,038
Unearned premium reserve	31	170,126	157,898	170,126	157,898
Provisions	26	9,205	15,806	8,818	15,728
Outstanding claims	30	979,073	694,322	979,073	694,322
TOTAL LIABILITIES		1,239,017	912,189	1,238,558	912,111
NET ASSETS		309,725	556,945	308,440	556,046
Shareholders' equity					
Contributed equity	28	8,139	8,139	8,139	8,139
Reserves	29	299,807	546,640	299,807	546,640
Retained profit / (loss)		1,779	2,166	494	1,267
TOTAL SHAREHOLDERS' EQUITY		309,725	556,945	308,440	556,046

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

AASB 16 has been applied using the modified retrospective method and comparatives have not been restated, refer to note 2(c)

Statement of Changes in Equity

For the financial year ended 30 June 2020

	Note	Contributed Equity $'000	General Reserves $'000	Retained Earnings $'000	Total $'000
Group					
At 1 July 2018		8,139	563,585	2,167	573,891
Net profit / (loss) for the period		-	-	(15,770)	(15,770)
Transfer to / (from) reserves	29	-	(16,945)	16,945	-
Dividend for 2018 ($0.40 cents per share)	15	-	-	(1,176)	(1,176)
At 30 June 2019		8,139	546,640	2,166	556,945
At 1 July 2019		8,139	546,640	2,166	556,945
Net profit / (loss) for the period		-	-	(247,220)	(247,220)
Transfer to / (from) reserves	29	-	(246,833)	246,833	-
Dividend for 2019 ($0.00 cents per share)	15	-	-	-	-
At 30 June 2020		8,139	299,807	1,779	309,725
Company					
At 1 July 2018		8,139	563,585	1,569	573,293
Net profit / (loss) for the period		-	-	(16,071)	(16,071)
Transfer to / (from) reserves	29	-	(16,945)	16,945	-
Dividend for 2018 ($0.40 cents per share)	15	-	-	(1,176)	(1,176)
At 30 June 2019		8,139	546,640	1,267	556,046
At 1 July 2019		8,139	546,640	1,267	556,046
Net profit / (loss) for the period		-	-	(247,608)	(247,608)
Transfer to / (from) reserves	29	-	(246,833)	246,833	-
Dividend for 2019 ($0.00 cents per share)	15	-	-	-	-
At 30 June 2020		8,139	299,807	494	308,440

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

AASB 16 has been applied using the modified retrospective method and comparatives have not been restated, refer to note 2(c)

Statement of Cash Flows

For the financial year ended 30 June 2020

	Note	Group 2020 $'000	Group 2019 $'000	Company 2020 $'000	Company 2019 $'000
Cash flows from operating activities					
Premiums received		282,591	234,258	282,591	234,258
Outwards reinsurance paid		(76,337)	(70,728)	(76,337)	(70,728)
Claims paid		(172,558)	(158,394)	(172,558)	(158,394)
Reinsurance and other recoveries received		34,455	33,998	34,455	33,998
Acquisition costs paid		(2,310)	(1,336)	(2,310)	(1,336)
Other underwriting expenses paid		(48,133)	(49,599)	(48,133)	(49,599)
Other operating expenses paid		(18,397)	(19,418)	(16,227)	(17,816)
Other operating income received		5,303	4,280	2,810	2,442
Interest received		17,433	20,876	17,433	20,876
Dividends received		32,427	42,120	32,427	42,120
Catholic entity distributions		(7,567)	(7,927)	(7,876)	(7,878)
Donations – CCI Giving		(253)	(250)	(253)	(250)
Total cash flows from operating activities	35	46,654	27,880	46,022	27,693
Cash flows from investing activities					
Investment trading		(2,199)	(42,469)	(2,199)	(42,469)
Payments for plant and equipment		(1,833)	(1,701)	(1,833)	(1,701)
Proceeds from sale of plant and equipment		754	310	754	310
Payments for intangibles		(1,483)	(6,556)	(1,483)	(6,556)
Total cash flows (used in) / from investing activities		(4,761)	(50,416)	(4,761)	(50,416)
Cash flows from financing activities					
Dividends paid		-	(1,176)	-	(1,176)
Principle payments from lease liabilities		(3,199)	-	(3,199)	-
Interest payments from lease liabilities		(601)	-	(601)	-
Total cash flows (used in) financing activities		(3,800)	(1,176)	(3,800)	(1,176)
Net increase in cash held		38,093	(23,712)	37,461	(23,899)
Cash and cash equivalents at 1 July		155,829	179,541	155,376	179,275
Cash and cash equivalents at 30 June	16	193,922	155,829	192,837	155,376

The above Statement of cash flows should be read in conjunction with the accompanying notes.

AASB 16 has been applied using the modified retrospective method and comparatives have not been restated, refer to note 2(c)

Notes to the Financial Statements

For the financial year ended 30 June 2020

1. Corporate information

The consolidated financial report of Catholic Church Insurance Limited (the company) for the year ended 30 June 2020 was authorised for issue in accordance with a resolution of the Directors on 9 September 2020.

Catholic Church Insurance Limited is an unlisted public company, incorporated and domiciled in Australia. The entity is also registered as a charity in accordance with the Australian Charities and Not-for-profits Commission Act 2012.

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, the Corporations Act 2001, including the application of ASIC legislative instrument 2016/191 allowing the disclosure of company financial statements due to Australian Financial Services Licensing obligations and section 60 of the *Australian Charities and Not-for-profits Commission Regulation 2013.*

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 Accounting Standards 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 statement of financial position is presented on a liquidity basis. Assets and Liabilities are presented in decreasing order of liquidity. For assets and liabilities that comprise both current and non-current amounts, information regarding the non-current amount is included in the relevant note.

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 legislative instrument 2016/191. The company is an entity to which the class order applies.

Any comparative information has been reclassified to accord with changes in presentations made in the current year.

b) Statement of compliance

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

c) Australia Accounting Standard new and amended effective during the year

Australian Accounting Standards which have been issued or amended during the annual reporting period ending 30 June 2020 and have been applied in preparing the company's financial statements, where applicable.

Title	Description
AASB15	Revenue from Contracts with Customers
AASB16	Leases
AASB1058	Income of Not-for-profit entities
AASB 2016-8	Australian Implementation Guidance for Not-for-profit entities

Adoption of the new and amended accounting standards has had no material financial impact on the company except for AASB 16, where impact is disclosed below.

AASB 16 Leases

AASB 16, which was issued in 2016, sets out the principles for the recognition, measurement, presentation and disclosure of leases. It replaced the previous accounting requirements for lease, under AASB 117, and is effective from 1 July 2019.

AASB 16 requires lessees to recognise long-term leases (greater than 12 months) on the balance sheet in the form of a right-of-use asset (ROUA) and a corresponding lease liability. For CCI, the main impact for the new standard was on property leases previously classified as operating leases and long term information technology license agreements.

As a result of adoption of AASB 16, CCI has recognised depreciation expense on ROUAs, on a straight-line basis over the lease term, and interest expense on lease liabilities.

CCI has adopted AASB 16 using the modified retrospective approach with the date of initial application being 1 July 2019. Under this approach, the cumulative effect of adoption is recognised as an adjustment to opening retained earnings as at 1 July 2019 with no restatement of comparative information.

The effect of adoption of AASB 16 as at 1 July 2019 is as follows:

	Increase / (Decrease) $'000
Assets	
Right-of-use assets	21,679
Liabilities	
Lease Liabilities	21,679

The following is a reconciliation of total operating lease commitments as at 30 June 2019 to the lease liabilities recognised as at 1 July 2019:

	Increase / (Decrease) $'000
Operating lease commitments disclosed as at 30 June 2019	26,555
Discounted by the incremental borrowing rate at date of application	(2,295)
Less: Lease incentives already recognised	(3,431)
Add: New leases entered into on 1 July 2019	704
Add: Restatement of commitments due to CPI adjustment	146
Lease liability recognised as at 1 July 2019	21,679

d) 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 2020 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.

Notes to the Financial Statements (Continued)

For the financial year ended 30 June 2020

Title	Description	Operative Date	Application Date for CCI
AASB 9	Financial Instruments	1 January 2018	1 July 2023
AASB 17	Insurance Contracts	1 January 2023	1 July 2023
AASB 2018-7	Amendment – Definition of Material	1 January 2020	1 July 2020
AASB 2020-1	Amendment – Classification of Liabilities as Current or Non-current	1 January 2022	1 July 2022
AASB 2020-4	Amendment – Covid-19 Related Rent Concessions	1 June 2020	1 July 2020

Adoption of the amended accounting standards is not expected to have a material financial impact on the company. Adoption of AASB 9 and AASB 17 may have financial impact, however the assessment has not yet been completed. AASB 17 is subject to change based on revisions issued by the IASB, including a deferral of the effective date proposed until 1 January 2023.

AASB 17 Insurance contracts

AASB 17, adopted by the Australian Standards Board on 19 July 2017, replaces AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts for for-profit entities. Since issued various implementation matters have been raised by stakeholders resulting in targeted amendments issued on 10 July 2020 in the finalised standard.

