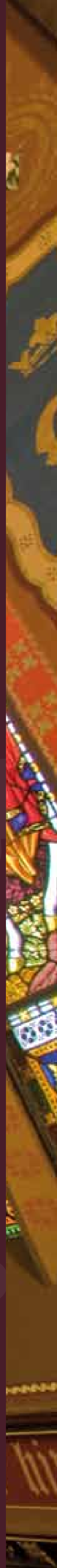
Catholic Church Insurances Limited

Serving Church

ANNUAL REPORT 2010



Contents

Saint MARY MACKILLOP
CANONISATION 2010

"So great is the strength we possess in our unity."
~ Mary MacKillop, 1874

The desire Mary had for religious life, combined with her response to the needs of the poor bush children of Penola, resulted in her founding a new form of religious life.

Mary's school, set up with Father Woods, was open to anyone who wished to learn and was revolutionary as it accepted and educated without distinction, both those with the means to pay for an education and those without.

On 15 August 1867, in a tiny chapel in Grote Street, Adelaide, Mary MacKillop officially took vows and became Mary of the Cross. Mary was the first Australian to set up an order and the first Australian nun to go outside the cities and minister to Australia's poor, rural and working class.

Her motto: ***'never see a need without doing something about it'*** led her to minister in many different ways with those who were poor and pushed to the margins. In reverencing the dignity of each person and sharing with them her vision of a new world, she created new opportunities for those she served, responding to needs in the new colonies: educating the poor, caring for the sick, providing shelter for women and children.

Today, Josephites continue to be motivated by these same convictions, participating in God's mission by serving in a wide range of ministries, to meet needs in a variety of ways.

Josephites can be found in rural areas, schools, shelters, universities, detention centres, parishes, hospitals, courtrooms, ships, isolated places, indigenous communities, prisons, aged care facilities, retreat centres, family care centres, health facilities, on housing estates, in hospices and counselling rooms. They are educators, nurses, therapists, social and pastoral workers, advocates, administrators, spiritual directors, lawyers, administrators, chaplains, parish ministers, theologians, psychologists, artists, authors, and musicians, serving in many roles, as they try to live the Josephite charism in a new world.

Josephites still seek to 'never see a need without doing something about it' and in the present society know that this is simply everything that calls humanity to life and to God. The spirituality that underpins their mission, and all that they do is one of relationship – with God, with one another, and with all of creation.

+ Born of Scottish parents in Fitzroy, Victoria, from the age of sixteen, Mary earned her living and greatly supported her family as a governess, a clerk and a teacher
+ While acting as a governess at Penola, Mary met Father Julian Tenison Woods
+ In 1866, greatly inspired and encouraged by Father Woods, Mary opened the first Saint Joseph's School in a disused stable in Penola. Young women came to join Mary, and so the Congregation of the Sisters of St Joseph was begun
+ In 1867, Mary was asked by Bishop Shiel to come to Adelaide to start a school. From there, the Sisters spread, in groups to small outback settlements and large cities around Australia, New Zealand, and now in Peru, Brazil and refugee camps of Uganda and Thailand
+ Mary opened orphanages, providences to care for the homeless and destitute both young and old, and refuges for ex-prisoners and ex-prostitutes, as well as establishing health care facilities including the much loved St Margaret's Womens Hospital
+ Mary died on 8 August 1909 in the convent in Mount Street, North Sydney where her tomb is now enshrined
+ Saint Mary MacKillop was canonised on 17 October 2010 in Rome.

Directory

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

Registered Office and Principal Place of Business

Level 8
485 La Trobe Street
Melbourne Vic 3000

Tel 03 9934 3000
Fax 03 9934 3460

Directors

William R d'Apice – *Chairman (Resigned as Chairman 18 November 2009. Retired as Director 23 August 2010)*

Paul A Gallagher *(Appointed Chairman 18 November 2009)*

Sister Clare T Condon

Jo Dawson

Norman E B Griffiths

Richard M Haddock *(Appointed 6 October 2010)*

J A (Tony) Killen

Reverend Brian J Lucas

Christopher R O'Malley *(Retired 18 November 2009)*

Jane A Tongs *(Appointed 23 February 2010)*

Peter A Rush *(Alternate Director)*

Chief Executive Officer

Peter A Rush

Company Secretary

Dominic P Chila

Executive Group

Peter Rush – *Chief Executive Officer*

John Apter – *Regional Manager NSW/ACT*

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

Edd Branigan – *Assistant General Manager, Insurance Operations*

Tania Briganti – *Reinsurance Manager*

Dominic Chila – *Company Secretary and Chief Financial Officer*

Robert Faorlin – *Superannuation Manager (Resigned 30 June 2010)*

Charlie Nettleton – *Human Resources Manager*

Ian Smith – *Chief Investment Officer*

Norman Smith – *Information, Communication and Technology Manager*

Auditor

Ernst & Young

Ernst & Young Building
8 Exhibition Street
Melbourne Vic 3000

Tel 03 9288 8000

Images courtesy of Blessed Sacrament Congregation and St Francis' Church Heritage Centre.

Photographer: Casamento Photography

Company Profile

Catholic Church Insurances has been protecting the interests of the Catholic Church in Australia for 100 years. Owned by the Church and existing to serve the Church, Catholic Church Insurances understands the unique needs of the Church community like no other. This understanding has helped us to build a valued relationship of trust with the community we serve. Right from the beginning, our founding principles have remained constant: to develop specialist products and services which are able to meet the needs of the Church; to keep control of insurance costs; and to retain the surplus within Church. While building on its heritage, Catholic Church Insurances also looks to the future, constantly evolving and introducing new products and services to meet the changing needs of the Church today and tomorrow.

Our history

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

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

Since 1911 we have evolved from simple origins as a company offering fire insurance for Church properties into a diversified general insurance and financial services provider. Today, Catholic Church Insurances provides insurance products to Church and Religious Institutes in Australia, including property, motor vehicle, liability, workers' compensation, as well as providing retail insurance products to the broader community.

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

Catholic Church Insurances has provided insurance to other Church denominations since 2000.

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

In all its operations, Catholic Church Insurances' mission is to serve Church.

We belong to the Church

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

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

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

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

A different type of insurance company

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

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

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

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

Serving the Church and supporting its mission

Beyond our insurance operations, Catholic Church Insurances actively engages with the wider Catholic community to help support the Church's mission in pastoral, education, health and welfare work.

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

Operating under mutual principles we are able to put Church interests before company profits. When an operating surplus is achieved, a significant proportion is returned to the Church by way of distributions and grants to Catholic Church entities. We have returned more than $223.7 million in the last 32 years.

Catholic Church Insurances proudly supports key events in the life of the Church. In recent times this has included support for World Youth Day and for celebrations to mark the Canonisation of Australia's first declared Saint, Mary MacKillop. We also have longstanding relationships of support with organisations including Catholic Health Australia, the Australian Catholic Primary Principals Association, Catholic Social Services Australia, the Australasian Catholic Press Association and the Catholic Development Funds.

Highlights of The Year 2010

- A sound operating surplus of $37.8 million after distributions
- The achievement of a solid insurance result with an underwriting profit of $25.1 million
- A significant turnaround in the performance of the investment portfolio with investment income of $53.5 million
- Sound financial security with a solvency coverage of 2.05 times the minimum required by the Australian Prudential Regulation Authority (APRA), zero borrowings and shareholders' equity in excess of $271 million
- A recommendation of an ordinary dividend to shareholders of 40 cents per share and an additional dividend of 40 cents per share
- Payment of grants to the Australian Catholic Bishops Conference, Catholic Religious Australia and Catholic entity distributions of $30.0 million, bringing the total distributions in the last 32 years to $223.7 million
- The enhancement of the corporate governance framework including the review of the capital management plan, implementation of APRA's new remuneration prudential standards and the continued roll-out of the company's corporate risk management strategy
- First class reinsurance protection which supports our policyholders' financial interests
- Implementation of the corporate objectives to strengthen the company's commitment to *'Serving Church'*
- The implementation of new superannuation administration systems designed to serve the needs of our business partners and the superannuation fund members
- The appointment of the company as the superannuation administrator of the Catholic Superannuation Fund

Vision, Mission, Values

VISION

'Serving Church'

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

MISSION

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

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

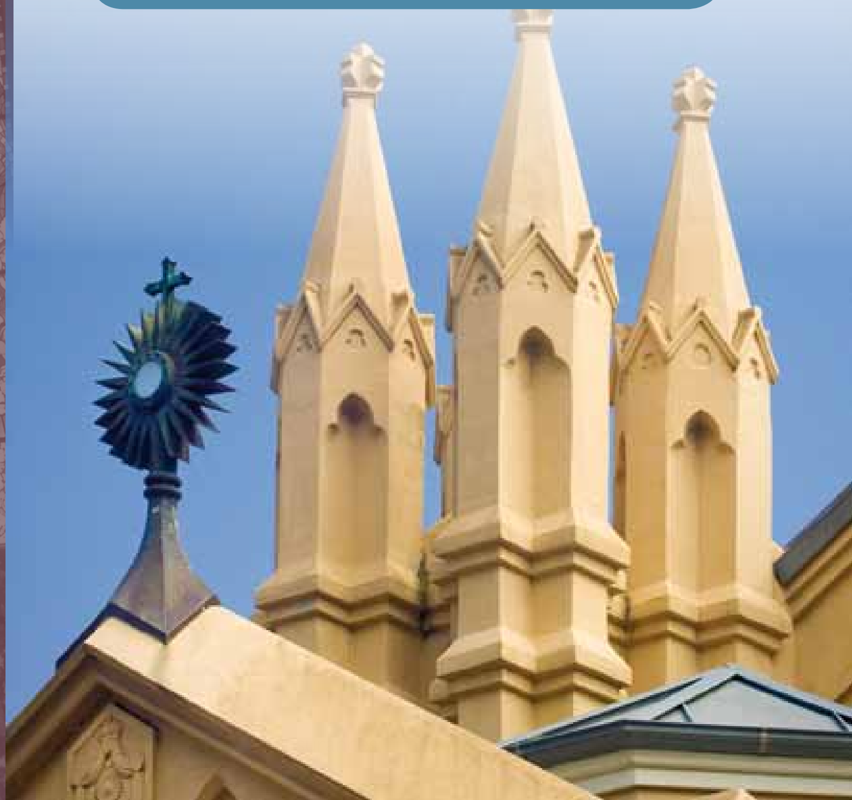
VALUES

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

Honesty

Fairness

Commitment to Serve



Management

Chief Executive Officer – **Peter Rush**

Finance and Administration

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

Finance Manager, Insurance – **Jenny Slavkovic**

Finance Manager, Superannuation – **Peter Nancarrow**

Corporate Compliance and Governance Manager – **Robert Halley-Frame**

Internal Audit Manager – **Steven Berizzi**

Human Resources

Human Resources Manager – **Charlie Nettleton**

Information, Communications and Technology

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

Technology and Infrastructure Manager – **Carlo DeFazio**

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

Insurance Operations

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

National Claims Manager – **Marita Wright**

Underwriting Operations Manager – **Ray Wilson**

National Risk Management Manager – **Mark Wilson**

Reinsurance Manager – **Tania Briganti**

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

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

Portfolio Manager, Property – **Manfred Kurz**

Investments

Chief Investment Officer – **Ian Smith**

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

CCI Investment Management Manager – **Ian Smith**

Project Management Office

Project Management Office Manager – **Roger Salvini** *(acting)*

Strategy, Marketing and Sales

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

National Marketing Manager – **Judith McCarthy**

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

National Business Development Manager – **Mark Daniels**

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

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

Client Services Manager NSW – **Jeff Giltinan**

Branch Manager ACT – **Tony Cassar**

State Manager QLD – **Gary Esler**

State Manager SA/NT – **John Lemm**

State Manager WA – **Bob Fragomeni**

Superannuation

Superannuation Manager – **Robert Faorlin** *(resigned 30 June 2010)*

Strategic Planning

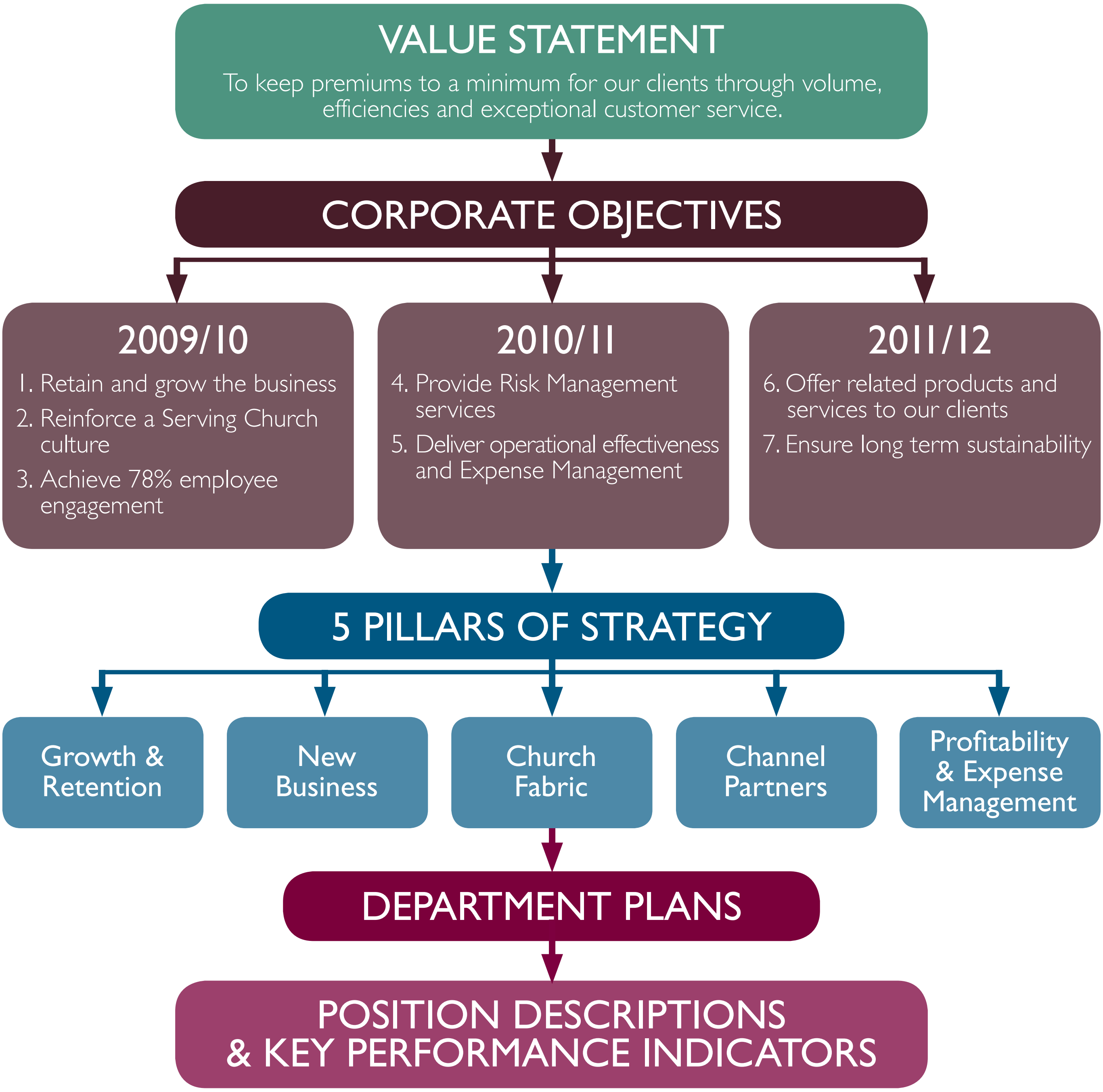
In the financial year the company adopted a more formal approach to strategic planning that involved staff through a series of planning sessions held at all levels. The purpose was to ensure that staff were directly involved in contributing to the achievement of our 7 corporate objectives and the 5 pillars of strategy.

In our strategic planning we have made our clients and their needs the central point of our planning for the future – with the purpose of providing better service through improved processes, systems and skills. We have also created a platform for having *One View of the Client* through the establishment of better communications and joint planning between all business units.

Our focus for the year has been on:

- Strengthening our relationships with our current clients
- Gaining new clients by offering a value added service
- Maintaining our relevance to Church through sponsorships and community activities
- Building the foundations for our ongoing relationship with our partners – Allianz and Catholic Super, and
- Managing our operational expenses efficiently and effectively.

Our ultimate aim is *Serving Church* through maintaining our relevance to our clients – current and new – and strengthening our role as strategic partners and service providers.



Chairman's Report

Achieving a considerable surplus, as the company has, in a year where markets have been unstable is due to Catholic Church Insurances being committed to our long term business strategies.

Over the past 32 years the company has now returned in excess of $223 million in Catholic entity distributions and grants to Church organisations.

Following two years of unstable economic activity, I am pleased to report the company has achieved a solid performance for the financial year to 30 June 2010. The surplus of $37.8 million, after the provision for distributions to policyholders, has been achieved reflecting steady investment returns, and a sound underwriting profit of $25.1 million. This result is in stark contrast to a loss of $32.4 million at 30 June 2009 and a modest surplus of $4.7 million to 30 June 2008.

The variation in results achieved by the company over the years is common in the insurance industry and is consistent with the reliance on investment income to generate that surplus. The company's record operating surplus of $101 million was in the 2005/06 financial year, when the financial markets were at record levels. Achieving a considerable surplus, as the company has, in a year where markets have retained some volatility, is due to Catholic Church Insurances being committed to our long term business strategies.

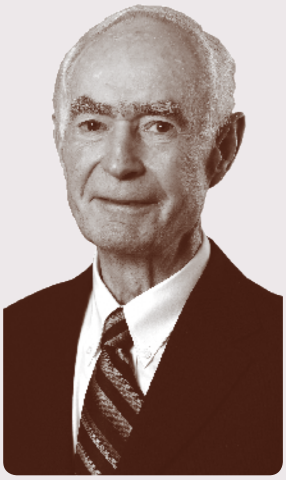
The Board has been very aware of the financial burden of insurance on our policyholders and our inability to assist by providing Catholic entity distributions in the previous years has weighed heavily on us. In December, when it was becoming clearer that our financial situation was improving, the Board approved a preliminary distribution of $3.0 million which was completed in February 2010. With the financial results now finalised, we have been able to approve a further $27.0 million, including grants, bringing the total for the year to $30.0 million. That means over the past 32 years the company has distributed $223.7 million to Church organisations.

The Board is also pleased to recommend at the Annual General Meeting the payment of an ordinary dividend to shareholders of 40 cents per share, and for this year, an additional dividend of 40 cents per share.

In addition, and despite a difficult fiscal environment, the company has maintained sound financial security and improved its solvency coverage from 1.74 in 2009 to 2.05 at 30 June 2010. This exceeds the minimum required by the Australian Prudential Regulation Authority (APRA) by more than twofold and reflects the Board's commitment to financial strength.

The company has zero borrowings and shareholders' equity is in excess of $271 million.

Chris O'Malley retires after 45 years of service



"Mine was a rich and rewarding career for which I thank providence with all my heart".

Chris O'Malley, former General Manager and Director of Catholic Church Insurances, retired from the Board at the end of 2009. Since joining the company in 1964 as branch manager for Queensland, Chris has been fundamental in shaping the company we are today.

In May 1964 Chris was approached by then Catholic Church Insurances Managing Director, Esmond Downey to head-up the company's new office in Queensland.

Chris was impressed by Mr Downey's vision for the growth and expansion of Catholic Church Insurances and attracted by the opportunity to work more directly with the Church.

"The influx of Catholic migrants demanding schooling, welfare and other services was putting increasing pressure on the Church," says Chris. "If the company was to provide for the Church's insurance needs it had to become an underwriter of all classes of general insurance and open offices in each state and territory."

Mr Downey retired in 1975 and Chris was offered the General Manager's position. Believing he could carry out Mr Downey and the Board's vision for the company, Chris accepted the role and relocated to Melbourne.

Chris believes the greatest achievement made during his time with the company has been the growing acceptance by the Church that Catholic Church Insurances is their own insurance company.

Chris O'Malley was General Manager of Catholic Church Insurances for 21 years and a Director for 12. He was also a Foundation Trustee and Chairman of National Catholic Superannuation Fund (NCSF).

Grants

Following on from the company's substantial support of World Youth Day in 2008 the Board agreed it was appropriate for the company to contribute, albeit in a more modest fashion, to the Canonisation of Blessed Mary MacKillop. In providing support to the Mary MacKillop Canonisation Company, the Sisters of St Joseph and the Dioceses for their celebrations on and around October 17, the company has been recognised as the Official Insurance Partner for the Canonisation of Mary MacKillop.

In addition, we will continue our support of the Australian Catholic Bishops Conference and Catholic Religious Australia with grants for both organisations.

Corporate Governance Framework

The company's corporate governance framework continued to be enhanced during the year, including the review of the capital management plan, implementation of APRA's new remuneration prudential standards and the continued roll-out of the company's corporate risk management strategy.

Board Committee Reports

Investment returns have contributed significantly to the company's strong performance and are the result of strategies and processes, developed by the Board Investment Committee, which maximise investment income and at the same time protect against any downturns in investment markets. While we could not produce income from investments in the previous year, working within our guidelines when economic conditions are variable has enabled us to take advantage of any upward movement.

The Board Budget Committee recommended the funding for a number of major development projects which will provide a strong foundation for the company's future including:

- The replacement of the worker's compensation system
- Significant enhancements to the superannuation administration system
- The relocation of our Melbourne Office, and
- The development of a new human resources system.

I commend those staff working on these major projects for the progress achieved throughout the year.

Reinsurance is an extremely important part of the company's business model, without appropriate reinsurance support we would be unable to accept the magnitude of risk which we insure. The Board Reinsurance Committee has agreed to a number of changes to our reinsurance strategy enabling us to achieve significant savings in reinsurance costs whilst still retaining prudent levels of protection.

Chairman's Report *(continued)*

Maintaining high levels of compliance with legislation, the prudential requirements of the APRA and other government authorities as well as promoting corporate risk management is the responsibility of the Board Audit, Risk Management and Compliance Committee. The Committee has reported no significant breaches of compliance in a complex environment.

Management's flexibility to employ staff of a very high calibre through suitable remuneration and staff benefits programs is monitored and fostered by the Board Remuneration Committee.

Strategic Initiatives

When considering strategic changes for the company, the Board analyses and considers carefully both the commercial results of such decisions and the impacts on Church. Only initiatives which truly support our vision of Serving Church are approved.

An important and unique initiative for the company during the financial year was the four year agreement to outsource our personal insurances portfolio to Allianz. This was achieved only after significant research undertaken by the company covering consumer needs, the best use of the financial resources of the company and how this portfolio could efficiently assist in the management of the expenses of the company and thus support Church. The new business model outsources the underwriting and claims functions whilst retaining the responsibility for marketing and sales within the company. Importantly, the customers who take out policies under this new arrangement remain our customers.

Board changes and new Board members

In my first report as Chairman for Catholic Church Insurances I would like to acknowledge the support and assistance I have received from my fellow Board members. The Board has had a number of changes during this financial year which have brought new skills and expertise to our table.

In accordance with the corporate governance objectives under which the Board operates, the selection of a new Director involves a thorough analysis to determine the most appropriate skills required on the Board, followed by a selection process which seeks to find a candidate with skills to complement those of the existing Board members.

Following the completion of his maximum term as Chairman of the Board of Directors of Catholic Church Insurances, Bill d'Apice stepped down from that position at the 2009 Annual General Meeting. He remained as a Director of the company until his retirement from the Board in August 2010. Bill's dedication to the Board, the company and more broadly the Church has been outstanding and his contribution will be missed greatly.

We also farewelled Chris O'Malley, towards the end of 2009, after an extraordinary 45 years of service to the company. Again Chris had made a remarkable contribution, both as General Manager and subsequently as a Director, and has seen the company grow and prosper under his stewardship.

In February 2010 we welcomed the appointment of Jane Tongs as a Director to fill the casual vacancy created by the retirement of Chris O'Malley. And in October 2010, we invited Richard Haddock to fill the casual vacancy created by the retirement of Bill d'Apice.

Superannuation Administration

Following the merger of National Catholic Superannuation Fund and Catholic Superannuation Fund, the appointment of Catholic Church Insurances as the superannuation administrator for the revised Catholic Superannuation Fund was a milestone for the company. As with our personal insurances business, the income from this initiative will support our Church insurance programs.

CCI Investment Management (CCIIM)

Catholic Church Insurances' wholly owned subsidiary company CCI Investment Management Limited has completed its tenth year of operations having been established in response to the requests from Catholic organisations for a Church-owned investment service. Over the years Catholic Church Insurances has provided financial support to CCIIM to assist with the development of this business. CCIIM operates under the guidance of an independent Board of Directors, chaired by Tony Killen, and continues to manage the investment funds of its Church clients.

Catholic Church Insurances invests some of its investment portfolio into CCIIM as part of normal investment operations.

Outlook

Proper and prudent direction is the key to satisfactory management of the company, leading to a sound financial position, capital strength, strong solvency and cautious reinsurance protection. These are the fundamental philosophies by which the company has been managed and they have stood the test of time.

While we are constantly exploring ways to improve the efficiencies and operational aspects of the company, the principles under which the company was created do not change.

I would like to thank my fellow Board members for electing me as Chairman and for their confidence in my leadership. In addition, I would like to thank the company's Chief Executive Officer, Peter Rush, his fellow managers and staff for their commitment and hard work.

Paul Gallagher

Chairman

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

Corporate Governance Statement

For the year ended 30 June 2010

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

The Board of Directors

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

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

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

The Constitution provides:

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

Board Committees

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

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

Audit, Risk Management & Compliance Committee

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

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

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

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

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

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

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

Budget Committee

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

Directors' Governance Committee

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

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

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

Investment Committee

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

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

Reinsurance Committee

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

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

Remuneration Committee

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

Directors' arrangements with the Company

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

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

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

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

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

Chief Executive Officer's Review of Operations

Our strong result is a testament to our long term operational and investment strategies, which have stood the test of time.

Catholic Church Insurances performed solidly for the financial year ended 30 June 2010, achieving a surplus of $37.8 million.

Our strong result is a testament to our long term operational and investment strategies which have stood the test of time. By adopting modest and prudent strategies which produce a steady result we are more likely to achieve stability and success.

Investment income of $53.5 million was the major contributor to this result and was achieved through a conservative strategy which still allowed for maximising opportunities within investment markets.

In recognition of our position within Church, we aim to achieve only a modest underwriting result, which is the difference between premiums collected and claims and expenses paid. Our underwriting result of $25.1 million is higher than normal due to the release of part of our claims provisions which was surplus to requirements. Each year we make provision for claims, even though many of those claims have not yet been reported. Those provisions are developed from actuarial studies and we set aside funds to cover them and build up sufficient provisions to ensure that Church funds are protected. When provisions exceed requirements, again by actuarial assessment, they are returned to general revenue, and ultimately released back to Church.

In February 2010, we made an early distribution to Catholic clients of $3.0 million. The Board made this decision in recognition of the considerable financial burden of many of our clients during the global financial crisis, and our inability to provide distributions from the 2009 year. We made the early distribution at that time due to the strong financial result for the first six months of the year.

With our financial result confirmed, the company has allowed for grants and distributions to our Catholic clients of $30.0 million for this financial year, including the $3.0 million already distributed. We are pleased that our strong results allow this allocation to be provided to our Church clients.