The first applicable reporting period for CCI is expected to be the year ending 30 June 2024, with the comparative period being 30 June 2023. The standard introduces a new general measurement model for accounting for insurance contracts, with the application of a simplified approach (similar to the current AASB 1023 standard) permitted in certain circumstances. CCI has completed an initial impact assessment of the new standard in conjunction with our auditors, EY, and has determined that the company is expected to be eligible to apply the premium allocation approach (also referred to as the simplified approach) to all contracts. It is expected that there will however be substantial changes in presentation of the financial statements and disclosures.

Given the complexity and differing interpretations of the standard, the final impact will not be able to be determined until global interpretations and regulatory responses to the recent changes are finalised.

AASB 9 Financial instruments

AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement. The new standard provides guidance for the classification and measurement of financial assets, makes minor amendments to the accounting for financial liabilities, prescribes new principles for measuring and recording impairment and provides a new set of rules for hedge accounting.

CCI have yet to assess the impact of this new standard as we have deferred its implementation to align with the implementations of AASB 17, likely from 1 July 2023.

e) Basis of consolidation

The financial report covers the group 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 inter-company 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 group in respect of the general insurance activities. The accounting policies have been consistently applied, unless otherwise stated.

f) Premium revenue

Direct premium revenue comprises amounts charged to the policyholders, including fire / emergency services 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 based on 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.

g) 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:

Rendering of services

Services have been rendered to a buyer and contracted payment terms have been satisfied.

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 and contracted payment terms have been satisfied. Other revenue includes commission from Allianz Australia for our underwriting agreement and risk management revenue for various risk management services we offer. The final value of the variable commission revenue recognised is subject to the achievement of a specified underlying profitability hurdle rate over time.

Unexpired risk liability

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

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

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

h) Outwards reinsurance

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

i) Claims

Claims expense and a liability for outstanding claims are recognised in respect of direct business. The liability covers claims reported but not yet paid, Incurred But Not Reported claims (IBNR), and the anticipated direct and indirect costs of settling claims. Outstanding claims are valued by the Appointed Actuary by reviewing individual claim files and actuarially estimating IBNRs and settlement costs based on past experiences and trends. The outstanding claims liability is recorded as the central estimate of the present value of expected future payments relating to claims incurred as at the report date. 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 allow for inherent uncertainty in the central estimate. Risk Margins applied are included in note 30.

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 effective annual interest rate 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.

Notes to the Financial Statements (Continued)

For the financial year ended 30 June 2020

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 / Emergency services levy and other charges

A liability for fire / emergency 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 interest rates on corporate bond rates which have terms to maturity that match, as closely as possible, the estimated future cash outflows.

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

(iii) **Financial assets**

As part of its investment strategy the group 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. The Group has determined that all financial assets at fair value through profit and loss 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. Trade and other receivables are at amortised cost.

The group 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 group to mitigate risk and earn long term returns when combined with a long-term investment strategy. The group has a prudent investment philosophy which is documented in a 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

Unlisted securities include investments in property and other unit trusts.

(iii) **Hierarchy**

The group 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 identical 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 39 sets out the group's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy.

Impairment of financial assets

Financial asset, except for those measured at fair value, 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

The company uses derivative financial instruments, such as Options, to restrict market losses to a maximum of 10% of Shareholders funds. The derivative financial instrument is initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss.

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.

(iv) **Financial liabilities**

Trade and other payables

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

Notes to the Financial Statements (Continued)

For the financial year ended 30 June 2020

(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) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment (refer to note 2(s) for methodology).

Such costs include the cost of replacing part of the plant and equipment if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the company depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit and loss as incurred.

u) 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 (refer to note 2(u) for methodology). The amortisation period, amortisation method and impairment indicators for all intangible assets 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.

v) 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 group 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:

	2020	2019
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
Right of use	2 - 8 years	8 years

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

w) 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 group commencing from the time the asset is held ready for use.

Computer software's estimated useful life used in the calculation of amortisation is 5-10 years.

x) 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.

y) Dividends and Catholic entity distributions

Dividends

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

Catholic entity distributions

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

The Catholic entity distribution declared for 2020 for the consolidated entity was $0.4m (2019: $7.3m) and for the company was $nil (2019: $7.2m).

z) 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.

aa) Leases

Until the 2019 financial year operating leases were charged as expenses on a straight-line basis over the lease term.

From 1 July 2019, leases are recognised as a right-of-use asset and corresponding liability from the date the company has the right to use the asset. The lease payments are discounted using the interest rate implicit in the lease and payments are apportioned between principal and finance cost. The right-of-use assets are depreciated over the shorter of the useful life of the underlying asset or the lease term on a straight line basis. Refer to note 2(c) for a full impact assessment. An impairment charge is recognised in profit or loss when the carrying value of the right-of-use asset, exceeds the calculated recoverable amount refer 2(x).

Payments associated with short-term leases (12 months or less) continue to be recognised on a straight-line basis as an expense in profit and loss.

bb) 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.

Catholic Church Insurance Limited purchases options through regulated exchanges. Options purchased by Catholic Church Insurance Limited provide Catholic Church Insurance Limited 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. Catholic Church Insurance Limited is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

3. Critical accounting estimates and judgements

Significant estimates and judgements are made by the group 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 on the next page.

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

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

The provision for outstanding claims is a highly subjective number, in particular the estimation of IBNR where information may not be apparent to the insured until many years after the events giving rise to the claims have happened. It is therefore likely that the final outcome will prove to be different from the original liability. In particular, there is considerable uncertainty regarding the professional standards 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 same methodologies with due consideration to the uncertainty in proving for the estimated cost of claims incurred but not settled. 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 group may not receive amounts due to it and these amounts can be reliably measured.

Coronavirus (COVID-19) pandemic

The COVID-19 pandemic has increased the uncertainty in estimations in the preparation of these financial statements. The company has considered various accounting estimates in preparing these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 30 June 2020 about future events.

The significant accounting estimates particularly impacted by these associated uncertainties are predominantly related to the valuation of the outstanding claims liability, premium liability, fair value measurement of investments and credit risk.

Outstanding claims liability

As at 30 June 2020 CCI's portfolios have not been materially affected by COVID-19 and the impact has been appropriately captured within the outstanding claims liability.

However, based on available information, management believe there is a risk that the associated economic factors could be more severe than estimated and, as a result, the ultimate cost of those claims being higher than the current outstanding claims liability. There is also a risk that the development in the ultimate cost of outstanding Worker's Compensation claims could be higher than the current outstanding claims liability established.

However, based on available information, management believe both of these risks are adequately captured through the risk margins established for each class.

Premium liability

In addition to the allowance in the net outstanding claims provision, any COVID-19 underwriting exposure related to unexpired risk has been incorporated within the estimation of premium liabilities and, as a result, in the calculation of CCI's capital position.

The impact of COVID-19 on CCI's claims experience is expected to materially differ between classes of business and, for certain classes, potentially impact across more than one accident year. Where potential COVID-19 claim impacts remain highly uncertain, CCI has recognised an additional net premium liability of $5.4 million. This provision spans potential Business Interruption and Workers Compensation and other insurance class effects.

In establishing the COVID-19 specific element of the net premium liability, significant judgement has been exercised. Given the extent of the uncertainty being faced, the range of potential financial outcomes is unusually wide. As a result, a substantial part of the premium liability reflects a risk margin.

The key consideration in respect of Business Interruption coverage is the legal challenge in relation to the interpretation of select contract wordings.

Two issues have been identified by the Australian general insurance industry.

- The first relates to policy wordings that reference the Quarantine Act.
- The second relates to the application of prevention of access extensions in the context of a pandemic.

These are industry-wide matters that are expected to be assessed through legal test cases over the coming months. Notwithstanding the view held by CCI and the general insurance industry, the litigation process can lead to unpredictable results.

However, CCI's exposure to Business Interruption claims is low as a result of its client base continuing to largely remain open despite the lockdowns, albeit many staff are working from home.

CCI will also transition all client's policies onto the Bio Security Act as policies renew over the next 12 months, having commenced this process for our Property portfolio from 1 July 2020 and Casualty portfolio from 1 August 2020.

In relation to Workers' Compensation, the main risk relates to the NSW portfolio, noting that CCI has no exposure to Victoria and Queensland Workers' Compensation policies and comparatively lesser exposure in each of the other jurisdictions.

The key issue in NSW is the passing of The COVID-19 Legislation Amendment (Emergency Measures – Miscellaneous) Bill 2020 [parliament.nsw.gov.au] in May this year. The bill amends the Workers Compensation Act 1987 to introduce the presumption that COVID-19 infected workers contract the disease in the course of employment. This presumption is applied to workers who operate within prescribed employment.

The legislative change effectively places the onus onto employers to disprove that there was a significant contribution from work, which can often prove to be a difficult hurdle to jump.

Virtually all of CCI's client base is regarded as an "essential service".

CCI are working with other Specialised Licensees and the NSW Regulator, State Insurance Regulatory Authority (SIRA), on developing a cost sharing model, which is expected to exclude the Treasury Managed Fund (covering public sector Health, Police, Education, Ambulance workers). The cost sharing model is expected to clearly, tightly and narrowly define a COVID-19 claim, and in particular in relation to mental health claims.