An unstable economic environment

During the financial year the global economic climate remained volatile. However, despite this and the poor results in the previous period, the local insurance market remained very competitive. Because insurers continued to produce positive underwriting results and improved investment returns, the increased optimism in the market kept price increases to a minimum.

Our combined operating ratio (COR) – the measure of premium revenue to claims plus expenses – for the year is 85%, which is an excellent result and compares favourably against the industry. Similarly, APRA has estimated the COR for all Australian insurers at 31 December 2009 to be 87%, an improvement from a COR of 105% in December 2008.

Unstable but recovering investment markets

Investment markets recovered somewhat during the period with most asset classes producing solid returns for the year. Australian equity markets in particular rebounded from relatively low levels contributing significantly to overall returns. The strong return for the year and conservative management of the investment portfolio has enabled us to continue building the company's solvency, with funds under management at 30 June 2010 reaching $677.3 million.

Our investment portfolio consists of a mix of Australian and international equities, property, cash and fixed interest asset classes. The portfolio settings are implemented with reference to our investment policy controls and limits, Board-approved guidelines and APRA's regulatory framework, and reflect our, and our advisors', view of investment markets.

Our investment portfolio returned 8.22% for the year, against a benchmark 9.5%, with the portfolio return including the cost of hedging.

FACTS

Name:	**Marist Sisters College, Woolwich, NSW**
Date of loss:	**21/06/2010**
Nature of loss:	**Fire damage to boats and boat shed**
Cost:	**Est. $718,000**

On 21 June 2010, Marist Sisters College, Woolwich lost their boatshed and several boats when a fire tore through the property in the early hours of the morning.

Burning for just over two hours, much of the boatshed and the boats and equipment it housed were completely destroyed. In addition, several trees surrounding the shed incurred substantial damage and required removal.

Needless to say, the loss has been devastating for students, parents and staff who have worked hard to found and fund the program.

In the weeks and months since this devastating event, Catholic Church Insurances has worked with the college to demolish and remove residual debris and install temporary barriers. We will continue to assist the college over the coming months in rebuilding the boatshed and getting their boating program back on track.

The company's investment guidelines include a portfolio hedging strategy that enables us to maintain a higher weighting to equities while providing some downside protection.

Markets have continued to exhibit volatile behaviour over the past year as the developed nations work through the process of reducing sovereign debt and engineering a sustainable economic recovery. With an uncertain outlook for investment markets, our focus will remain on prudent investment management and the preservation of capital.

Building the foundations for future growth

In the first half of the financial year a series of strategy planning days was held involving a comprehensive review of the current state of the company, and of our future direction. The review was undertaken against five pillars of strategy to support the corporate objectives.

Developing a client centric culture

From that starting point, a series of workshops with all managers was held during the year designed to link the corporate strategy to operations. This called for alignment of different departments to the agreed corporate strategic plan and culminated in the development of departmental plans and objectives aligned to the corporate objectives and priorities. The initial focus has been on the three corporate goals defined in stage one of the corporate strategic plan:

- Growth and retention of business
- Culture of the business, and
- Becoming an employer of choice.

To provide a focus for the cultural change required to ensure the success of the corporate plan we gave the name *One View of the Client* to our overall objective. The changes create an increased organisational view of our clients and their needs, while maintaining a sustainable business for the future. *One View* was the theme adopted for the national annual Sales and Service Conference early in 2010.

The implementation of the operational plan has commenced and will satisfy the *One View* focus with our goal to have all departments aligned and working on their individual and shared goals by end of 2010.

Excellent insurance cover and affordable premiums

At Catholic Church Insurances our aim is to provide excellent insurance cover for our clients at competitive and affordable premiums. Our insurance operations team has endeavoured to ensure that premiums remain as low as possible during this financial year. Despite this, there were some increases required for the public liability, employment practices liability and, in some jurisdictions, workers' compensation portfolios. Small rate increases were also applied to some property and accident policy classes, with other increases in costs coming from adjustments to sums insured.

FACTS

Name:	**Holy Cross School, Helensburgh, NSW**
Date of loss:	**04/10/09**
Nature of loss:	**Fire damage to school**
Cost:	**Est. $1,473,000**

Just after 11pm on 4 October 2009, a fire broke out at Holy Cross Primary School, Helensburgh. Believed to have started in an electrical switchboard, the fire inflicted significant damage.

Fire brigades from Engadine and Helensburgh attended within minutes of the initial alarm being raised but unfortunately the fire had taken hold quickly, reducing 90% of the building and contents to a smouldering pile of unsalvageable debris.

Established at the turn of the 20th century, the school maintains a proud history of guiding and educating the youth of Helensburgh, both academically and spiritually.

Since the event Catholic Church Insurances has worked with the Catholic Education Office in the Diocese of Wollongong in the recovery process.

New products and services

A statutory liability product was launched in November 2009. This policy indemnifies clients for penalties imposed by regulators for unintentional breaches of legislation. The introduction of this cover has proved to be timely and has been well received.

Our *EvalU* program was developed to streamline the process of valuing Church properties by creating a database of information which can be updated at any time in the future. Since April 2009 we have valued approximately 37% of churches, presbyteries and diocesan schools around the country. It is anticipated that this project will be completed by June 2013.

A major project this year has been the replacement of our internal system which supports our workers' compensation insurance. Overseen by our Project Management Office, and supported by our Information, Communication and Technology team, this project is a milestone in serving our clients and facilitating business process improvement. With the project due for completion in 2011 we will offer improved service to our clients and injured workers, and gain efficiencies in our operations.

Increased number of claims and claims costs

During February and March 2010 Australia experienced wild storms resulting in an increase in the number of property and motor vehicle claims for our clients, compared to the previous year.

In total there were five natural disasters which caused property claims. The most significant natural disasters, in terms of both the number and severity of claims and costs were the Victorian and Western Australian hailstorms in March 2010.

The claims frequency and costs of new claims in our public liability portfolio continues to be stable and in line with our experience in the previous two years. This coincides with our expectations as there have been no amendments to the tort reforms introduced in all Australian states in 2002.

Total claim payments and reserves set aside for existing claims remained consistent, with lower loss ratios during the year, whilst claim recoveries were again in line with the previous financial year.

Reinsuring our future

Our reinsurance program is designed to protect the company's capital base whilst allowing us to achieve predictable and acceptable results. This is particularly relevant for large single losses and catastrophic losses, such as those from the Melbourne and Perth storms. Our reinsurance program allows us to insure high-value properties and liabilities, and enables the company to provide any appropriate level of insurance protection to Church clients.

We continue to maintain long term relationships with our local and global reinsurance partners, balancing the cost of our reinsurance program with strong financial security. Our strategy is to select reinsurers who are financially stable to offer long term support, should we have the need to call on them many years into the future. While there is a cost for this security, it is essential to the financial integrity of the business and, ultimately, to protect the Church's investment in our company.

During the year we made some important structural changes to our reinsurance program, resulting in reduced reinsurance costs and potentially lower recoveries from our reinsurers. These changes were made considering the Board-approved reinsurance strategy, our corporate strategic plan, actuarial modelling and our improved capital position. We will continue to review our reinsurance program annually to ensure that it provides the most effective cover for our business.

New risk management delivery and services

Providing risk management services is one of the ways we add value for our clients. During the financial year, we developed a new service delivery model and range of services to assist our clients to improve their risk management performance. In addition to the provision of general risk management advice and education, these services included:

- Subsidising the installation of 35 alarm systems in Catholic schools and colleges
- Designing and funding the installation of a Very Early Smoke Detection Apparatus (VESDA) in one cathedral and commencing the design for two others
- Conducting diocesan risk assessment and profiling workshops within three dioceses as part of a pilot program
- Partnering with the National Committee for Professional Standards and the Office of Employment Relations to deliver *Keeping your Parish Safe* seminars in three dioceses, and
- Conducting risk control reviews for the parish and education sectors.

Supporting Church, growing and serving

To formalise how we best serve our existing clients and how we approach new organisations, we have developed a growth and retention strategy that promotes the delivery of sustained high levels of service as well as initiatives that will grow our business.

The new business initiatives included the appointment of a Business Development Manager to carefully grow the business in a considered manner, consistent with our existing charter. Those initiatives have led to the important acquisition of a small number of new clients.

Our customer relationship management system, *iClient*, continues to evolve into a more cohesive and effective business tool to supply valuable data on existing and potential Church clients.

Catholic Church Insurances remains committed to providing sponsorship to support a range of organisations and peak bodies. The aim of our sponsorship program is to:

- Support strategic partnerships with dioceses and religious institutes
- Develop an awareness of risk management
- Facilitate the recovery of people into normal life after adverse events, and
- Contribute to Church fabric through partnerships with peak sector bodies.

Catholic Church Insurances is proud to provide financial support for the Canonisation of Blessed Mary MacKillop and to be designated the Official Insurance Partner for Canonisation of Blessed Mary MacKillop. We have undertaken a careful and thorough assessment of the insurance requirements for this important event, resulting in additional reinsurance requirements.

Relocation, technology and systems improvements

Providing reliable computer systems and communication networks to the business is a challenge in this era of sophisticated and ever-changing technology.

With a number of major systems improvements, the company has engaged additional specialist resources to ensure projects are delivered on time.

A major achievement was the relocation of the company's Melbourne office to 485 La Trobe Street, Melbourne. This required the data centre to be rerouted to an alternate business site while the company was moved, and then being reconnected once the data centre was back in place in the new offices. This was done with remarkable efficiency and outstanding success with the loss of only one day's business in Melbourne office for the physical movement of our operations.

Our people

The company's concentration, in relation to our staff, was preparing for and managing change in line with the development of our strategic plan. In conjunction with the Australian College of Change Management, we conducted a program for senior managers to build change management foundations. This was supplemented by a series of workshops using the *Who Moved My Cheese* philosophy so that staff could understand their own, and other people's responses to change. This training assisted with significant changes across the business, such as the Melbourne office relocation, the implementation of the workers' compensation system replacement, the changes in superannuation administration associated with the merger of National Catholic Superannuation Fund and Catholic Superannuation Fund, and the outsourcing of personal insurances business.

The work associated with the implementation of corporate and departmental objectives injected another level of change as we co-facilitated workshops around business planning, culture and values and linking strategy with operations, which culminated in the rewriting of job descriptions and the review of key performance indicators. A number of departments underwent restructures to realign business practices and to improve service levels and efficiencies. These included workers' compensation in New South Wales, finance systems, personal insurances, risk management, information communications and technology, claims, client service and the superannuation departments.

FACTS

Name:	**Mary MacKillop Penola Centre, Penola, SA**
Date of loss:	**31/07/2010**
Nature of loss:	**Tornado**
Cost:	**Est. $263,500**

At approximately 5.30pm Saturday 31 July 2010, a tornado struck the historic inland town of Penola in South Australia. Carving a path of destruction some 3 kilometres long and 50 metres wide, the tornado ripped through the Mary MacKillop Penola Centre leaving both the Woods-MacKillop School House and Interpretive Centre with extensive damage.

On the eve of celebrations to mark the canonisation of Blessed Mary MacKillop, the tornado could not have come at a worse time. Miraculously though, it missed the site of Mary MacKillop's first school room, a blessing amid the destruction and chaos inflicted by this devastating event.

In the aftermath, Archbishop Wilson and State Premier Mike Rann toured the site, offering prayer and financial support to assist with the recovery process.

Catholic Church Insurances continued to work with heritage consultants, architects and builders to bring effected buildings back to a habitable status in time for canonisation festivities on the 17 October 2010.

Personal insurances – a new business model

Following significant market research and a rigorous search for an appropriate business partner, Catholic Church Insurances appointed Allianz Australia Insurance Limited as the preferred underwriter for our range of personal insurance products commencing in February 2010.

The decision was made to improve the range of policies we have available and to gain efficiency to bring this portfolio back into surplus and followed the completion of a detailed tender and due diligence process. This partnership will provide our customers with enhancements which we could not provide under our previous arrangement without significant financial investment in systems improvements. The new model allows us to provide a very broad range of competitively priced products.

Administration for superannuation

It has been more than twenty years since Catholic Church Insurances converted our staff superannuation fund into a national fund, through the establishment of the National Catholic Superannuation Fund (NCSF). This was done for the benefit of employers and employees in Church organisations across Australia. Two decades on, the fund had grown to 34,000 members with members' assets exceeding $770 million at 31 March 2010.

Following almost three years of negotiations, the Trustees of NCSF agreed to enter into a merger with Catholic Superannuation Fund (Catholic Super) on 1 April 2010. The combined superannuation fund has twice the membership of NCSF with around 73,000 members and over four times the members' asset value at approximately $3.7 billion.

Catholic Church Insurances participated in a competitive tender process to act as the administrator of Catholic Super and was successfully appointed as the administrator from 1 April 2010. In return for the administration services provided to the members of Catholic Super, an administration fee is received by the company.

The appointment was a significant milestone for the company and required many months of planning and a commitment to system upgrades and resources to ensure the company's offering was commensurate with the broader market. The income generated from the appointment as administrator will contribute to the financial stability of the company and ultimately benefit shareholders and policyholders.

CCI Investment Management

Catholic Church Insurances' wholly owned subsidiary company CCI Investment Management Limited (CCIIM) provides a wholesale investment structure for Church organisations. 2010 is the tenth anniversary of CCIIM and its operations as a specialist investment manager for Church. The value structure under which CCIIM operates is driven by our Catholic ethos and our investment activities strongly reflect our Catholic heritage.

The investment markets experienced a strong recovery over the last financial year which has contributed to an increase in funds under management to $167.0 million at 30 June 2010.

The CCIIM trusts have finished the financial year with strong returns and the performance of the in-house managed Income Trust has also been solid achieving above benchmark returns for the period.

Summary and future prospects

Having weathered the economic storms over the past few years, it is pleasing to provide such a positive report to you. The company has both fulfilled its fundamental role to provide insurance and related services and has achieved a substantial surplus so we can confidently state that our vision to serve Church has been accomplished during the financial year.

The many changes and strategic initiatives currently underway are based on achieving that simple goal – to serve Church to the very best of our ability.

I would like to take this opportunity to thank Bill d'Apice, our outgoing Chairman and Board member who has served Catholic Church Insurances for 15 years. His wise counsel and camaraderie will be missed. I would also like to welcome our new Chairman Paul Gallagher who has replaced Bill.

After 45 years of service, both as a General Manager and a Board Member, we also say a warm farewell to Chris O'Malley after a truly remarkable career at Catholic Church Insurances.

On behalf of the Chairman and the members of the Board, I would like to thank our loyal clients and shareholders who continue to support Catholic Church Insurances in our endeavours to serve Church. Over the coming year, our strategic changes are designed to promote not only the strength of the company but also its relevance to our Church owners.

And finally, I would like to acknowledge the commitment and contribution of the company's senior managers, who sit with me on the company's Executive Group. In a difficult and extremely busy year their support and assistance is greatly appreciated. Likewise our other managers and staff have worked tirelessly to ensure the company met its obligations to all parties. Genuinely, we concentrate on providing the best service we can to our policyholders, to assist them in the fulfilment of their mission.

We face the challenges of 2011 with a sense of anticipation, since it represents the year of the company's centenary.

I look forward to continuing to achieve our vision – Serving Church.

Peter Rush

Chief Executive Officer

Directors' Report

The Directors of Catholic Church Insurances Limited have pleasure in presenting their annual financial report on the company and its controlled entity for the financial year ended 30 June 2010. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

Directors

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

William R d'Apice *(Resigned as Chairman 18 November 2009. Retired as Director 23 August 2010)*

Paul A Gallagher *(Appointed Chairman 18 November 2009)*

Sister Clare T Condon

Jo Dawson

Norman E B Griffiths

Richard M Haddock *(Appointed 6 October 2010)*

J A (Tony) Killen

Reverend Brian J Lucas

Christopher R O'Malley *(Retired 18 November 2009)*

Jane A Tongs *(Appointed 23 February 2010)*

Peter A Rush *(Alternate Director)*

Principal activities

The principal activities of the parent entity during the year were to underwrite the property, workers' compensation and liability risks of entities of the Catholic Church in Australia including the investment of funds relating thereto. The company also provided some residential and personal accident insurance business to the Catholic community, however effective February 2010, the company entered into a partnership with Allianz Australia Insurance Limited to underwrite such products. In return Allianz will pay to Catholic Church Insurances, under the terms of the agreement, commission on each contract of insurance business entered into by Allianz which was referred by Catholic Church Insurances.

Catholic Church Insurances also acted as administrator of the National Catholic Superannuation Fund (NCSF) which is a superannuation fund open to employees of participating Catholic organisations, self-employed people and the general public. The fund was administered by Catholic Church Insurances Limited since its inception in 1987, however on 31 March 2010 NCSF merged by means of a successor fund transfer into the Catholic Superannuation Fund. Concurrently Catholic Church Insurances Limited was appointed as the administrator of the merged superannuation fund. Catholic Church Insurances Limited now administers the Catholic Superannuation Fund providing superannuation administration services to employees of Catholic organisations in Australia. Catholic Super operates under the direction of a trustee company.

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

There have been no other significant changes during the year.

Employees

The consolidated entity employed 227 employees as at 30 June 2010 (2009: 236 employees).

Review of operations

The review of operations has been outlined by the Chief Executive Officer on pages 15 to 19.

Results of operations

	2010	2009
	$'000	$'000
Consolidated Profit/(Loss)	37,766	(32,372)

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

Significant changes in the state of affairs

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

Subsequent events after the balance date

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

Likely developments and expected results

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

Dividends

In respect of the financial year ended 30 June 2009, as detailed in the Directors' report for that financial year, the Directors recommended that no dividend be paid.

In respect of the financial year ended 30 June 2010, the Directors recommend the payment of a final unfranked dividend of 80 cents per share to the holders of fully paid ordinary shares on 17 November 2010. The dividend has not been provided for in the 30 June 2010 financial statements.

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

Directors' shareholdings

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

Names, qualifications, experience and special responsibilities

William R d'Apice

LLB, KCSG, MAICD

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

Special responsibilities held in the company:

Chairman of the Board of Directors until 18 November 2009. Member of the Directors' Governance Committee, Budget Committee, Investment Committee and Remuneration Committee.

Paul A Gallagher

B.COMM, FCA, MAICD

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

Special responsibilities held in the company:

Appointed Chairman of the Board of Directors 18 November 2009. Member of the Board Audit, Risk Management & Compliance Committee and Remuneration Committee.

Sister Clare T Condon

MPS, GRAD DIP ED ADM, BA, MAICD

Sister Clare T Condon joined the Board in October 2004. She is currently the Congregational Leader (Superior) of the Sisters of the Good Samaritan. Sister Clare was President of Catholic Religious Australia from 2008 to 2010. From 1988 until 1993 she held the position of Sydney Province Leader within the Congregation and from 1991 to 1993 she was President of the NSW Conference of Leaders of Religious Institutes. Sister Clare was then appointed as a member of the General Council and Trustee of the Sisters of the Good Samaritan – a position she held until 1999. Prior to her current appointment she was Chancellor for Stewardship of the Archdiocese of Adelaide, a member of the Adelaide Diocesan Pastoral Team and the Management Board of Church Resources. From this extensive experience she has a broad knowledge of the needs and concerns of religious institutes.

Special responsibilities held in the company:

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

Jo Dawson

B.COMM, MBA, CA, CFP, MAICD

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

Special responsibilities held in the company:

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

Directors' Report *(continued)*

Names, qualifications, experience and special responsibilities

Norman E B Griffiths

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

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

Special responsibilities held in the company:

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

Richard M Haddock

B.A. LL.B, FAICD

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

Special responsibilities held in the company:

Mr Haddock had not been appointed to any Board committees at the time this report was issued.

J A (Tony) Killen

B.A. FAIM, FAICD

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

Special responsibilities held in the company:

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

Reverend Brian J Lucas

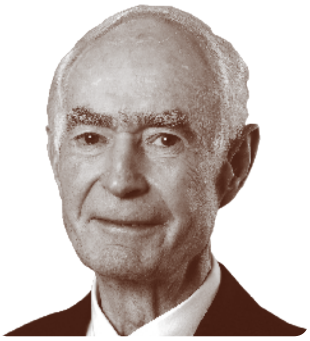
LL.M. M.GEN.STUD. S.T.L. DIP.JUR. GRAD.DIP.R.E, GAICD

Reverend Brian J Lucas joined the Board in August 2003. He is the General Secretary of the Australian Catholic Bishops Conference, a position he has held since August 2002. Prior to that he was Archdiocesan Secretary and Financial Administrator of the Archdiocese of Sydney and Assistant Priest in a number of Parishes in the Sydney Archdiocese.

Special responsibilities held in the company:

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

Names, qualifications, experience and special responsibilities



Christopher R O'Malley

Christopher R O'Malley joined the Board in February 1997 and retired as non-executive Director 19 November 2009. He was General Manager of the company for 21 years and has over 50 years experience in the insurance industry. Mr O'Malley was previously Chairman of N.C.S.F. Limited, the corporate Trustee of the National Catholic Superannuation Fund and was formerly a Director of the Insurance Council of Australia, a former President of the Australian Insurance Association and was a member of the Insurance Industry Claims Review Panel. He is presently a Director of Irish National Foresters (INF) Friendly Society Limited.

Jane A Tongs

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

Jane Tongs joined the Board in February 2010. Ms Tongs has wide experience in financial services, with particular focus in the superannuation, investment and workers compensation sectors and within the Catholic community. Her areas of expertise include corporate governance, development of strategically linked audit, risk management and compliance processes and advising on process improvements such as cost reduction and efficiencies.

Special responsibilities held in the company:

Member of the Budget Committee, Investment Committee and Reinsurance Committee.

Peter A Rush

DIP.BUS, ANZIF, CIP

Chief Executive Officer

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

Peter Rush acts as alternate Director for Reverend Brian Lucas.

Dominic P Chila

B.BUS, CPA

Company Secretary and Chief Financial Officer

Dominic Chila was appointed as Company Secretary and Chief Financial Officer in February 2008. He has over 16 years experience in the financial services industry in the areas of general insurance, superannuation and funds management. Dominic commenced his career at Catholic Church Insurances in 1994 and has held various roles in accounting and management including systems accountant, investment accountant and in his last role as the Finance and Administration Manager. He is also the Company Secretary of CCI Investment Management Limited.

Indemnification of officers

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

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

Remuneration report

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

Remuneration philosophy

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

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

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

Board Remuneration Committee

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

Remuneration structure

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

Non-executive Director remuneration

Objective

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

Structure

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

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

Fixed remuneration

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

Variable remuneration

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

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

Executive remuneration

Objective

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

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

Structure

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

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

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

Fixed remuneration

Objective

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

Structure

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

Variable remuneration

Objective

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

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

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

Directors' meetings

The following table sets out the number of meetings of the company's Directors (including meetings of committees of Directors) held during the year ended 30 June 2010 and the number of meetings attended by each Director.

Number of meetings attended by:	Directors' Meetings		Audit, Risk Management & Compliance		Budget		Directors' Governance		Investment		Reinsurance		Remuneration	
	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended
W R d'Apice	9	9	–	–	2	2	2	2	2	2	–	–	1	1
P A Gallagher	9	9	4	4	–	–	–	–	–	–	–	–	1	1
C T Condon	9	9	4	4	–	–	2	2	–	–	2	1	1	1
J Dawson	9	9	4	4	2	2	–	–	6	6	2	2	–	–
N E B Griffiths	9	7	4	4	2	2	2	2	–	–	2	2	–	–
J A Killen	9	8	–	–	–	–	–	–	6	6	–	–	1	1
B J Lucas	9	8	4	4	–	–	2	2	6	6	–	–	–	–
C R O'Malley	5	5	–	–	1	1	–	–	3	3	1	1	–	–
J A Tongs	4	4	–	–	1	1	–	–	2	2	1	1	–	–

Directors' benefits

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

Rounding

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

Auditor's Independence Declaration

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

Signed in accordance with a resolution of the Directors.

P A Gallagher
Director
Melbourne, 6 October 2010

Auditor's Independence Declaration

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

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

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

In relation to our audit of the financial report of Catholic Church Insurances Limited for the financial year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst + Young

Ernst & Young

T M Dring
Partner
6 October 2010

Catholic Church Insurances Limited

Serving Church

FINANCIAL STATEMENTS

Statement of Comprehensive Income

For the financial year ended 30 June

		Economic Entity		Parent Entity	
	Note	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Premium revenue		184,370	182,147	184,370	182,147
Outwards reinsurance expense		(57,787)	(56,129)	(57,787)	(56,129)
Net premium revenue	7	126,583	126,018	126,583	126,018
Claims expense	8	(80,423)	(103,458)	(80,423)	(103,458)
Reinsurance and other recoveries revenue	9	20,968	33,320	20,968	33,320
Net claims incurred	10	(59,455)	(70,138)	(59,455)	(70,138)
Acquisition costs		(224)	(228)	(224)	(228)
Other underwriting expenses	11	(41,430)	(38,285)	(41,430)	(38,285)
Underwriting expenses		(41,654)	(38,513)	(41,654)	(38,513)
Gross movement in unexpired risk liability	12	(824)	(355)	(824)	(355)
Reinsurance recoveries on unexpired risk liability		478	390	478	390
Net movement in unexpired risk liability		(346)	35	(346)	35
Underwriting result		25,128	17,402	25,128	17,402
Investment income	13	53,520	(40,575)	52,550	(40,561)
General and administration expenses	14	(15,436)	(13,468)	(14,276)	(12,203)
Catholic entity distributions		(29,486)	27	(29,486)	27
Sundry income		4,040	4,242	3,314	3,383
Profit/(loss) for the period Total comprehensive income attributable to members of Catholic Church Insurances Limited	14	37,766	(32,372)	37,230	(31,952)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Balance Sheet

As at 30 June

	Note	Economic Entity 2010 $'000	Economic Entity 2009 $'000	Parent Entity 2010 $'000	Parent Entity 2009 $'000
Current Assets					
Cash and cash equivalents	16	48,206	10,475	48,106	10,289
Trade and other receivables	17	100,468	110,662	100,219	110,530
Prepaid reinsurance premiums	18	25,346	27,398	25,346	27,398
Deferred acquisition costs	19	29	55	29	55
Financial assets at fair value through profit and loss	20	404,690	370,800	404,690	370,800
Tax assets	21	4,929	5,625	4,929	5,625
Other assets	22	12,233	8,362	12,233	8,362
Total Current Assets		595,901	533,377	595,552	533,059
Non-Current Assets					
Trade and other receivables	23	27,148	32,086	27,148	32,586
Financial assets at fair value through profit and loss	24	222,281	225,835	222,281	225,835
Plant and equipment	25	8,225	6,056	8,225	6,056
Intangibles	26	1,000	–	1,000	–
Total Non-Current Assets		258,654	263,977	258,654	264,477
Total Assets		854,555	797,354	854,206	797,536
Current Liabilities					
Trade and other payables	27	34,959	33,396	34,959	33,391
Outstanding claims	35	68,342	73,797	68,342	73,797
Unearned premiums	36	120,061	124,322	120,061	124,322
Unexpired risk liability	12	1,126	780	1,126	780
Provisions	28	30,936	3,468	30,936	3,468
Tax liabilities	29	48	40	48	40
Other liabilities	30	–	2,621	–	2,621
Total Current Liabilities		255,472	238,424	255,472	238,419
Non-Current Liabilities					
Outstanding claims	35	325,969	324,114	325,969	324,114
Provisions	31	1,955	1,423	1,955	1,423
Total Non-Current Liabilities		327,924	325,537	327,924	325,537
Total Liabilities		583,396	563,961	583,396	563,956
Net Assets		271,159	233,393	270,810	233,580
Shareholders' Equity					
Contributed equity	33	8,139	8,139	8,139	8,139
Reserves	34	259,747	257,247	259,747	257,247
Retained profit/(loss)		3,273	(31,993)	2,924	(31,806)
Total Shareholders' Equity		271,159	233,393	270,810	233,580

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the financial year ended 30 June

	Contributed Equity	General Reserves	Retained Earnings	Total
	$'000	$'000	$'000	$'000
Economic Entity				
At 1 July 2008	8,139	257,247	1,526	266,912
Net profit/(loss) for the period	–	–	(32,372)	(32,372)
Catholic entity distributions	–	–	29	29
Dividend for 2008 ($0.40 cents per share)	–	–	(1,176)	(1,176)
At 30 June 2009	8,139	257,247	(31,993)	233,393
At 1 July 2009	8,139	257,247	(31,993)	233,393
Net profit/(loss) for the period	–	–	37,766	37,766
Transfer to reserves	–	2,500	(2,500)	–
At 30 June 2010	8,139	259,747	3,273	271,159

The above statement of changes in equity should be read in conjunction with the accompanying notes.