In response to the increase in uncertainty as a result of COVID-19 the following class loadings were applied to the Premium Liability risk margins:-

- All Workers Compensation portfolios – 40% loading;
- General Liability – 20% loading;
- Professional Indemnity – 20% loading; and
- Fire & ISR – 75% loading.

The above summarises the ways in which the various elements of the COVID-19 specific provisioning have been reflected within these financial statements.

All values are calibrated to a 75% probability of sufficiency (PoS) and are shown net of related reinsurance recoveries.

Fair value measurement of investments

CCI's investments are designated at fair value through profit and loss, and for the vast majority of the investments, the fair value is determined based on observable market data. This measurement basis has not changed as a result of COVID-19.

Where readily available market data is not available to determine fair value, then a mark-to-model approach is adopted. Judgement is required in both the selection of the model and inputs used. The investments which are subject to valuation using unobservable inputs are disclosed in the fair value hierarchy. Refer to Note 20 for further details on investments.

Credit risk

The impact of COVID-19 on the recoverability of receivables from (re)insurance and non-insurance contracts have been considered. The methodologies and assumptions applied in in assessing the credit risk are unchanged from prior year, the company has incorporated estimates, assumptions and judgements specific to the impact of the COVID-19 pandemic.

While no material recoverability issues have been identified, there is a risk that the economic impacts of COVID-19 could be felt longer than anticipated, which could result in credit losses in the future.

4. Actuarial assumptions and methods

The company is a general insurer underwriting 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, 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.

Notes to the Financial Statements (Continued)

For the financial year ended 30 June 2020

Public Liability

Public Liability includes general liability and Professional Standards claims.

Claims estimates for the company's general 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 noneconomic 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 general 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.

The estimates for the professional standards claims is based on CCI's current case estimates plus an allowance for IBNR claims. The current case estimates include an allowance for "notified but not reported" professional standards claims and for claims to be reopened in Queensland, WA and Victoria due to recent proposed and enacted legislative changes. The case estimates are then increased to reflect historical claims development. The IBNR allowance assumes a number of claims to be reported in the future and an average claim size. The average claim size is then inflated to allow for both general inflation and superimposed inflation.

The professional standards provision is subject to significant uncertainty arising from the publicity surrounding the Royal Commission into Institutional Responses to Child Sexual Abuse over the last 5 years and more recently the introduction of the National Redress Scheme. The National Redress Scheme was established as at 1 July 2018 and designed for minimal legal involvement. The Scheme is expected to be open for 10 years and ultimately expects 60,000 participants. While the maximum payment is capped at $150,000, based on an expected distribution of severity, the average expected payment is $65,000, although recent experience is just over $80,000. It is possible that a significant proportion of claims that CCI would ordinarily have received in the future may be diverted to the Redress Scheme. While the Redress process has minimal legal involvement, claimants may seek independent legal advice. CCI has identified that its policies cannot respond to the liabilities which arise solely by virtue of the Scheme. As a result, Claimants will not be able to accept both a Redress Scheme payment and pursue CCI.

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.

2020	Short-Tail	Public Liability	Professional Indemnity	Workers' Compensation
Average weighted term to settlement (discounted)	Less than 1 year	3 years	3.2 years	2.9 years
Wage inflation	0.00%	1.25%	1.25%	1.25%
Superimposed inflation	0.00%	1.85%	5.00%	0.00%
Discount rate	0.00%	0.25%	0.25%	0.25%
Expense rate	6.00%	6.00%	6.00%	6.00%
Risk margin	10.00%	26.00%*	16.00%	9.00%

2019	Short-Tail	Public Liability	Professional Indemnity	Workers' Compensation
Average weighted term to settlement (discounted)	Less than 1 year	3.3 years	3.0 years	3.4 years
Wage inflation	0.00%	2.00%	2.00%	2.00%
Superimposed inflation	0.00%	2.00%	5.00%	3.00%
Discount rate	0.00%	1.00%	1.00%	1.00%
Expense rate	6.00%	6.00%	6.00%	6.00%
Risk margin	10.00%	18.90%*	16.00%	9.00%

*This is a combined risk margin for general liability of 10.5% and professional standards of 27.5% in 2020 and 20.0% in 2019

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. The risk margin applied to CCI's professional standards portfolio was increased from 20.0% to 27.5% this year.

Notes to the Financial Statements (Continued)

For the financial year ended 30 June 2020

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 minimum loss ratios have been applied 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 variable**			
Average weighted term to settlement (years)	+0.5	(333)	(238)	(333)	(238)
	-0.5	337	242	337	242
Inflation and superimposed assumptions	+0.25%	5,469	4,856	5,469	4,856
	-0.25%	(5,469)	(4,856)	(5,469)	(5,469)
Discount rate	+0.25%	(5,469)	(4,856)	(5,469)	(4,856)
	-0.25%	5,469	4,856	5,469	4,856
Expense rate	+1%	9,291	9,291	9,291	9,291
	-1%	(9,291)	(9,291)	(9,291)	(9,291)
Risk margins	+1%	8,081	6,673	8,081	6,673
	-1%	(8,081)	(6,673)	(8,081)	(6,673)
Average claim size	+10%	39,258	34,495	39,258	34,495
	-10%	(39,258)	(34,495)	(39,258)	(34,495)

5. Risk management

The financial condition and operation of the group 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 group'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

The Risk Management Framework (RMF) enables the development and implementation of strategies, policies, procedures and controls to manage different types of material risks. The RMF is the totality of systems, structures, policies, processes and people within an APRA-regulated institution that identify, measure, evaluate, monitor, report and control or mitigate all internal and external sources of material risk.

In accordance with APRA's Prudential Standards CPS 220 Risk Management and GPS 230 Reinsurance Management, the Board and senior management of the group have developed, implemented and maintained the following key documents:

- Risk Management Strategy (RMS): The RMS describes the strategy for managing risk and the key elements of the RMF that give effect to this strategy. The objective of the RMS is to address each material risk.
- Reinsurance Management Strategy (REMS): The REMS is part of CCI's risk management strategy and details the Reinsurance Management Framework, including the selection, implementation, monitoring, review, control and documentation of reinsurance arrangements.
- Risk Appetite Statement (RAS): The Board and executive management develop the company's RAS and the associated tolerances, targets and limits required to achieve company objectives and to embed risk into the organisation. The RAS is approved by the Board.
- Internal Capital Adequacy Assessment Process (ICAAP) Summary Statement: The ICAAP describes and summarises the capital adequacy assessment process and is approved by the Board.

The RMS, REMS, RAS and ICAAP, identify the group'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 group 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, REMS, RAS and ICAAP.

CCI has identified the following risks as being its material risks. This forms CCI's risk universe and is subject to formal risk assessment and management.

Material Risks	Represented by a Potential Failure to:
Insurance risk	♦ Comply with underwriting authorities and limits ♦ Prevent unauthorised claims payments or leakage ♦ The terms and conditions of insurance contracts comply with the level of acceptable risk ♦ Adequately manage the insurance concentration risk
Operational risk	♦ Manage CCI's IT systems, staff and operational processes
Capital and regulatory risk	♦ Adhere to legislative and regulatory requirements or other licence conditions ♦ Assess prudential capital requirements on a regular basis
Financial risks (note 6)	♦ Market risk ♦ Credit risk ♦ Liquidity risk

Notes to the Financial Statements (Continued)

For the financial year ended 30 June 2020

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

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

b) Reinsurance counterparty risk

The group 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 group 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 group aims to maintain a strong solvency order to support its business objectives and maximise shareholder wealth.

The group 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 group's activities. In order to maintain or adjust the capital structure, the group 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 group 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 group'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 group and company have limited exposure to 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 20.05% (2019: 19.45%) of our total investment portfolio with currency risk managed by the fund manager. Catholic Church Insurance Limited 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 Limited invests in floating rate and fixed rate financial instruments. Interest rate movements expose Catholic Church Insurance Limited to cash flow risks (income) from floating rate investments and fair value risks (capital) for fixed rate investments.

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

Catholic Church Insurance Limited has no interest bearing financial liabilities.

The maturity profile of the group's financial assets and liabilities and effective weighted average interest rate are set out in note 38.

The potential impact of movements in interest rates on the group'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 group 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 group'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 Limited 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 Limited 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 group 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. All premium receivables are unrated.

	AAA	AA	A	BBB	Below Investment Grade	Not Rated	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2020							
Consolidated							
Cash and cash equivalents	-	192,926	84	910	-	2	193,922
Interest bearing investments[1]	139,003	168,534	19,272	36,227	-	-	363,036
Reinsurance & other recoveries[2]	-	132,142	47,507	20,797	-	-	200,446
2019							
Consolidated							
Cash and cash equivalents	-	155,357	66	404	-	3	155,829
Interest bearing investments[1]	125,493	182,811	12,345	32,976	-	-	353,625
Reinsurance & other recoveries[2]	-	76,004	25,920	16,262	-	-	118,186

1 Includes government and semi-government bonds, other fixed interest securities and unsecured notes in other corporations (refer note 20). Also includes parts of Investment income accrued that relates to interest bearing investments.