	Contributed Equity	General Reserves	Retained Earnings	Total
Parent Entity				
At 1 July 2008	8,139	257,247	1,293	266,679
Net profit/(loss) for the period	–	–	(31,952)	(31,952)
Catholic entity distributions	–	–	29	29
Dividend for 2008 ($0.40 cents per share)	–	–	(1,176)	(1,176)
At 30 June 2009	8,139	257,247	(31,806)	233,580
At 1 July 2009	8,139	257,247	(31,806)	233,580
Net profit/(loss) for the period	–	–	37,230	37,230
Transfer to reserves	–	2,500	(2,500)	–
At 30 June 2010	8,139	259,747	2,924	270,810

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Cash Flow Statement

For the financial year ended 30 June

	Note	Economic Entity 2010 $'000	Economic Entity 2009 $'000	Parent Entity 2010 $'000	Parent Entity 2009 $'000
Cash flows from operating activities					
Premiums received		174,200	173,182	174,200	173,182
Outwards reinsurance paid		(58,265)	(59,043)	(58,265)	(59,043)
Claims paid		(84,023)	(73,053)	(84,023)	(73,053)
Reinsurance and other recoveries received		31,348	32,526	31,348	32,526
Acquisition costs paid		(197)	(225)	(197)	(225)
Other underwriting expenses paid		(23,615)	(28,610)	(23,615)	(28,610)
Other operating expenses paid		(20,389)	(12,473)	(19,105)	(11,370)
Other operating income received		3,967	4,014	3,740	2,906
Interest received		13,289	18,069	13,318	18,083
Dividends received		18,352	20,342	18,352	20,342
Total cash flows from operating activities	41	54,667	74,729	55,753	74,738
Cash flows from investing activities					
Investment trading		(10,732)	(176,798)	(11,732)	(176,798)
Payments for plant and equipment		(7,024)	(1,967)	(7,024)	(1,967)
Proceeds from sale of plant and equipment		5,557	903	5,557	903
Payments for intangibles		(1,236)	–	(1,236)	–
Total cash flows from investing activities		(13,435)	(177,862)	(14,435)	(177,862)
Cash flows from financing activities					
Dividends paid		–	(1,176)	–	(1,176)
Catholic entity distributions		(3,501)	(5,454)	(3,501)	(5,454)
Total cash flows from financing activities		(3,501)	(6,630)	(3,501)	(6,630)
Net increase/(decrease) in cash held		37,731	(109,763)	37,817	(109,754)
Cash at the beginning of the financial year		10,475	120,238	10,289	120,043
Cash at the end of the financial year	16	48,206	10,475	48,106	10,289

The above cash flow statement should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

For the financial year ended 30 June 2010

1. Corporate Information

The financial report of Catholic Church Insurances Limited (the company) for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the Directors on 6 October 2010.

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

2. Statement of significant accounting policies

(a) Basis of preparation

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

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

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

(b) Statement of compliance

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

(c) Australian Accounting Standards issued but not yet effective

Australian Accounting Standards which have recently been issued or amended but are not yet effective for the annual reporting period ending 30 June 2010 have not been applied in preparing the company's financial statements. The nature of the impact of the application of these standards is disclosed only. The company will apply these standards for the annual reporting periods beginning on or after the operative dates as set out on the following page.

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting except for the following: The amendment to AASB 117 removes the specific guidance on classifying land as a lease so that only the general guidance remains. Assessing land leases based on the general criteria may result in more land leases being classified as finance leases and if so, the type of asset which is to be recorded (intangible vs. property, plant and equipment) needs to be determined. The amendment to AASB 101 stipulates that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification. The amendment to AASB 107 explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities. The amendment to AASB 118 provides additional guidance to determine whether an entity is acting as a principal or as an agent. The features indicating an entity is acting as a principal are whether the entity: • has primary responsibility for providing the goods or service • has inventory risk • has discretion in establishing prices, and • bears the credit risk. The amendment to AASB 136 clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment, as defined in IFRS 8 before aggregation for reporting purposes. The main change to AASB 139 clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract. The other changes clarify the scope exemption for business combination contracts and provide clarification in relation to accounting for cash flow hedges.	1 January 2010	These amendments are only expected to affect the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report.	1 July 2010

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2009-8	Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]	This Standard makes amendments to Australian Accounting Standard AASB 2 Share-based Payment and supersedes Interpretation 8 Scope of AASB 2 and Interpretation 11 AASB 2 – Group and Treasury Share Transactions. The amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments clarify the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.	1 January 2010	These amendments will have no direct impact on the Group's financial statements.	1 July 2010
AASB 2009-9	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards.*	The amendments address the retrospective application of IFRSs to particular situations and are aimed at ensuring that entities applying IFRSs will not face undue cost or effort in the transition process. Specifically, the amendments: • exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets, and • exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4 *Determining whether an Arrangement contains a Lease* when the application of their national accounting requirements produced the same result.	1 January 2010	These amendments will have no direct impact on the amounts included in the Group's financial statements.	1 July 2010
AASB 2009-10	Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]	The amendment provides relief to entities that issue rights in a currency other than their functional currency, from treating the rights as derivatives with fair value changes recorded in profit or loss. Such rights will now be classified as equity instruments when certain conditions are met.	1 February 2010	These amendments will have no direct impact on the amounts included in the Groups financial statements as the company does not issue rights in a currency other than their functional currency.	1 July 2010
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes: • two categories for financial assets being amortised cost or fair value • removal of the requirement to separate embedded derivatives in financial assets • strict requirements to determine which financial assets can be classified as amortised cost or fair value, Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows	1 January 2013	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2013

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2009-11 *(continued)*		• an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition • reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes, and • changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income.			
AASB 2009-12	Amendments to Australian Accounting Standards [AASB 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. The amendment to AASB 124 clarifies and simplifies the definition of a related party as well as providing some relief for government-related entities (as defined in the amended standard) to disclose details of all transactions with other government-related entities (as well as with the government itself). These amendments arise from the issuance of Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14). The requirements of IFRIC 14 meant that some entities that were subject to minimum funding requirements could not treat any surplus in a defined benefit pension plan as an economic benefit. The amendment requires entities to treat the benefit of such an early payment as a pension asset. Subsequently, the remaining surplus in the plan, if any, is subject to the same analysis as if no prepayment had been made.	1 January 2011	These amendments will have no direct impact on the amounts included in the Group's financial statements.	1 July 2011
AASB 2009-14	Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	These amendments arise from the issuance of Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14). The requirements of IFRIC 14 meant that some entities that were subject to minimum funding requirements could not treat any surplus in a defined benefit pension plan as an economic benefit. The amendment requires entities to treat the benefit of such an early payment as a pension asset. Subsequently, the remaining surplus in the plan, if any, is subject to the same analysis as if no prepayment had been made.	1 January 2011	These amendments will have no direct impact on the amounts included in the Group's financial statements.	1 July 2011

(d) Basis of consolidation

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

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

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

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

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

(e) Premium revenue

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

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

(f) Revenue recognition

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

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

Rendering of services
Services have been rendered to a buyer.

Interest
Control of the right to receive the interest payment.

Dividends
Control of the right to receive the dividend payment.

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

(g) Unexpired risk liability

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

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

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

(h) Outwards reinsurance

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

(i) Claims

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

(j) Reinsurance and other recoveries receivable

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

(k) Deferred acquisition costs

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

(l) Investment income

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

(m) Taxation

Income tax

The entities are not liable for income tax.

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 an item of the expense.

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

(n) Fire brigade and other charges

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

(o) Unearned premium liabilities

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

(p) Employee benefits

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

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

(q) Cash and cash equivalents

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

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

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

(r) Reinsurance commission

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

(s) Superannuation

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

(t) Financial assets and liabilities

(i) Financial assets

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

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

(ii) Fair value

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

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

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

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

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

Marked to Model

At 30 June 2010 Catholic Church Insurances Limited's investment portfolio consisted of unlisted investments where actively quoted prices were not available. As an appropriate technique to estimate the fair value of such investments the following valuation models were adopted:

Collateral debt obligation (CDO) investments

At 30 June 2010 the company held collateralised debt obligation (CDO) investments. No quoted price was available for these investments, and therefore a valuation model was adopted. The valuation process involved computing the loss distribution of a credit portfolio taking into account asset correlation, recovery rates and risk neutral probability of default of individual reference entities.

Asset default correlation was calibrated using historical default data of investment grade companies from 1980 to 2008, the past 10 years and since 2002 when the world experienced high default levels. The correlations centre around the 10% mark. In the pricing model, an average correlation of 10.36% was used.

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

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

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

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

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

At 30 June 2010, both the US and UK courts have recognised the potential for conflicting judgments from the start of the litigation. All parties to the litigation have been left with conflicting declaratory decisions, but with an indication from the courts from both countries (US and UK) that there should be further coordination to resolve differences. Lehman has been given leave to appeal to the English Supreme Court with the hearing date set for March 1-3, 2011. It seems likely that any attempt to reconcile the two judgments will wait until after the Supreme Court hearing.

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

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

Unlisted property assets

The valuation process involved the use of a financial model to determine the price of the security. Prices were based on the net tangible asset value of the security calculated using the most recent financial data published by the company. Any known issues or activities surrounding these investments were also taken into consideration prior to formulating the price.

(iii) Fair value hierarchy

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

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

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

Impairment of financial assets

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

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

Derivative instruments

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

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

Trade and other receivables

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

Plant and equipment

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

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

Intangibles

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

(iv) Financial liabilities

Trade and other payables

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

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

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

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

(u) Depreciation

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

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

	2010	2009
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	–

Leasehold improvements is a new category introduced in 2010.

(v) Foreign currency

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

(w) Dividends and Catholic entity distributions

Dividends

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

Catholic entity distributions

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

(x) Impairment of assets

Assets that have an indefinite useful life are tested annually for impairment or more frequently when changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.
An impairment loss is recognised as the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

(y) Operating leases

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

3. Critical accounting estimates and judgements

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

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

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

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

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

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

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

(b) Assets arising from reinsurance contracts

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

4. Actuarial assumptions and methods

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

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

Short-tail

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

The ICD method estimates the liability by considering the change in the incurred cost from one development period to another. The incurred cost is the total of all past payments plus current case estimates. The ultimate expected cost of claims is projected from the current incurred cost after allowing for the assumed future change in incurred costs based on past experience. The undiscounted value of outstanding claims is the difference between the ultimate cost and the payments made to valuation date. Due to the short-tail nature of the liabilities we have ignored the impact of investment income on the liability.

Public Liability

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

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

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

Professional Indemnity

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

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

Workers' Compensation

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

(a) Actuarial assumptions

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

2010	Short-Tail	Public Liability	Professional Indemnity	Workers' Compensation
Average weighted term to settlement (discounted)	Less than 1 year	6.3 years	5.9 years	6.8 years
Inflation	0.00%	3.75%	3.75%	3.75%
Superimposed inflation	0.00%	4.00%	4.00%	3.00%
Discount rate	0.00%	5.00%	5.00%	5.00%
Expense rate	5.00%	5.00%	5.00%	5.00%
Risk margin	9.50%	12.20%	16.00%	9.00%
2009				
Average weighted term to settlement (discounted)	Less than 1 year	5.9 years	5.2 years	6.4 years
Inflation	0.00%	3.00%	3.00%	3.00%
Superimposed inflation	0.00%	4.00%	4.00%	3.00%
Discount rate	0.00%	4.25%	4.25%	4.25%
Expense rate	5.00%	5.00%	5.00%	5.00%
Risk margin	9.50%	12.10%	16.00%	9.00%

(b) Processes used to determine assumptions

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

Average weighted term to settlement

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

Inflation

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

Superimposed inflation

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

Discount rate

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

Expense rate

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

Risk margins

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

Average claim size

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

Number of IBNR claims

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

Incurred cost development

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

Minimum loss ratio

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

Number and average claim size of latent claims

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

(c) Sensitivity analysis – insurance contracts

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

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

		Net profit $'000		Equity $'000	
		Gross	Net	Gross	Net
Variable	Movement in variable	Movement in amount		Movement in amount	
Average weighted term to settlement (years)	+0.5	3,480	3,569	3,480	3,569
	-0.5	(3,423)	(3,519)	(3,423)	(3,519)
Inflation and superimposed assumption	+1%	16,603	16,591	16,603	16,591
	-1%	(15,053)	(15,044)	(15,053)	(15,044)
Discount rate	+1%	(18,723)	(18,229)	(18,723)	(18,229)
	-1%	20,885	20,354	20,885	20,354
Expense rate	+1%	3,779	3,779	3,779	3,779
	-1%	(3,779)	(3,779)	(3,779)	(3,779)
Risk margins	+1%	3,568	3,181	3,568	3,181
	-1%	(3,568)	(3,181)	(3,568)	(3,181)
Average claim size	+10%	10,077	10,077	10,077	10,077
	-10%	(10,077)	(10,077)	(10,077)	(10,077)

5. Risk management

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

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

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

Risk management framework

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

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

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

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

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

The key areas of risk exposure discussed below are:

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

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

(b) Insurance risk

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

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

Underwriting risks

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

Concentration of insurance risk

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

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

	2010	2009
Gross earned premium	$'000	$'000
Commercial property	59,055	54,001
Domestic property	5,069	5,245
Motor	8,439	7,886
Marine and aviation	157	150
Professional indemnity	7,494	8,084
Public liability	35,642	34,141
Workers' compensation	56,848	62,705
Travel	102	103
Other	11,564	9,831
	184,370	182,147

Terms and conditions of insurance contracts

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

Claims management and provisioning

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

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

(c) Reinsurance counterparty risk

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

(d) Operational risk

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

(e) Capital and regulatory risk

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

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

6. Financial risk

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

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

(a) Market risk

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

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

(i) Currency risk

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

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

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

(ii) Interest rate risk

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

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

Catholic Church Insurances has no interest bearing financial liabilities.

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

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

(iii) Price risk

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

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

(b) Credit risk

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

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

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

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

(i) Credit exposure

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

	AAA	AA	A	BBB	Speculative Grade	Not Rated	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2010							
Consolidated							
Cash and cash equivalents	1,437	44,453	–	2,316	–	–	48,206
Interest bearing investments[1]	70,834	115,542	29,248	2,313	29,911	5,038	252,886
Reinsurance & other recoveries[2]	32,802	–	13,888	375	3,639	–	50,704
Financial Asset – Options	–	–	–	–	–	1,214	1,214
Loans receivable[3]	–	–	–	–	–	276	276
2009							
Consolidated	–	6,249	4,226	–	–	–	10,475
Cash and cash equivalents	164,532	32,754	8,156	377	2,215	3,117	211,151
Interest bearing investments[1]	34,010	–	25,060	879	1,270	–	61,219
Reinsurance & other recoveries[2]	–	–	–	–	–	337	337
Loans receivable[3]							

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

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

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

(ii) Asset carrying value

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

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

		Past Due				
	Fully Performing	Less than 3 months	3 to 6 months	6 months to 1 year	Greater than 1 year	Total
	$'000	$'000	$'000	$'000	$'000	$'000
2010						
Consolidated						
Premiums receivable	69,561	486	608	–	–	70,655
Reinsurance & other recoveries[1]	39,666	8,353	963	222	312	49,516
Loans receivable	276	–	–	–	–	276
Tax assets	4,929	–	–	–	–	4,929
Other receivables[2]	7,436	–	–	9	–	7,445
2009						
Consolidated						
Premiums receivable	77,022	323	347	–	–	77,692
Reinsurance & other recoveries[1]	52,954	5,080	1,765	203	298	60,300
Loans receivable	337	–	–	–	–	337
Tax assets	5,625	–	–	–	–	5,625
Other receivables[2]	4,743	–	–	12	–	4,755

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

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

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

(c) Liquidity risk

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

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

At 30 June 2010, the mean term to maturity of fixed interest securities was 2.4 years (2009: 2.1 years).

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

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

	Less than 3 months	3 months to 1 year	1 to 5 years	Greater than 5 years	Total
	$'000	$'000	$'000	$'000	$'000
2010					
Consolidated					
Trade and other payables	–	34,959	–	–	34,959
2009					
Consolidated					
Trade and other payables	–	33,396	–	–	33,396
Financial liability – options	2,621	–	–	–	2,621

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

(d) Sensitivity

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

		Financial Impact +/-			
		2010 Net profit (loss)	2010 Equity	2009 Net profit (loss)	2009 Equity
Market risk	Movement in variable	$'000	$'000	$'000	$'000
Interest rate	2%+/-	11,635/(11,635)	11,635/(11,635)	8,571/(8,571)	8,571/(8,571)
Equities	10%+/-	20,643/(20,643)	20,643/(20,643)	22,975/(22,975)	22,975/(22,975)
	20%+/-	41,285/(41,285)	41,285/(41,285)	43,240/(43,240)	43,240/(43,240)
	30%+/-	61,928/(61,928)	61,928/(61,928)	63,505/(63,505)	63,505/(63,505)

	Economic Entity		Parent Entity	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
7. Net premium revenue				
Direct	171,203	171,118	171,203	171,118
Fire service levies	13,167	11,029	13,167	11,029
Premium revenue	184,370	182,147	184,370	182,147
Outwards reinsurance premiums	(57,787)	(56,129)	(57,787)	(56,129)
Net premium revenue	126,583	126,018	126,583	126,018
8. Claims expense				
Direct	80,423	103,458	80,423	103,458
9. Reinsurance and other recoveries revenue				
Reinsurance and other recoveries	20,968	33,320	20,968	33,320

10. Net claims incurred

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

	2010			2009		
	Current Year	Prior Years	Total	Current Year	Prior Years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Direct business						
Gross claims incurred and related expenses – undiscounted	108,843	2,047	110,890	114,075	(71,762)	42,313
Reinsurance and other recoveries – undiscounted	(25,750)	5,252	(20,498)	(26,677)	(752)	(27,429)
Net claims incurred – undiscounted	83,093	7,299	90,392	87,398	(72,514)	14,884
Discount and discount movement – gross claims incurred	(23,572)	(6,898)	(30,470)	(23,311)	84,456	61,145
Discount and discount movement – reinsurance and other recoveries	6,417	(6,884)	(467)	8,371	(14,262)	(5,891)
Net discount movement	(17,155)	(13,782)	(30,937)	(14,940)	70,194	55,254
Net claims incurred	65,938	(6,483)	59,455	72,458	(2,320)	70,138

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

	Economic Entity		Parent Entity	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
11. Underwriting and other operating expenses				
Expenses by function:				
Investment expenses	669	644	669	644
Marketing expenses	509	556	509	556
Underwriting expenses	41,430	38,285	41,430	38,285
Lease expenses	4,680	1,308	4,653	1,301
Other expenses	9,578	10,960	8,445	9,702
Total expenses	56,866	51,753	55,706	50,488
Expenses by nature:				
Depreciation charges (note 25)	2,211	2,689	2,202	2,698
Employee benefits expense	1,043	264	1,043	264
Other expenses	53,612	48,800	52,461	47,526
Total expenses	56,866	51,753	55,706	50,488

	Economic Entity		Parent Entity	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
12. Unexpired risk liability				
a) Unexpired risk liability				
Unexpired risk liability as at 1 July	(141)	214	(141)	214
Recognition of additional unexpired risk liability in the period	(824)	(355)	(824)	(355)
Gross unexpired risk liability as at 30 June	(965)	(141)	(965)	(141)
b) Deficiency recognised in the statement of comprehensive income				
Gross unexpired risk liability	(965)	(141)	(965)	(141)
Reinsurance recoveries (expense) on unexpired risk liability	(161)	(639)	(161)	(639)
Net unexpired risk liability	(1,126)	(780)	(1,126)	(780)
Total deficiency recognised in the statement of comprehensive income	(1,126)	(780)	(1,126)	(780)

c) Deficiency recognised in the statement of comprehensive income

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

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

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

Year ended 30 June 2009		Commercial Motor $'000	Domestic Motor $'000	Professional Indemnity $'000	House-holders $'000	Total $'000
Unearned premium liability relating to insurance contracts		4,440	230	3,750	2,735	11,155
Related reinsurance asset		(9)	–	(1,851)	(472)	(2,332)
	(A)	4,431	230	1,899	2,263	8,823
Central estimate of present value of expected future cash flows arising from future claims on insurance contracts issued		5,528	360	1,020	2,682	9,590
Risk margin		105	2	1,502	96	1,705
Present value of expected future cash inflows arising from reinsurance recoveries on future claims on insurance contracts issued		(796)	(66)	(392)	(438)	(1,692)
	(B)	4,837	296	2,130	2,340	9,603
Net deficiency	(B) - (A)	406	66	231	77	780
Add back reinsurance element of present value of expected future cash flows for future claims		(787)	(66)	1,459	33	639
Gross (surplus)/deficiency		1,193	132	(1,228)	44	141

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

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

	Economic Entity		Parent Entity	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
13. Investment income				
Dividend income	17,864	18,849	17,864	18,849
Interest income	14,441	17,806	14,471	17,820
Changes in fair value				
– Unrealised gains/(losses) on investments	11,363	(55,788)	11,363	(55,788)
– Realised gains/(losses) on investments	9,852	(21,442)	8,852	(21,442)
	53,520	(40,575)	52,550	(40,561)

	Economic Entity		Parent Entity	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
14. Operating profit/(loss)				
Gross written premiums	187,687	183,628	187,687	183,628
Unearned premium movement	(3,317)	(1,481)	(3,317)	(1,481)
Gross earned premium	184,370	182,147	184,370	182,147
Outward reinsurance expense	(57,787)	(56,129)	(57,787)	(56,129)
Net earned premium	126,583	126,018	126,583	126,018
Gross claims incurred	(80,423)	(103,458)	(80,423)	(103,458)
Reinsurance and other recoveries	20,968	33,320	20,968	33,320
Net claims incurred	(59,455)	(70,138)	(59,455)	(70,138)
Acquisition costs	(224)	(228)	(224)	(228)
Net movement in unexpired risk liability	(346)	35	(346)	35
Underwriting expenses	(41,430)	(38,285)	(41,430)	(38,285)
	(101,455)	(108,616)	(101,455)	(108,616)
Underwriting profit	25,128	17,402	25,128	17,402
Dividends received	17,864	18,849	17,864	18,849
Interest income	14,441	17,806	14,471	17,820
Changes in net market value of investments:				
– Realised	9,852	(21,442)	8,852	(21,442)
– Unrealised	11,363	(55,788)	11,363	(55,788)
Other income	4,040	4,242	3,314	3,383
Investment and other income	57,560	(36,333)	55,864	(37,178)
General and administration expenses	(15,436)	(13,468)	(14,276)	(12,203)
Catholic entity distributions	(29,486)	27	(29,486)	27
Profit/(loss) from ordinary activities	37,766	(32,372)	37,230	(31,952)

15. Dividends paid and proposed				
Declared and paid during the year:				
Dividends on ordinary shares: Final unfranked dividend for 2009: $0.00 cents (2008: $0.40 cents)	–	1,176	–	1,176
Proposed for approval at AGM *(not recognised as a liability as at 30 June):*				
Dividends on ordinary shares: Final unfranked dividend for 2010: $0.80 cents (2009: $0.00 cents)	2,352	–	2,352	–

16. Cash and cash equivalents				
Cash balance comprises:				
– Cash on hand	3	3	2	2
– Cash at call	48,203	10,472	48,104	10,287
	48,206	10,475	48,106	10,289
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	48,206	10,475	48,106	10,289
	48,206	10,475	48,106	10,289

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

	Economic Entity		Parent Entity	
	2010	**2009**	**2010**	**2009**
	$'000	$'000	$'000	$'000
17. Trade and other receivables (current)				
Premiums receivable (i)	70,655	77,692	70,655	77,692
Reinsurance commissions receivable (ii)	149	150	149	150
Reinsurance and other recoveries on outstanding claims (iii)	23,407	28,983	23,407	28,983
Provision for doubtful debts on reinsurance recoveries	(1,188)	(919)	(1,188)	(919)
	22,219	28,064	22,219	28,064
Investment income accrued (iv)	5,608	3,989	5,608	3,989
Sundry debtors (v)	1,837	767	1,588	635
	100,468	110,662	100,219	110,530

The current period balance of premiums receivable includes $48.199 million (2009: $55.777 million) for workers' compensation premiums expiring at 4pm 30 June 2010.

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

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

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

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

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

	Economic Entity 2010 $'000	Economic Entity 2009 $'000	Parent Entity 2010 $'000	Parent Entity 2009 $'000
18. Prepaid reinsurance premiums				
Prepaid reinsurance premium asset as at 1 July	27,398	25,844	27,398	25,844
Reinsurance premiums paid during the year	65,038	65,915	65,038	65,915
Reinsurance premiums charged to the statement of comprehensive income	(67,090)	(64,361)	(67,090)	(64,361)
Prepaid reinsurance premium asset as at 30 June	25,346	27,398	25,346	27,398

The current period balance of the prepaid reinsurance premiums includes $7.175 million (2009: $7.342 million) for workers' compensation premiums expiring at 4pm 30 June 2010.