2 Includes reinsurance and other recoveries on outstanding claims and reinsurance commissions receivable (refer note 17). The BBB and speculative credit rating's associated with reinsurance and other recoveries is based on the historic recoverability associated with 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.

The difference between the group and the company relates to cash and cash equivalents. The AA rating for the company reduces by $1,085,000 for the current year and by $453,000 for the prior year.

(ii) Asset carrying value

The carrying amount of the asset classes shown below 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 group's and company's financial assets and the ageing of those that are past due.

		Past Due				
	Not Past Due	Less Than 3 Months	3 to 6 Months	6 Months to 1 year	Greater Than 1 Year	Total
	$'000	$'000	$'000	$'000	$'000	$'000
2020						
Consolidated						
Premiums receivable	93,211	4,216	658	4,209	1,413	103,707
Reinsurance & other recoveries[1]	187,254	10,637	-	1,322	1,233	200,446
Other receivables[2]	9,052	-	-	-	-	9,052
2019						
Consolidated						
Premiums receivable	98,579	2,361	-	4,967	2,507	108,414
Reinsurance & other recoveries[1]	110,671	5,981	-	692	842	118,186
Other receivables[2]	24,601	-	-	-	-	24,601

1 Includes reinsurance recoveries on outstanding claims and reinsurance commission's receivable. (refer note 17).

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

The difference between the group and the company relates to other receivables. The "Not past due" category for the company decreases by $629,000 for the current year and $525,000 for the prior year.

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

Catholic Church Insurance Limited 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 group and the company based on the remaining undiscounted contractual obligations.

Notes to the Financial Statements (Continued)

For the financial year ended 30 June 2020

	Less Than 3 Months	3 Months to 1 Year	1 to 5 Years	Greater Than 5 Years	Total
Consolidated & company	$'000	$'000	$'000	$'000	$'000
2020					
Trade and other payables	52,136	-	-	-	52,136
Lease Liabilities	1,133	3,399	15,380	3,131	23,044
Financial Liabilities – Options / Futures	-	7,167	-	-	7,167
Outstanding Claims	-	88,887	890,196	-	979,073
2019					
Trade and other payables	43,556	-	-	-	43,556
Lease Liabilities	1,032	3,095	17,094	5,334	26,555
Financial Liabilities – Options / Futures	454	153	-	-	607
Outstanding Claims	59	60,458	633,805	-	694,322

The group 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 +/-			
		2020 Net Profit / (Loss)	2020 Equity	2019 Net Profit / (Loss)	2019 Equity
Market risk	**Movement in variable**	$'000	$'000	$'000	$'000
Interest rate	2%+/-	27,645 / (27,645)	27,645 / (27,645)	26,562 / (26,562)	26,562 / (26,562)
International Equities	10%+/-	23,426 / (23,426)	23,426 / (23,426)	23,856 / (23,856)	23,856 / (23,856)
Domestic Equities	10%+/-	32,329 / (32,329)	32,329 / (32,329)	35,326 / (35,326)	35,326 / (35,326)

7. COVID-19

While the ongoing and future impact of COVID-19 continue to evolve at a rapid pace, and is expected to continue to influence CCI over the coming year, we have taken steps to manage this risk across a number of areas, including:

a) Capital and market risk

At 30 June 2020, CCI had a PCA multiple of 1.31 (2019: 2.35). COVID-19 has given rise to increased levels of market volatility and credit risk (both in the investment portfolio and with our customers and suppliers) that has required a more active capital monitoring approach. Initiatives to achieve this include more frequent assessments of capital adequacy to account for larger, and more rapid, investment market movements and further capital stress testing against COVID-19 related risks. Capital levels will continue to be very closely monitored. In light of the reduced capital levels, CCI has activated its capital recovery plan and is well progressed in the process of restoring regulatory capital back to the target capital level. This initiative includes a number of different options that are being actively explored with shareholders and other key stakeholders.

b) Insurance risk

Refer to the disclosures provided in Note 5(a).

c) Client risk

CCI is very aware of the challenges faced by our clients during this difficult period. CCI continue to discuss with them methods in which we can address any affordability concerns. It is important to note that the demand for many of the services our clients offer remains unchanged and in some cases have increased during the pandemic.

d) Operational and technology risk

CCI's staff welfare remains at the forefront of management thinking and the swift transition into a work from home stance to minimise exposure risk for staff reflects this and provides uninterrupted service to our clients. In recognition of the different risks and challenges posed by working remotely, technology, systems and processes have all been reviewed and updated to reflect the additional risks during this period and have remained robust. For those returning to the office and in contact with clients, clear protocols are in place to ensure that risks are identified and minimised for all concerned.

e) Regulatory risk

CCI has engaged consistently with regulators regarding our response to COVID-19 and providing updates on potential exposures linked to the pandemic. CCI has also been active in industry wide responses to regulatory and legislative changes in response to COVID-19.

	Group		Company	
	2020	2019	2020	2019
8. Net premium revenue	$'000	$'000	$'000	$'000
Direct	255,410	233,766	255,410	233,766
Fire service levies	8,793	8,439	8,793	8,439
Premium revenue	264,203	242,205	264,203	242,205
Outwards reinsurance expense	(96,650)	(83,445)	(96,650)	(83,445)
Net premium revenue	167,553	158,760	167,553	158,760

9. 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.

	2020			2019		
	Current Year	Prior Years	Total	Current Year	Prior Years	Total
Direct business	$'000	$'000	$'000	$'000	$'000	$'000
Gross / Net claims incurred and related expenses	172,210	270,909	443,119	130,637	96,041	226,678
Discount and discount movement	(9,629)	24,202	14,573	(9,717)	36,527	26,810
Gross / Net claims incurred and related expenses	162,581	295,111	457,692	120,920	132,568	253,489
Reinsurance and other recoveries	(65,728)	(45,472)	(111,200)	(29,637)	(24,799)	(54,436)
Discount and discount movement	9,163	(9,267)	(104)	7,923	(8,207)	(284)
Reinsurance and other recoveries	(56,565)	(54,739)	(111,304)	(21,714)	(33,006)	(54,720)
Net claims incurred (discounted)	106,016	240,372	346,388	99,206	99,562	198,769

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

Due to a higher than expected number of claims reported for professional standard claims during the current reporting period, there has been a reassessment of the key actuarial assumptions that underpin the calculation of the outstanding claims liabilities resulting in a significant increase in the net claims incurred balance for risks borne in prior years.

Refer to Note 4 for the process for determining the outstanding claim liability for all classes of insurance underwritten.

	Group		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
10. Other underwriting and general administration expenses				
Expenses by function:				
Levies and charges	11,496	9,927	11,496	9,927
Administration expenses	50,325	48,292	50,325	48,292
Other underwriting expenses	61,821	58,219	61,821	58,219
Investment expenses	608	1,067	608	1,067
Marketing expenses	855	1,242	855	1,242
Lease expenses	-	1,563	-	1,542
Interest on lease liabilities	601	-	593	-
Depreciation charges (note 23)	6,186	2,374	6,186	2,374
Information technology expenses	5,271	5,854	5,271	5,854
Employee expenses	4,156	5,419	3,512	4,774
Other expenses	1,052	2,476	(15)	1,687
General administration expenses	18,729	19,995	17,010	18,540

11. Unexpired risk liability

Year ended 30 June 2020

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.

The process for determining the overall risk margin, including the way in which diversification of risks has been allowed for, is discussed in Note 30. As with outstanding claims, the overall risk margin is intended to achieve a 75% probability of sufficiency.

12. Donations – CCI Giving Trust

CCI provided for a donation to the CCI Giving Trust of $256,000 for the year ending 30 June 2020 (2019: $253,000).

	Group		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
13. Investment income				
Dividend income	29,540	46,207	29,540	46,207
Interest income	14,164	17,797	14,164	17,797
Changes in fair value				
– Unrealised gains / (losses) on investments	(49,544)	29,257	(49,544)	29,257
– Realised gains / (losses) on investments	(3,120)	(1,520)	(3,120)	(1,520)
	(8,960)	91,741	(8,960)	91,741

	Group		Company	
	2020	2019	2020	2019
14. Profit for the period	$'000	$'000	$'000	$'000
Gross written premiums	272,484	242,655	272,484	242,655
Unearned premium movement	(8,281)	(450)	(8,281)	(450)
Gross earned premium	264,203	242,205	264,203	242,205
Outward reinsurance expense	(96,650)	(83,445)	(96,650)	(83,445)
Net earned premium	167,553	158,760	167,553	158,760
Gross claims incurred	(457,692)	(253,489)	(457,692)	(253,489)
Reinsurance and other recoveries	111,304	54,720	111,304	54,720
Net claims incurred	(346,388)	(198,769)	(346,388)	(198,769)
Gross commission expense	(2,437)	(913)	(2,437)	(913)
Reinsurance commission revenue	18,834	14,623	18,834	14,623
Net commission	16,397	13,710	16,397	13,710
Underwriting expenses	(61,821)	(58,219)	(61,821)	(58,219)
Underwriting profit / (loss)	**(224,259)**	**(84,518)**	**(224,259)**	**(84,518)**
Dividend income	29,540	46,207	29,540	46,207
Interest income	14,164	17,797	14,164	17,797
Changes in fair value:				
– Unrealised gains / (losses) on investments	(49,544)	29,257	(49,544)	29,257
– Realised gains / (losses) on investments	(3,120)	(1,520)	(3,120)	(1,520)
Revenue from contracts with customers	5,287	4,521	2,814	2,695
Other income	84	40	63	32
Investment and other income	**(3,589)**	**96,302**	**(6,083)**	**94,468**
General administration expenses	(18,729)	(19,995)	(17,010)	(18,540)
Catholic entity distributions	(387)	(7,306)	-	(7,228)
Donations – CCI Giving Trust	(256)	(253)	(256)	(253)
Profit / (Loss) from ordinary activities	**(247,220)**	**(15,770)**	**(247,608)**	**(16,071)**

	Group		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
15. Dividends paid and proposed				
Declared and paid during the year:				
Dividends on ordinary shares: Final unfranked dividend for 2020: $0.00 cents (2019: $0.00 cents)	-	-	-	-
Proposed for approval at AGM (not recognised as a liability as at 30 June):				
Dividends on ordinary shares: Final unfranked dividend for 2020: $0.00 cents (2019: $0.00 cents)	-	-	-	-
16. Cash and cash equivalents comprises:				
Cash and cash equivalents comprises:				
– Cash on hand	2	2	2	2
– Cash at call	193,920	155,827	192,835	155,374
	193,922	155,829	192,837	155,376
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	193,922	155,829	192,837	155,376
	193,922	155,829	192,837	155,376

The group has a combined bank overdraft facility of $150,000 (2019: $150,000). This facility was unused at 30 June 2020 (2019: Unused).

Notes to the Financial Statements (Continued)

For the financial year ended 30 June 2020

17. Trade and other receivables

	Group 2020 $'000	Group 2019 $'000	Company 2020 $'000	Company 2019 $'000
Premiums receivable (i)	103,707	108,414	103,707	108,414
Provision for doubtful debts on premiums	(1,081)	(1,187)	(1,081)	(1,187)
	102,626	107,227	102,626	107,227
Investment income accrued (iii)	9,027	10,558	9,027	10,558
Sundry debtors (iv)	25	14,043	(604)	13,518
	111,678	131,828	111,049	131,303
Reinsurance and other recoveries on outstanding claims and claims paid (ii)	102,541	72,436	102,541	72,436
Provision for doubtful debts on reinsurance recoveries	(22,292)	(16,820)	(22,292)	(16,820)
	80,249	55,616	80,249	55,616
Total current receivables	191,927	187,444	191,298	186,919
Reinsurance and other recoveries on outstanding claims and claims paid (iii)	97,905	45,750	97,905	45,750
Total non-current receivables	97,905	45,750	97,905	45,750
Total trade and other receivables	289,832	233,194	289,203	232,669

The current period balance of premiums receivable includes $58.547 million (2019: $54.519 million) relating to the renewal of workers' compensation premiums expiring at 4pm 30 June 2020.

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

(iii) Investment income is recognised when the entities' right to receive the payment is established.

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

18. Deferred reinsurance expense

	Group 2020 $'000	Group 2019 $'000	Company 2020 $'000	Company 2019 $'000
Deferred reinsurance expense as at 1 July	34,964	29,671	34,964	29,671
Reinsurance premiums paid during the year	105,324	88,738	105,324	88,738
Reinsurance premiums charged to profit and loss during the year	(96,650)	(83,445)	(96,650)	(83,445)
Deferred reinsurance expense as at 30 June	43,638	34,964	43,638	34,964

The current period balance of deferred reinsurance expense includes $2.716 million (2019: $2.205 million) relating to the renewal of workers' compensation premiums expiring at 4pm 30 June 2020.

19. Deferred acquisition costs

	Group 2020 $'000	Group 2019 $'000	Company 2020 $'000	Company 2019 $'000
Deferred acquisition costs as at 1 July	553	129	553	129
Acquisition costs deferred	2,311	1,337	2,311	1,337
Amortisation charged to profit and loss during the year	(2,437)	(913)	(2,437)	(913)
Deferred acquisition costs as at 30 June	427	553	427	553

Deferred acquisition costs relates to broker commissions and other broker related acquisition costs.

20. Financial assets at fair value through profit and loss

	Group 2020 $'000	Group 2019 $'000	Company 2020 $'000	Company 2019 $'000
– Government and semi-government bonds	234,750	246,191	234,750	246,191
– Other fixed interest securities	125,826	104,165	125,826	104,165
– Shares in other corporations	243,131	249,393	243,131	249,393
– Units in other unit trusts	234,255	260,943	234,255	260,943
– Units in property unit trusts	87,325	93,533	87,325	93,533
– Alternatives (i)	47,537	52,643	47,537	52,643
Total investments	972,824	1,006,868	972,824	1,006,868

(i) Investment held in Bentham syndicated loan fund

21. Tax assets

	Group 2020 $'000	Group 2019 $'000	Company 2020 $'000	Company 2019 $'000
Imputation credits	3,414	8,041	3,414	8,041
GST recoverable	1,349	1,512	1,349	1,512
	4,763	9,553	4,763	9,553

22. Other assets

	Group 2020 $'000	Group 2019 $'000	Company 2020 $'000	Company 2019 $'000
Deferred fire / emergency services levy expenses	3,776	3,188	3,776	3,188
Other assets	1,881	1,651	1,881	1,652
	5,657	4,839	5,657	4,840

23. Plant and equipment

	Group					
	Right of Use Asset	Motor Vehicles	Office Equipment	Computer Equipment	Leasehold Improvements	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Year ended 30 June 2020						
Gross carrying amount						
Balance at 1 July 2019	-	2,916	2,542	7,019	5,377	17,854
Additions	-	1,154	21	582	76	1,833
Adoption of AASB 16 for Right of Use Asset	21,679	-	-	-	-	21,679
Disposals	-	(1,373)	-	-	-	(1,373)
Balance at 30 June 2020	21,679	2,697	2,563	7,601	5,453	39,993
Accumulated depreciation						
Accumulated depreciation	-	(262)	(688)	(5,398)	(1,642)	(7,990)
Depreciation charge for the year	(3,849)	(571)	(258)	(923)	(586)	(6,187)
Balance at 30 June 2020	(3,849)	(833)	(946)	(6,321)	(2,228)	(14,177)
Net carrying amount at 30 June 2020	17,830	1,864	1,617	1,280	3,225	25,816

There has been no change to depreciation rates or useful lives at 30 June 2020.
The balance of plant and equipment for the group is the same as the company.

Year ended 30 June 2019						
Gross carrying amount						
Balance at 1 July 2018	-	2,633	2,318	6,432	5,377	16,760
Additions	-	892	224	587	-	1,703
Disposals	-	(609)	-	-	-	(609)
Balance at 30 June 2019	-	2,916	2,542	7,019	5,377	17,854
Accumulated depreciation						
Depreciation charge for the year	-	(574)	(222)	(995)	(583)	(2,374)
Accumulated depreciation	-	(391)	(466)	(4,403)	(1,060)	(6,320)
Balance at 30 June 2019	-	(965)	(688)	(5,398)	(1,643)	(8,694)
Net carrying amount at 30 June 2019	-	1,951	1,854	1,621	3,734	9,160

24. Intangible assets

Group

Year ended 30 June 2020

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

	Computer Software
Gross carrying amount	**$'000**
Balance at 1 July 2019	24,329
Additions	6,795
Work In Progress	(5,321)
Disposals	-
Impairment of intangible assets	-
Balance at 30 June 2020	25,803
Accumulated amortisation	
Amortisation charge for the year	(3,785)
Disposals	-
Accumulated amortisation	(10,155)
Balance at 30 June 2020	(13,940)
Net carrying amount at 30 June 2020	11,863

The balance of intangible assets for the group is the same as the company.

(b) Description of the group's intangible assets

Computer software

Software that is not integral to the operation of hardware and includes externally purchased software, internally generated software and licences. The balance of Computer Software for the group is the same as the company.

Group

Year ended 30 June 2019

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

	Computer Software
Gross carrying amount	**$'000**
Balance at 1 July 2018 net of accumulated amortisation	16,001
Additions	3,007
Work in Progress	5,321
Disposals	-
Impairment of intangible assets	-
Balance at 30 June 2019	24,329
Accumulated amortisation	
Amortisation charge for the year	(2,596)
Disposals	-
Accumulated amortisation	(7,559)
Balance at 30 June 2019	(10,155)
Net carrying amount at 30 June 2019	14,174

The balance of intangible assets for the group is the same as the company.