	Economic Entity 2010 $'000	Economic Entity 2009 $'000	Parent Entity 2010 $'000	Parent Entity 2009 $'000
19. Deferred acquisition costs				
Deferred acquisition costs as at 1 July	55	59	55	59
Acquisition costs deferred	77	110	77	110
Amortisation charged to income	(103)	(114)	(103)	(114)
Deferred acquisition costs as at 30 June	29	55	29	55

	Economic Entity		Parent Entity	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
20. Financial assets (current)				
Listed on a prescribed stock exchange (fair value through profit and loss)	4,059	3,946	4,059	3,946
– Other fixed interest securities	245,050	239,897	245,050	239,897
– Shares in other corporations	11,903	9,726	11,903	9,726
– Property	1,214	–	1,214	–
– Financial asset-options	262,226	253,569	262,226	253,569
Unlisted (fair value through profit and loss)	47,290	15,137	47,290	15,137
– Government and semi-government bonds	–	6,112	–	6,112
– Other fixed interest securities	2,333	2,247	2,333	2,247
– Shares in other corporations	74,942	73,748	74,942	73,748
– Units in unit trust	17,899	19,987	17,899	19,987
– Property	142,464	117,231	142,464	117,231
Total current investments	404,690	370,800	404,690	370,800
21. Tax assets				
Imputation credits	3,389	4,344	3,389	4,344
Deferred GST refund	1,540	1,281	1,540	1,281
	4,929	5,625	4,929	5,625
22. Other current assets				
Prepaid statutory charges	6,273	5,570	6,273	5,570
Other assets	5,960	2,792	5,960	2,792
	12,233	8,362	12,233	8,362
23. Trade and other receivables (non-current)				
Reinsurance and other recoveries on outstanding claims	27,148	32,086	27,148	32,086
Loan to subsidiary	–	–	–	500
	27,148	32,086	27,148	32,586

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

	Economic Entity		Parent Entity	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
24. Financial assets (non-current)				
Listed on a prescribed stock exchange (fair value through profit and loss)				
– Shares in other corporations	145	21,380	145	21,380
– Unsecured notes in other corporations	–	792	–	792
	145	22,172	145	22,172
Unlisted (fair value through profit and loss)				
– Government and semi-government bonds	26,738	56,504	26,738	56,504
– Other fixed interest securities	174,799	128,660	174,799	128,660
– Units in unit trust	20,323	18,162	20,323	18,162
– Loans – secured	276	337	276	337
	222,136	203,663	222,136	203,663
Total non-current investments	222,281	225,835	222,281	225,835

25. Plant and equipment

	Economic Entity				
	Motor Vehicles	Office Equipment	Computer Equipment	Leasehold Improvements	Total
Year ended 30 June 2010	$'000	$'000	$'000	$'000	$'000
Gross carrying amount					
Balance at 1 July 2009	1,991	4,141	12,068	–	18,200
Additions	650	956	1,278	4,141	7,025
Disposals	(461)	(156)	(4,890)	–	(5,507)
Balance at 30 June 2010	2,180	4,941	8,456	4,141	19,718
Accumulated depreciation					
Depreciation charge for the year	(424)	(521)	(1,231)	(35)	(2,211)
Accumulated depreciation	(446)	(2,656)	(6,180)	–	(9,282)
Balance at 30 June 2010	(870)	(3,177)	(7,411)	(35)	(11,493)
Net carrying amount at 30 June 2010	1,310	1,764	1,045	4,106	8,225

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

Year ended 30 June 2009					
Gross carrying amount					
Balance at 1 July 2008	2,059	4,128	10,906	–	17,093
Additions	559	20	1,388	–	1,967
Disposals	(627)	(7)	(226)	–	(860)
Balance at 30 June 2009	1,991	4,141	12,068	–	18,200
Accumulated depreciation					
Depreciation charge for the year	(417)	(782)	(1,490)	–	(2,689)
Accumulated depreciation	(410)	(2,031)	(7,014)	–	(9,455)
Balance at 30 June 2009	(827)	(2,813)	(8,504)	–	(12,144)
Net carrying amount at 30 June 2009	1,164	1,328	3,564	–	6,056

There has been no change to depreciation rates or useful lives at 30 June 2009.
Office equipment includes a higher depreciation expense in relation to office fit-out that will not be transferred across to the new premises.
The balance of plant and equipment for the economic entity is the same as the parent entity.

		Economic Entity
		Computer Software
		$'000
26.	**Intangible assets**	
	Year ended 30 June 2010	
	(a) Reconciliation of carrying amounts at the beginning and end of the period	
	Gross carrying amount	
	Balance at 1 July 2009 net of accumulated amortisation	–
	Additions	1,236
	Disposals	–
	Balance at 30 June 2010	1,236
	Accumulated amortisation	
	Amortisation charge for the year	(236)
	Accumulated amortisation	–
	Balance at 30 June 2010	(236)
	Net carrying amount at 30 June 2010	1,000

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

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

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

		Economic Entity		Parent Entity	
		2010	**2009**	**2010**	**2009**
		$'000	$'000	$'000	$'000
27.	**Trade and other payables (current)**				
	Trade creditors	27,241	31,428	27,241	31,428
	Accrued expenses	2,855	1,392	2,855	1,387
	Sundry creditors	4,863	576	4,863	576
		34,959	33,396	34,959	33,391

The current period balance of the trade creditors includes $7.175 million (2009: $7.342 million) for reinsurance premiums payable for workers' compensation premiums expiring at 4pm 30 June 2010.

	Economic Entity		Parent Entity	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
28. Provisions (current)				
Catholic entity distributions	27,049	524	27,049	524
Risk management	54	98	54	98
Employee benefits	3,833	2,846	3,833	2,846
	30,936	3,468	30,936	3,468

Catholic entity distributions

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

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

Risk management

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

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

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

Employee entitlements

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

	Economic Entity 2010	Economic Entity 2009	Parent Entity 2010	Parent Entity 2009
29. Tax liabilities				
GST provision	48	40	48	40
30. Other current liabilities				
Financial liability – options	–	2,621	–	2,621
31. Provisions (non-current)				
Employee benefits	720	664	720	664
Make good of premises	1,235	759	1,235	759
	1,955	1,423	1,955	1,423

Make good of premises

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

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

32. Provisions

	Economic Entity				
	Catholic Entity Distributions	Risk Management	Employee Entitlements	Make Good Premises	Total
	$'000	$'000	$'000	$'000	$'000
Year ended 30 June 2010					
Carrying amount at 1 July 2009	524	98	3,510	759	4,891
Additional provisions	30,039	–	1,491	699	32,229
Amounts utilised during the year	(3,524)	(20)	–	(223)	(3,767)
Reversal of unused provision	10	(24)	(448)	–	(462)
Carrying amount at 30 June 2010	27,049	54	4,553	1,235	32,891
Current (note 28)	27,049	54	3,833	–	30,936
Non-current (note 31)	–	–	720	1,235	1,955
	27,049	54	4,553	1,235	32,891
Year ended 30 June 2009					
Carrying amount at 1 July 2008	5,510	160	3,246	554	9,470
Additional provisions	524	–	707	205	1,436
Amounts utilised during the year	(5,468)	(62)	(336)	–	(5,866)
Reversal of unused provision	(42)	–	(107)	–	(149)
Carrying amount at 30 June 2009	524	98	3,510	759	4,891
Current (note 28)	524	98	2,846	–	3,468
Non-current (note 31)	–	–	664	759	1,423
	524	98	3,510	759	4,891

	Economic Entity		Parent Entity	
	2010	**2009**	**2010**	**2009**
	$'000	$'000	$'000	$'000
33. Contributed equity				
Authorised				
10,000,000 ordinary shares of $2.00 each	20,000	20,000	20,000	20,000
Ordinary shares issued & paid-up 2,939,676 (2009: 2,939,676)	8,139	8,139	8,139	8,139

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

Terms and conditions of contributed equity

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

		Economic Entity		Parent Entity	
		2010	2009	2010	2009
		$'000	$'000	$'000	$'000
34. Reserves					
(a) Composition					
General reserve		259,747	257,247	259,747	257,247
		259,747	257,247	259,747	257,247
(b) Movements					
General reserve					
Opening balance		257,247	257,247	257,247	257,247
Transfers to and from retained profits		2,500	–	2,500	–
Closing balance		259,747	257,247	259,747	257,247

Nature and purpose of reserves

General reserve

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

		Economic Entity 2010 $'000	Economic Entity 2009 $'000	Parent Entity 2010 $'000	Parent Entity 2009 $'000
35. Outstanding claims					
(a) Outstanding claims liability					
Central estimate	(A)	475,867	449,501	475,867	449,501
Discount to present value		(133,909)	(103,069)	(133,909)	(103,069)
		341,958	346,432	341,958	346,432
Claims handling costs	(B)	16,992	17,442	16,992	17,442
		358,950	363,874	358,950	363,874
Risk margin	(C)	35,361	34,037	35,361	34,037
Gross outstanding claims liability		394,311	397,911	394,311	397,911
Gross claims incurred – undiscounted	(A)+(B)+(C)	528,220	500,980	528,219	500,980
Current		68,342	73,797	68,342	73,797
Non-current		325,969	324,114	325,969	324,114
Total		394,311	397,911	394,311	397,911

(b) Risk margin

Process for determining risk margin

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

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

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

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

Risk margins applied

	2010	2009
	%	%
Short-tail	9.5	9.5
Professional indemnity	16.0	16.0
Public liability	12.2	12.2
Workers' compensation	9.0	9.0

(c) Reconciliation of movement in discounted outstanding claims liability

	Gross	Reinsurance	Net
	$'000	$'000	$'000
2010			
Brought forward	397,911	54,296	343,615
Effect of changes in assumptions	(12,511)	(4,259)	(8,252)
Increase in claims incurred/recoveries anticipated over the year	92,181	17,978	74,203
Incurred claims recognised in the statement of comprehensive income	79,670	13,719	65,951
Claim payments/recoveries during the year	(83,270)	(27,197)	(56,073)
Carried forward	394,311	40,818	353,493
2009			
Brought forward	367,507	50,919	316,588
Effect of changes in assumptions	4,370	8,562	(4,192)
Increase in claims incurred/recoveries anticipated over the year	98,729	19,007	79,722
Incurred claims recognised in the statement of comprehensive income	103,099	27,569	75,530
Claim payments/recoveries during the year	(72,695)	(24,192)	(48,503)
Carried forward	397,911	54,296	343,615

(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	2004	2005	2006	2007	2008	2009	2010	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Estimate of ultimate claims cost:								
At end of accident year	352,150	68,185	68,496	72,572	69,164	65,810	62,650	759,027
One year later	355,199	62,952	64,502	62,183	60,892	59,230	–	664,958
Two years later	344,655	56,990	55,005	53,005	54,711	–	–	564,366
Three years later	373,344	44,490	42,398	47,031	–	–	–	507,263
Four years later	366,067	37,123	39,400	–	–	–	–	442,590
Five years later	376,057	36,242	–	–	–	–	–	412,299
Current estimate of cumulative claims cost	428,278	36,242	39,400	47,031	54,711	59,230	62,650	727,542
Cumulative payments	(199,422)	(21,090)	(20,434)	(20,687)	(17,695)	(14,544)	(6,719)	(300,591)
Outstanding claims – undiscounted	228,856	15,152	18,966	26,344	37,016	44,686	55,931	426,951
Discount								(114,681)
Outstanding claims								312,270
Short-tail outstanding claims								25,315
Claims handling expenses								16,990
Risk margins								39,736
Total gross outstanding claims as per the Balance Sheet								394,311

(ii) Net

Accident year	2004	2005	2006	2007	2008	2009	2010	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Estimate of ultimate claims cost:								
At end of accident year	293,259	64,962	65,228	68,152	65,752	64,301	63,105	684,759
One year later	281,064	59,819	60,983	59,827	58,596	58,132	–	578,421
Two years later	271,659	54,888	52,763	51,755	52,819	–	–	483,884
Three years later	291,237	43,459	39,932	45,885	–	–	–	420,513
Four years later	290,339	36,966	37,462	–	–	–	–	364,767
Five years later	295,444	36,101	–	–	–	–	–	331,545
Current estimate of cumulative claims cost	360,351	36,101	37,462	45,885	52,819	58,132	63,105	653,855
Cumulative payments	(150,212)	(21,088)	(18,741)	(20,296)	(16,934)	(14,447)	(6,680)	(248,398)
Outstanding claims – undiscounted	210,140	15,013	18,721	25,589	35,885	43,686	56,424	405,458
Discount								(111,731)
Outstanding claims								293,727
Short-tail outstanding claims								7,414
Claims handling expenses								16,990
Risk margins								35,362
Total net outstanding claims as per the Balance Sheet								353,493

	Economic Entity		Parent Entity	
	2010	**2009**	**2010**	**2009**
	$'000	$'000	$'000	$'000
36. Unearned premium liability				
Unearned premium liability as at 1 July	124,322	112,195	124,322	112,195
Deferral of premiums on contracts written in the period	139,282	147,652	139,282	147,652
Earning of premiums written in previous periods	(143,543)	(135,525)	(143,543)	(135,525)
Unearned premium liability as at 30 June	120,061	124,322	120,061	124,322

The current period balance of the unearned premium liability includes $48.199 million (2009: $55.777 million) for premiums expiring at 4pm 30 June 2010.

37. Director and executive disclosures

(a) Details of key management personnel

(i) Directors

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

W R d'Apice	Chairman (non-executive) – *Resigned as Chairman 18 November 2009. Retired as Director 23 August 2010*
P A Gallagher	Chairman (non-executive) – *Appointed Chairman 18 November 2009*
C T Condon	Director (non-executive)
J Dawson	Director (non-executive)
N E B Griffiths	Director (non-executive)
R M Haddock	Director (non-executive) – *Appointed 6 October 2010*
J A Killen	Director (non-executive)
B J Lucas	Director (non-executive)
C R O'Malley	Director (non-executive) – *Retired 18 November 2009*
J A Tongs	Director (non-executive) – *Appointed 23 February 2010*
P A Rush	Alternate Director

(ii) Executives

P Rush	Chief Executive Officer
J Apter	Regional Manager NSW/ACT
J Barrie	Assistant General Manager – Strategy, Marketing & Sales
E Branigan	Assistant General Manager – Insurance Operations
T Briganti	Reinsurance Manager
D Chila	Company Secretary and Chief Financial Officer
R Faorlin	Superannuation Manager – *Resigned 30 June 2010*
C Nettleton	Human Resources Manager
I Smith	Chief Investment Officer
N Smith	Information, Communication and Technology Manager

(b) Compensation of key management personnel

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

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

	Economic Entity		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
Directors				
Short-term	410,719	364,156	318,495	274,156
Post employment	26,624	23,661	19,428	15,561
	437,343	387,817	337,923	289,717

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

	Economic Entity 2010	Economic Entity 2009	Parent Entity 2010	Parent Entity 2009
Executives				
Short-term	2,691,142	2,124,523	2,691,142	2,124,523
Post employment	152,600	116,969	152,600	116,969
Other long-term	155,580	131,860	155,580	131,860
Termination benefits	–	96,449	–	96,449
	2,999,322	2,469,801	2,999,322	2,469,801

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

(c) Shareholdings of key management personnel

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

Executives are not eligible to hold shares in the company.