Notes to the Financial Statements (Continued)

For the financial year ended 30 June 2020

25. Trade and other payables

	Group 2020 $'000	Group 2019 $'000	Company 2020 $'000	Company 2019 $'000
Trade creditors	47,482	34,210	47,482	34,210
Accrued expenses	2,629	2,253	2,587	2,253
Sundry creditors	2,025	1,422	2,025	1,422
Unsettled investment transactions	-	2,240	-	2,240
	52,136	40,125	52,094	40,125

The current period balance of the trade creditors includes $2.716 million (2019: $2.205 million) relating to the renewal of workers' compensation premiums expiring at 4pm 30 June 2020.

26. Provisions

	Group 2020 $'000	Group 2019 $'000	Company 2020 $'000	Company 2019 $'000
Current				
Catholic entity distributions	387	7,306	-	7,228
Grants	919	902	919	902
Employee benefits	5,993	5,575	5,993	5,575
	7,299	13,783	6,912	13,705
Non-current				
Employee benefits	945	1,087	945	1,087
Make good of premises	961	936	961	936
	1,906	2,023	1,906	2,023
Total provisions	9,205	15,806	8,818	15,728

	Group				
	Catholic Entity Distributions	Grants	Employee Entitlements	Make good Premises	Total
Year ended 30 June 2020	$'000	$'000	$'000	$'000	$'000
Carrying amount at 1 July 2019	7,306	902	6,662	936	15,806
Additional provisions	387	918	6,937	962	9,204
Amounts utilised during the year	(7,237)	(902)	(6,661)	(936)	(15,736)
Transfer of unused provision	(69)	-	-	-	(69)
Carrying amount at 30 June 2020	387	918	6,938	962	9,205

	Group				
	Catholic Entity Distributions	Grants	Employee Entitlements	Make good Premises	Total
Year ended 30 June 2019	$'000	$'000	$'000	$'000	$'000
Carrying amount at 1 July 2018	7,285	891	5,530	1,015	14,721
Additional provisions	7,306	902	6,661	147	15,016
Amounts utilised during the year	(7,168)	(891)	(5,529)	-	(13,588)
Reversal of unused provision	(117)	-	-	(226)	(343)
Carrying amount at 30 June 2019	7,306	902	6,662	936	15,806

Catholic entity distributions and grants

Catholic Church Insurance Limited operates under mutual principles and at the end of each year a provision is raised for the payment of Catholic entity distributions to Catholic Church policyholders where certain criteria have been met. The amount allocated each year is approved by the Board of Directors.

All of these costs will be paid 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.

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.

27. Other liabilities

	Group 2020 $'000	Group 2019 $'000	Company 2020 $'000	Company 2019 $'000
Financial liability – exchange traded options	7,167	607	7,167	607
Lease liabilities	21,310	3,431	21,310	3,431
	28,477	4,038	28,477	4,038

28. Contributed equity

	Group 2020 $'000	Group 2019 $'000	Company 2020 $'000	Company 2019 $'000
Authorised				
10,000,000 ordinary shares	20,000	20,000	20,000	20,000
Ordinary shares issued & paid-up 2,939,676 (2019: 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.

		Group		Company	
		2020 $'000	2019 $'000	2020 $'000	2019 $'000
29. Reserves					
(a) Composition					
General reserve		299,807	546,640	299,807	546,640
		299,807	546,640	299,807	546,640
(b) Movements					
General reserve					
Opening balance		546,640	563,585	546,640	563,585
Transfers to and from retained profits		(246,833)	(16,945)	(246,833)	(16,945)
Closing balance		299,807	546,640	299,807	546,640

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.

		Group		Company	
		2020 $'000	2019 $'000	2020 $'000	2019 $'000
30. Outstanding claims					
(a) Outstanding claims liability					
Undiscounted central estimate	(A)	763,739	583,025	763,739	583,025
Discount to present value		(6,691)	(20,970)	(6,691)	(20,970)
		757,048	562,055	757,048	562,055
Claims handling costs	(B)	45,738	33,777	45,738	33,777
		802,786	595,832	802,786	595,832
Risk margin	(C)	176,286	98,490	176,286	98,490
Gross outstanding claims liability – discounted		979,072	694,322	979,072	694,322
Gross claims liability – undiscounted	(A)+(B)+(C)	985,764	715,292	985,764	715,292
Current		245,055	177,025	245,055	177,025
Non-current		734,017	517,297	734,017	517,297
Total		979,072	694,322	979,072	694,322

(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 no less than to the 75% level of sufficiency.

Risk margins applied	2020 %	2019 %
Short-tail	10.0	10.0
Professional indemnity	16.0	16.0
Public liability (excluding professional standards)	10.5	10.5
Professional standards	27.5	20.0
Workers' compensation	9.0	9.0

(c) Reconciliation of movement in discounted outstanding claims liability

2020	Gross $'000	Reinsurance $'000	Net $'000
Brought forward	694,322	91,603	602,719
Effect of changes in assumptions	288,347	47,902	204,445
Increase in claims incurred / recoveries anticipated over the year	171,712	65,259	106,452
Claim payments / recoveries during the year	(175,307)	(43,197)	(132,111)
Carried forward	979,073	161,568	817,504

2019	Gross $'000	Reinsurance $'000	Net $'000
Brought forward	599,315	72,590	526,725
Effect of changes in assumptions	122,183	25,926	96,257
Increase in claims incurred / recoveries anticipated over the year	128,836	29,013	99,823
Claim payments / recoveries during the year	(156,012)	(35,926)	(120,087)
Carried forward	694,322	91,603	602,719

(d) Claims development tables – long-tail classes

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

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

(i) Gross

Accident year	2014 & prior	2015	2016	2017	2018	2019	2020	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Estimate of ultimate claims cost:								
At end of accident year	915,096	44,937	47,084	51,292	57,069	59,720	67,715	1,242,913
One year later	881,689	44,160	49,241	50,263	52,941	62,912	-	1,141,205
Two years later	918,689	44,055	49,209	47,709	53,637	-	-	1,113,299
Three years later	969,035	40,992	43,753	44,678	-	-	-	1,098,458
Four years later	1,039,218	40,161	43,096	-	-	-	-	1,122,475
Five years later	1,020,918	40,709	-	-	-	-	-	1,061,628
Current estimate of cumulative claims cost	1,383,784	40,709	43,096	44,678	53,637	62,912	67,715	1,696,532
Cumulative payments	(843,294)	(35,307)	(33,780)	(29,832)	(29,575)	(26,428)	(12,345)	(1,010,561)
Outstanding claims – undiscounted	540,490	5,402	9,318	14,846	24,060	36,483	55,370	685,970
Discount								(5,117)
Outstanding claims								680,853
Short-tail outstanding claims								76,195
Claims handling expenses								45,738
Risk margins								176,286
Total gross outstanding claims as per the Balance Sheet								979,073

(ii) Net of reinsurance

Accident year	2014 & prior	2015	2016	2017	2018	2019	2020	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Estimate of ultimate claims cost:								
At end of accident year	829,688	44,473	46,689	50,722	56,854	59,477	64,097	1,152,000
One year later	781,948	43,836	48,894	49,979	52,686	62,351	-	1,039,695
Two years later	819,233	43,669	48,909	47,416	53,369	-	-	1,012,596
Three years later	828,976	40,577	43,066	44,478	-	-	-	957,097
Four years later	886,851	39,827	42,852	-	-	-	-	969,529
Five years later	874,343	40,377	-	-	-	-	-	914,719
Current estimate of cumulative claims cost	1,173,188	40,377	42,852	44,478	53,369	62,351	64,097	1,480,713
Cumulative payments	(705,939)	(34,987)	(33,552)	(29,723)	(29,562)	(26,383)	(11,769)	(871,915)
Outstanding claims – undiscounted	467,249	5,390	9,299	14,757	23,807	35,969	52,327	608,798
Discount								(4,787)
Outstanding claims								604,010
Short-tail outstanding claims								17,592
Claims handling expenses								45,738
Risk margins								150,165
Total gross outstanding claims as per the Balance Sheet								817,504

31. Unearned premium reserve

	Group		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Unearned premium liability as at 1 July	157,898	154,640	157,898	154,640
Deferral of premiums on contracts written in the period	276,431	241,116	276,431	241,116
Earning of premiums written in current and previous periods	(264,204)	(237,858)	(264,204)	(237,858)
Unearned premium liability as at 30 June	170,125	157,898	170,125	157,898

The current period balance of the unearned premium reserve includes $58.547 million (2019: $54.519 million) relating to the renewal of Workers' Compensation premiums expiring at 4pm on 30 June 2020.

Notes to the Financial Statements (Continued)

For the financial year ended 30 June 2020

32. 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)
G Cooper	Director (non-executive) (Appointed 29 June 2020)
M T Doquile	Director (non-executive)
J Fitzpatrick	Director (non-executive)
R M Haddock	Director (non-executive)
P Marshall	Director (non-executive)
L Reeves	Director (non-executive)
J A Schafer	Director (non-executive)
J A Tongs	Director (non-executive) (Retired 25 May 2020)

(ii) Senior Leadership Team

R Scenna	Chief Executive Officer
R Castle	General Manager, Client
D Cole	General Manager, Solutions
T Johnson	General Manager, Service Delivery
K Nash	Head of General Insurance Claims
J Sebire	Chief Financial Officer
S Stares	General Manager, People and Culture
J Yipp	Chief Risk Officer
K Young	Chief Technology Officer
J Zarb	Head of Workers' Compensation Claims & NSW

(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:

	Group		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Directors				
Short-term	432,949	400,816	381,937	355,328
Post employment	41,130	38,077	36,284	33,756
	474,079	438,893	418,221	389,085

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

	Group		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Executives				
Short-term	4,304,657	4,962,241	4,304,657	4,962,241
Post employment	1,094,418	242,802	1,094,418	242,802
Other long-term	158,482	240,082	158,482	240,082
	5,557,557	5,455,125	5,557,557	5,445,125

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

The other long term category includes accrued long service leave where the executive has not yet reached the entitlement date.

Executive remuneration includes redundancy and termination in lieu of notice payments of $565K (2019: nil).

(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.

	Balance at 1 July 2018	Net Change Other	Balance at 30 June 2019	Net Change Other	Balance at 30 June 2020
Directors					
P A Gallagher	1,250	-	1,250	-	1,250
L Reeves	1,250	-	1250		1,250
J Dawson	1,250	(1,250)	-		-
R M Haddock	1,250	-	1,250	-	1,250
J A Schafer	1,000	-	1,000	-	1,000
J A Tongs	1,250	-	1,250	(1,250)	-
G Cooper	-	-	-	1,250	1,250
J Fitzpatrick	1,250	-	1,250	-	1,250
P Marshall	1,250	-	1,250	-	1,250
M Doquile	-	1,250	1250	-	1,250
Total	9,750	-	9,750	-	9,750

(d) Loans to key management personnel

There are no loans to key management personnel.

33. Related parties

	Group		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Wholly owned group transactions				
The entities within the wholly owned group are Catholic Church Insurance Limited (group), and CCI Asset Management Limited (subsidiary).				
Catholic Church Insurance Limited is the ultimate parent entity.				
Expenses charged to CCI Asset Management Limited	-	-	1,718,795	1,454,578
Expenses charged to CCI Asset Management Limited	-	-	580,644	294,840
Other related party transactions				
Catholic Church Insurance sold insurance policies to the shareholders of the company during the year within a normal policy holder relationship on terms and conditions no more favourable than those available on similar transactions to other policy holders.	173,247,507	157,278,748	173,247,507	157,278,748
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	-	29,858,263	-	29,858,263
Management fees for the reporting period paid by the trusts to CCI Asset Management Limited				
– Catholic Values Unit Trust	846,011	781,272	846,011	781,272
– Income Unit Trust	401,099	369,410	401,099	369,410
Funds under management for the reporting period with CCI Asset Management Limited that are also shareholders of CCI	681,427,313	520,269,494	681,427,313	520,269,494

34. Auditors remuneration

	Group		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
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 group	236,201	210,498	225,901	198,295
(b) other services in relation to the entity and any other entity in the group				
– Taxation services	-	39,526	-	39,526
– Other services	170,944	97,203	99,462	35,414
Total other services	170,944	136,729	99,462	74,941

Other services relates to the funds distribution review of the CCI Asset Management controlled trusts, GS007 audit and actuarial peer review undertaken by Ernst and Young.

35. Statement of cash flows

	Group		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Reconciliation of cash flow from operations with profit / (loss) from ordinary activities				
Profit from ordinary activities	(247,220)	(15,770)	(247,608)	(16,071)
Changes in net market value of investments	58,819	(28,745)	57,909	(29,149)
Depreciation of assets	6,259	2,374	6,186	2,364
Amortisation of intangible assets	3,785	2,596	3,785	2,596
Loss on sale of assets	(79)	(66)	(79)	(66)
Changes in assets and liabilities				
Changes in grants and Catholic Entity Distributions	(6,899)	32	(6,899)	32
Increase in unearned premium	12,229	3,257	12,229	3,257
(Increase) in premiums receivable	4,707	(9,343)	4,707	(9,343)
(Increase) / decrease in reinsurance and other recoveries receivable on outstanding claims	(76,789)	(20,319)	(76,789)	(20,319)
(Increase) / decrease in reinsurance payables	(129)	(1,691)	(129)	(1,691)
Increase / (decrease) in outstanding claims	285,074	94,692	285,074	94,692
(Increase) / decrease in acquisition costs	127	(423)	127	(423)
(Increase) / decrease in statutory charge asset	(360)	678	(360)	678
Decrease in GST tax provision	163	2,309	163	2,309
Decrease in other provisions and sundry debtors	6,947	(1,701)	7,706	(1,173)
Cash flow from operating activities	46,654	27,880	46,022	27,693

Notes to the Financial Statements (Continued)

For the financial year ended 30 June 2020

36. Controlled entities

Name of Entity	Country of incorporation	Ownership Interest		Investment	
		2020 %	2019 %	2020 $'000	2019 $'000
Parent entity					
Catholic Church Insurance Limited	Australia	-	-	-	-
Controlled entity					
CCI Asset Management Limited	Australia	100	100	-	-
CCI GF Pty 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. The shares held in CCI GF Pty Limited of $120 were written down to zero in the financial year ended June 2017.

37. 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 group 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	
	2020 $'000	2019 $'000
Tier 1 capital		
Paid-up ordinary shares	8,139	8,139
General reserves	299,807	546,640
Retained earnings at end of reporting period	494	1,267
Premium liability surplus	14,665	16,704
Net tier 1 capital	323,105	572,750
Less net intangible assets	11,863	14,174
Less assets under a fixed or floating charge	-	-
Total capital base	311,242	558,576
Prescribed capital amount	238,348	238,155
Prescribed capital amount coverage	1.31	2.35

The group does not hold any tier 2 capital.

38. 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. Management assessed that the fair values of cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

(b) Interest rate risk

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

	Fixed Interest Rate Maturity – Consolidated						
2020	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	0.54	193,920				2	193,922
Debtors						289,832	289,832
Government and semi-government loans	4.39		21,379	65,894	147,477		234,750
Other fixed interest securities	2.64		4,618	103,449	17,760		125,826
Alternatives	-		-	-		47,537	47,537
Shares, options & trusts						564,711	564,711
Total		193,920	25,998	169,343	165,237	902,081	1,456,578
Financial liabilities							
Creditors						52,136	52,136
Exchange traded options			7,167				7,167
Total			7,167			52,136	59,303

2020	Fixed Interest Rate Maturity – Company						
	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	0.54	192,835	-	-	-	2	192,837
Debtors	-	-	-	-	-	289,203	289,203
Government and semi-government loans	4.39	-	21,379	65,894	147,477	-	234,750
Other fixed interest securities	2.64	-	4,618	103,449	17,760	-	125,826
Alternatives	-	-	-	-	-	47,537	47,537
Shares, options & trusts	-	-	-	-	-	564,712	564,712
Preference shares	-	-	-	-	-	-	-
Total		192,835	25,998	169,343	165,237	901,453	1,454,865
Financial liabilities							
Creditors	-	-	-	-	-	52,094	52,094
Exchange traded options	-	-	7,167	-	-	-	7,167
Total			7,167			52,094	59,261

2019	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	1.60	155,827	-	-	-	2	155,829
Debtors	-	-	-	-	-	233,194	233,194
Government and semi-government loans	4.57	-	29,894	77,064	139,234	-	246,192
Other fixed interest securities	3.84	-	7,101	73,265	23,799	-	104,165
Alternatives	-	-	-	-	-	52,643	52,643
Shares, options & trusts	-	-	-	-	-	603,869	603,869
Preference shares	-	-	-	-	-	-	-
Total		155,827	36,995	150,329	163,033	889,707	1,395,892
Financial liabilities							
Creditors	-	-	-	-	-	40,122	40,122
Exchange traded options	-	-	607	-	-	-	607
Total	-	-	607	-	-	40,122	40,729

2019	Fixed Interest Rate Maturity – Company						
	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	1.60	155,374	-	-	-	2	155,376
Debtors	-	-	-	-	-	232,669	232,669
Government and semi-government loans	4.57	-	29,894	77,064	139,234	-	246,192
Other fixed interest securities	3.84	-	7,101	73,265	23,799	-	104,165
Alternatives	-	-	-	-	-	52,643	52,643
Shares, options & trusts	-	-	-	-	-	603,869	603,869
Preference shares	-	-	-	-	-	-	-
Total		155,374	36,995	150,329	163,033	889,182	1,394,914
Financial liabilities							
Creditors	-	-	-	-	-	40,125	40,125
Exchange traded options	-	-	607	-	-	-	607
Total	-	-	607	-	-	40.125	40,732

39. Fair value hierarchy

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

	Quoted Market Price (Level 1)	Valuation Technique-Market Observable inputs (Level 2)	Valuation Technique-Non Market Observable inputs (Level 3)	Total
Consolidated as at 30 June 2020	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets				
– Government and semi-government bonds	234,750	-	-	234,750
– Other fixed interest securities	125,826	-	-	125,826
– Shares in other corporations	243,131	-	-	243,131
– Units in other unit trusts	-	234,255	-	234,255
– Units in property unit trusts	-	-	87,325	87,325
– Alternatives	-	47,537	-	47,537
Total	**603,708**	**281,792**	**87,325**	**972,824**
Financial liabilities				
Derivative instruments				
Options	(7,167)	-	-	(7,167)
Total	(7,167)	-	-	(7,167)

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.