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

Year ended 30 June 2009			
Directors			
W R d'Apice	1,250	–	1,250
C T Condon	1,250	–	1,250
J Dawson	1,250	–	1,250
P A Gallagher	1,250	–	1,250
N E B Griffiths	1,000	–	1,000
J A Killen	1,250	–	1,250
B J Lucas	1,250	–	1,250
C R O'Malley	1,250	–	1,250
Total	9,750	–	9,750

(d) Loans to key management personnel

There are no loans to key management personnel.

	Economic Entity		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
38. Related parties				
Wholly owned group transactions				
The entities within the wholly owned group are Catholic Church Insurances Limited (parent entity), and CCI Investment Management Limited (subsidiary). Catholic Church Insurances Limited is the ultimate parent entity.				
The parent entity provided a loan to its subsidiary totalling $500,000 (2009: $250,000) with no fixed repayment date. During the financial year the parent entity agreed to forgive the balance of all loans totalling $1,000,000 ($2009: $0).				
Balance of loan to subsidiary			–	500,000
The Directors have also provided a guarantee of continued financial support to CCI Investment Management Limited up until 3 September 2011 in the amount of $2,500,000 (2009: $2,000,000).				
Catholic Church Insurances Limited has invested funds into the investment trusts of its subsidiary under normal terms and conditions.				
Market value of investment			20,322,676	18,161,762
Other related party transactions				
Transactions with Director related entities				
A Director of the parent entity, Mr W R d'Apice, is a partner in the firm Makinson & d'Apice, Solicitors. Makinson & d'Apice has provided legal services to the company on normal commercial terms and conditions.				
A Director of the subsidiary company, Ms P J Dwyer, is a Director of the firm Roble & Co. Roble & Co. has provided investment consultancy services to the company on normal commercial terms and conditions.				
The aggregate amount of these transactions with Directors and their Director-related entities were as follows:				
– Makinson & d'Apice	243,800	165,019	243,800	165,019
– Roble & Co.	15,000	18,750	15,000	18,750

	Economic Entity		Parent Entity	
	2010	2009	2010	2009
	$	$	$	$
39. Auditors' remuneration				
Amounts received or due and receivable by Ernst & Young Australia for:				
(a) an audit or review of the financial report of the entity and any other entity in the consolidated entity	171,119	174,400	159,459	162,850
(b) other services in relation to the entity and any other entity in the consolidated entity				
– Taxation services	2,480	67,380	2,480	67,380
– Other services	24,000	36,561	24,000	36,561
Total other services	26,480	103,941	26,480	103,941

	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
40. Expenditure commitments				
Operating lease expenditure commitments:				
– Within one year	3,837	3,752	3,837	3,752
– After one year but not more than five years	12,871	12,950	12,871	12,950
– More than five years	12,266	13,064	12,266	13,064
	28,974	29,766	28,974	29,766
Lease payments recognised as an expense in the period				
Minimum lease payment	1,893	1,402	1,866	1,394
Contingent rents	2,787	(94)	2,787	(94)
	4,680	1,308	4,653	1,300

Leasing arrangements

Leased offices

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

Equipment

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

	Economic Entity		Parent Entity	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
41. Statement of cash flows				
Reconciliation of cash flow from operations with profit/(loss) from ordinary activities				
Profit/(loss) from ordinary activities	37,766	(32,372)	37,230	(31,952)
Changes in net market value of investments	(21,880)	78,986	(20,880)	78,986
Depreciation of assets	(2,211)	(2,698)	(2,202)	(2,689)
Profit/(loss) on sale of assets	(50)	(42)	(50)	(42)
Changes in assets and liabilities				
(Increase)/decrease in unearned premium	(4,261)	12,127	(4,261)	12,127
Increase/(decrease) in premiums receivable	7,037	(11,002)	7,037	(11,002)
Increase/(decrease) in reinsurance and other recoveries receivable on outstanding claims	10,784	(3,243)	10,784	(3,243)
Increase/(decrease) in reinsurance payables	(1,360)	(853)	(1,360)	(853)
(Increase)/decrease in outstanding claims	(3,600)	30,405	(3,600)	30,405
Increase/(decrease) in acquisition costs	26	3	26	3
(Increase)/decrease in statutory charge liability	(703)	(561)	(703)	(561)
(Increase)/decrease in GST tax provision	(250)	243	(250)	243
(Increase)/decrease in other provisions and sundry debtors	33,369	3,736	33,982	3,316
Cash flow from operating activities	54,667	74,729	55,753	74,738

42. Controlled entities

Name of entity	Country of incorporation	Ownership interest		Investment	
		2010	2009	2010	2009
		%	%	$'000	$'000
Parent entity					
Catholic Church Insurances Limited	Australia				
Controlled entity					
CCI Investment Management Limited	Australia	100	100	–	–

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

43. Capital adequacy

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

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

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

	Economic Entity	
	2010	**2009**
	$'000	$'000
Tier 1 capital		
Paid-up ordinary shares	8,139	8,139
General reserves	259,747	257,247
Retained earnings at end of reporting period	25,687	(13,508)
Net tier 1 capital	293,573	251,878
Less net intangible assets	1,000	–
Total capital base	292,573	251,878
Minimum capital requirement	142,957	145,117
Solvency coverage	2.05	1.74

The consolidated entity does not hold any tier 2 capital.

44. Additional financial instruments disclosure

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

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

	Fixed Interest Rate Maturity						
2010	Average Interest Rate %	Variable Interest $'000	Less than 1 Year $'000	1 to 5 Years $'000	More than 5 Years $'000	Non-Interest Bearing $'000	Total $'000
Financial assets							
Cash assets	3.43	48,203				3	48,206
Receivables and other						127,616	127,616
Government and semi-government loans	6.09		47,290	26,738			74,028
Other fixed interest securities	6.11		4,057	166,621	8,179		178,857
Loans	5.00			52	224		276
Shares, options & trusts						372,450	372,450
Preference shares	5.62			145			145
Exchange traded options						1,214	1,214
Total		48,203	51,347	193,556	8,403	501,283	802,792
Financial liabilities							
Trade and sundry creditors						34,959	34,959
Total						34,959	34,959

2009	Average Interest Rate %	Variable Interest $'000	Less than 1 Year $'000	1 to 5 Years $'000	More than 5 Years $'000	Non-Interest Bearing $'000	Total $'000
Financial assets							
Cash assets	2.95	10,472				3	10,475
Receivables and other						142,748	142,748
Government and semi-government loans	6.63		15,137	56,504			71,641
Other fixed interest securities	7.77		10,058	118,794	9,865		138,717
Loans	5.00				337		337
Shares, options & trusts						363,767	363,767
Preference shares	6.46			21,380			21,380
Convertible notes	10.19			792			792
Total		10,472	25,195	197,470	10,202	506,518	749,857
Financial liabilities							
Trade and sundry creditors						33,396	33,396
Exchange traded options						2,621	2,621
Total						36,017	36,017

45. Fair value hierarchy

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

Economic entity as at 30 June 2010	Quoted market price (Level 1) $'000	Valuation technique – market observable inputs (Level 2) $'000	Valuation technique – non market observable inputs (Level 3) $'000	Total $'000
Financial assets				
Derivative instruments				
Options	1,487	–	–	1,487
Financial assets at fair value through profit and loss				
Listed investments	508,464	–	–	508,464
Unlisted investments	–	98,617	18,676	117,293
Total	509,951	98,617	18,676	627,244
Financial liabilities				
Derivative instruments				
Options	(274)	–	–	(274)
Total	(274)	–	–	(274)

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

Economic entity as at 30 June 2009	Quoted market price (Level 1) $'000	Valuation technique – market observable inputs (Level 2) $'000	Valuation technique – non market observable inputs (Level 3) $'000	Total $'000
Financial assets				
Financial assets at fair value through profit and loss				
Listed investments	478,615	–	–	478,615
Unlisted investments	–	95,400	22,620	118,020
Total	478,615	95,400	22,620	596,635
Financial liabilities				
Derivative instruments				
Options	(2,621)	–	–	(2,621)
Total	(2,621)	–	–	(2,621)

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

	Economic Entity	
	2010	**2009**
Reconciliation of Level 3 fair value movements	$'000	$'000
Opening balance	22,620	34,461
Total gains and losses	(3,870)	(7,896)
Purchases	375	1,089
Sales	(449)	(9,217)
Transfers from other categories	–	4,183
Closing balance	18,676	22,620

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

Fair value is determined by computing the loss distribution of a credit portfolio taking into account asset correlation, recovery rates and risk neutral probability of default of individual reference entities. The potential effect of using reasonable alternative assumptions based on a relevant input by 10% would have the effect of reducing the fair value by up to $153,000 (2009: $240,000) or increase the fair value by $153,000 (2009: $240,000).

Directors’ Declaration

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

In the opinion of the Directors:

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

(i) giving a true and fair view of the company’s and consolidated entity’s financial position as at 30 June 2010 and of its (their) performance for the year ended on that date, and

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

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

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

On behalf of the Board

P A Gallagher
Director
Melbourne, 6 October 2010

ERNST & YOUNG

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

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

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

Report on the Financial Report

We have audited the accompanying financial report of Catholic Church Insurances Limited, which comprises the statement of financial position as at 30 June 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2b, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

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

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

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

Independence

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

Auditor's Opinion

In our opinion:

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

    i giving a true and fair view of the financial position of Catholic Church Insurances Limited and the consolidated entity at 30 June 2010 and of their performance for the year ended on that date; and

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

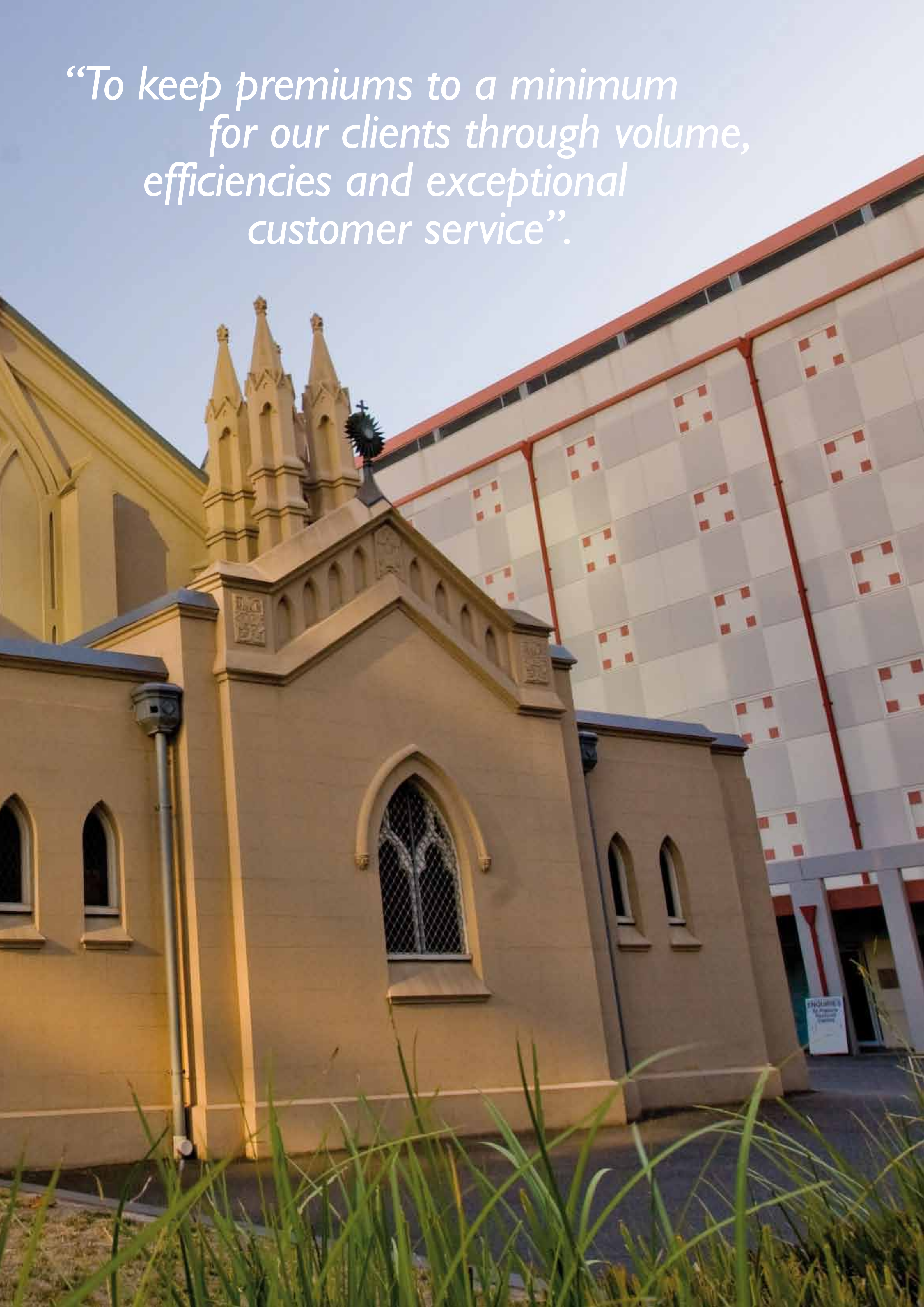
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Ernst + Young

Ernst & Young

T M Dring
Partner
Melbourne
6 October 2010

"To keep premiums to a minimum for our clients through volume, efficiencies and exceptional customer service".



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CCI Investment Management
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www.cciim.com.au

Victoria
Level 8,
485 La Trobe Street
Melbourne Vic 3000
Tel 03 9934 3000
Fax 03 9934 3464

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

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

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

Queensland
143 Edward Street
Brisbane Qld 4000
Tel 07 3227 9200
Fax 07 3227 9225

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

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

Northern Territory
2 St John Court
The Gardens NT 0820
Tel 08 8215 0166
Fax 08 8223 1946