	Quoted Market Price (Level 1)	Valuation Technique-Market Observable Inputs (Level 2)	Valuation Technique-Non Market Observable Inputs (Level 3)	Total
Consolidated as at 30 June 2019	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets				
– Government and semi-government bonds	246,191	-	-	246,191
– Other fixed interest securities	104,165	-	-	104,165
– Shares in other corporations	249,171	-	226	249,397
– Units in other unit trusts	-	260,943	-	260,943
– Units in property unit trusts	-	-	93,533	93,533
– Alternatives	-	52,643	-	52,643
Total	**599,526**	**313,586**	**93,759**	**1,006,871**
Financial liabilities				
Derivative instruments				
Options	(607)	-	-	(607)
Total	(607)	-	-	(607)

Level 1

Fair value measurements derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2

Fair value measurements derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3

Fair value measurements derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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 2020 $'000	Consolidated Entity 2019 $'000
Opening balance	93,759	824
Total gains and losses		
– Realised	-	-
– Unrealised	(5,530)	3,030
Purchases	-	17,690
Sales	(904)	-
Transfers to other categories	-	72,215
Closing balance	87,325	93,759

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
Units in property unit trusts	Net Tangible Asset	Net Tangible Asset

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 $8,733 (2019: $9,376) or increase the Level 3 fair value by $8,733 (2019: $9,376).

40. Contingent liability

CCI has unallocated capital of $395,901 (2019:$395,901) in its wholly owned subsidiary CCI Asset Management. There are currently no plans for this to be allocated.

41. Events occurring after the reporting period

Subsequent to 30 June 2020, the Board have approved steps to be taken by management to improve the short-term capital position by rebalancing the investment portfolio to improve capital efficiency. Management have completed a $375m sell down of growth to defensive assets with the intention of creating a favourable movement in the investment risk charge. Other than the impact of the investment portfolio rebalance, 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 group, the results of those operations, or state of affairs of the group in future financial years.

Notes to the Financial Statements (Continued)

For the financial year ended 30 June 2020

42. Other matters

State and Federal inquiries

The Royal Commission delivered its final report into Institutional Responses to Child Sexual Abuse in December 2017. The Royal Commission made many The Royal Commission delivered its final report into Institutional Responses to Child Sexual Abuse in December 2017. The Royal Commission made many and came into operation on 1 July 2018.

The Victorian Parliamentary Inquiry (2012) previously resulted in change to the legislation in Victoria regarding limitation of actions. In July 2017 the Victorian Parliament passed further changes shifting the onus of proof in sexual abuse cases so that the Institution will now be required to prove it took steps to prevent abuse occurring. Legislative change has been enacted requiring organisations to identify an entity to sue in respect of civil claims.

Western Australia, Queensland and Victoria have adopted changes to limitation periods for sexual abuse claims as well as mechanisms for the revisiting of past claims. New South Wales has announced an intention to explore legislative change to enable revisiting past settlements, which is still under consideration.

Legislative change arising from the various State and Federal Inquiries continues to evolve and the ultimate financial impact on CCI continues to be monitored as the substantive impact of those changes emerge.

National Redress Scheme

The National Redress Scheme commenced operations on 1 July 2018. Many of CCI's clients have voluntarily opted into the Scheme. CCI has identified that its policies cannot respond to liabilities which arise solely by virtue of the Scheme. CCI is continuing to monitor the position of policyholders in respect of the Scheme but currently does not anticipate the Scheme altering CCI's exposure to claims for sexual abuse under insurance policies issued by the company.

Professional Standards claims

The estimation of the outstanding claims liability arising from abuse claims (referred to as Professional Standards claims) under the public liability insurance contracts is a critical accounting estimate. The latent nature of these claims is such that there is significant uncertainty as to (i) the ultimate total number of claims, (ii) the amounts that such claims will be settled and (iii) the timings of any payments.

The appointed actuary has discussed with management and the Board the key assumptions and judgements used in determining the inputs into the valuation in order to consider the adequacy of the liability.

In addition, the introduction of the National Redress Scheme approximately 2 years ago has resulted in a significant increase in the number of reported claims and significant uncertainty in establishing the potential exposure in order to predict the exposure to abuse related claims.

As such there has been limited data (both historical and forward looking), which impacts on the ability of the appointed actuary to model this interaction, which has required considerable professional judgement in determining assumptions around the future number of Professional Standards claims.

Based on the available information, which included a continued increase in the number of claims lodged compared to previous years, CCI recorded an increase in the outstanding claims liability for Professional Standards of $238.9 million. CCI is satisfied that the reserving process and outcomes were robust and well managed and that the overall reserves set were reasonable as disclosed in note 30. Whilst CCI maintains a strong balance sheet, the significant increase in reserves for professional standards claims has seen a substantial decrease in its regulatory capital during the 2020 financial year, and now sits outside the CCI target capital range. In response to these matters, CCI has initiated a capital raising initiative to restore regulatory capital back to the target capital level that includes a number of different options that are being actively explored with shareholders and other key stakeholders.

In addition to these initiatives, in order to preserve capital in the short-term, CCI will not pay a final dividend for the 2020 financial year nor will it pay its annual Catholic Entity Distribution.

Although it is not certain that these efforts will be successful, CCI has determined that the actions that it is taking are sufficient to mitigate the uncertainty and has therefore deemed it appropriate to continue to prepare the financial report on a going concern basis due to its ability to realise its assets and settle its liabilities in the ordinary course of business at the amounts recorded in the financial statements.

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 group are in accordance with the Australian Charities and Not-for-profits Commission Act 2012, including:

(i) giving a true and fair view of the company's and group's financial position as at 30 June 2020 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations), the Australian Charities and Not-for-profits Regulation 2013;

(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 2020

Independent Auditor's Report

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Building a better working world

Independent Auditor's Report to the members of Catholic Church Insurance Limited

Opinion

We have audited the financial report of Catholic Church Insurance Limited ("the Company") and its subsidiaries (collectively "the Group"), which comprises:

- the Group consolidated and Company statements of financial position as at 30 June 2020;
- the Group consolidated and Company statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended;
- notes to the financial statements, including a summary of significant accounting policies; and
- the directors' declaration.

In our opinion, the accompanying financial report is in accordance with the *Australian Charities and Not-for-Profits Commission Act 2012*, including:

a) giving a true and fair view of the Company's and the Group's financial position of the Group as at 30 June 2020 and of their financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Australian Charities and Not-for-Profits Commission Regulation 2013*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information obtained at the date of this auditor's report is the directors' report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

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In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors 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 *Australian Charities and Not-for-Profits Commission Act 2012* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or the Group or to cease operations, or have no realistic alternative but to do so.

Emphasis of Matter: Professional Standards Outstanding Claims reserve and Fair Value of Unlisted Investments

We draw attention to Note 42 of the financial statements which describes the significant uncertainty in estimating the outstanding claims liability for professional standards claims and the impact on the capital position of the Company.

We draw attention to Note 3(b) of the financial statements which describes the impact of the COVID-19 pandemic on the determination of the fair value of unlisted property fund investments and how this has been considered by the Company in the preparation of the financial statements. Due to the increased valuation uncertainty, fair value may change significantly and unexpectedly over a relatively short period of time.

Our opinion is not modified in respect of these matters.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's or the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's or the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young

Ernst & Young

T M Dring
Partner
Melbourne
9 September 2020

Corporate Information

Annual Financial Report for year ended June 2020

Catholic Church Insurance Limited

ABN 76 000 005 210
AFSL No. 235415

Registered Office and Principal Place of Business

Level 8
485 La Trobe Street
Melbourne Vic 3000

Directors

Paul A Gallagher (Chairman)

Gregory Cooper (Appointed 29 June 2020)

Matthew Doquile

Joan Fitzpatrick

Richard M Haddock

Reverend Dr Philip Marshall

Sister Louise Reeves

Julie-Anne Schafer

Jane A Tongs (Retired 25 May 2020)

Roberto Scenna (Alternate Director for Richard M Haddock)

Company Secretary

Dominic P Chila

Senior Leadership Team

Roberto Scenna	Chief Executive Officer
Ross Castle	General Manager, Client
David Cole	General Manager, Solutions
Todd Johnson	General Manager, Service Delivery
Kimberley Nash	Head of General Insurance Claims
Justin Sebire	Chief Financial Officer
Sally Stares	General Manager, People and Change
Jeremy Yipp	Chief Risk Officer
Kathryn Young	General Manager, Information and Communication Technology
Joanne Zarb	Head of Workers Compensation Claims

Solicitors

MinterEllison
Level 23, Rialto Towers
525 Collins Street
Melbourne Vic 3000

Bankers

National Australia Bank Limited Melbourne Office
Business Banking Centre
Level 2, 330 Collins Street
Melbourne Vic 3004

Auditors

Ernst & Young
8 Exhibition Street
Melbourne Vic 3000

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