

ANNUAL REPORT 2003



Catholic Church  
Insurances Limited  
*Serving Church*

# DIRECTORY

Catholic Church Insurances Limited  
 ABN 76 000 005 210

## REGISTERED OFFICE

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 Melbourne Vic 3004  
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 Melbourne Vic 3001  
 Ph 03 9934 3000  
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## DIRECTORS

Mr W R d'Apice ~ *Chairman*  
 Mr R J Ebbage  
 Mr N Griffiths  
 Mr J A Feenan  
 Mr J A Killen  
 Reverend B J Lucas  
 Mr C R O'Malley  
 Sister A Ryan CSB

## GENERAL MANAGER

Peter Rush

## COMPANY SECRETARY

John Pollock

## EXECUTIVE GROUP

Peter Rush ~ *General Manager*  
 Kym Bennetts ~ *Assistant General Manager  
 Client Relations*  
 Edd Branigan ~ *Regional Manager NSW/ACT*  
 Hans Buettner ~ *Risk Management Manager*  
 Anthony Buhler ~ *Chief Information Officer*  
 Stephen Hunt ~ *Finance and Administration  
 Manager*  
 Peter Latham ~ *Assistant General Manger  
 Insurance Operations*  
 John Pollock ~ *Company Secretary and  
 Chief Financial Officer*

## AUDITORS

Chaundy & Henry  
 Chartered Accountants  
 32 Church Street  
 Abbotsford Vic 3067  
 Ph 03 9427 7255



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# HISTORY

## CATHOLIC CHURCH INSURANCES EVOLVED FROM HUMBLE BEGINNINGS AS AN INSURANCE COMPANY WHICH PROVIDED FIRE INSURANCE FOR CATHOLIC CHURCHES.

The idea for the Catholic Church to set up its own insurance company came from a group of far-sighted individuals who could see the long-term benefits, both in having an insurance company which would develop specialist products and services to meet the needs of Church, and in keeping control of the insurance costs, and any surplus, within Church.

The Australian Catholic Bishops Conference agreed with that vision and in 1911 a 'fund' was established into which 'contributions' (premiums) were made and out of which 'reimbursements' (claims) could be sought in the event of a disaster befalling any single member contributor. Later, this simple self-insurance fund was converted to a more formal structure and

established as "The Catholic Church Property Insurance Company of Australasia Ltd".

As the Church grew and expanded its services to the growing Australian community, so the company's products and services changed to serve those needs.

Initially, a network of insurance agencies was developed to accommodate such insurance classes as workers' compensation, public liability and motor, and in 1969 the Directors of the company made the decision to offer all classes of insurance directly to Catholic Church organisations. Shortly afterwards, the company's name was changed to "Catholic Church Insurances Limited".

The company was and remains unique differing in fundamental ways, such as making every effort to indemnify claims made against its policies, providing caring service and engaging in the Catholic community beyond just being an insurance company.

Early strategies adopted by the company, which remain in place to this day, are:

- ~ The master policy program
- ~ The provision of free personal accident insurance cover for every priest, brother and sister active in Catholic Church service
- ~ The provision of free overseas travel insurance for all Bishops
- ~ The introduction of student accident insurance to recompense parents and minimise the risk of liability claims from schools, and
- ~ Property valuation service at no cost to our clients.

The risk profile of the company is as specialised as it is extensive, from protection of the many and often historical Church buildings, to the liability risks of the more than 660,000 Catholic school students and the countless Church workers and volunteers, as well as insurance for the specialist areas of medical malpractice in Catholic hospitals and Director's and Officer's insurance for incorporated companies of the Church; Catholic Church Insurances offers insurance coverage for all Church risks.

Complementing the provision of insurance, the company undertakes programs to minimise risk and to control losses. Since 1987 Catholic Church

Insurances has provided subsidised alarm programs for schools and assisted in the development of evacuation programs. Risk consulting services extend to risk audits, safety networks and programs, subsidised support for Peer Support programs and the On-Line Safety Library for schools and support for the development of professional standards in pastoral ministries and outreach services.

Beyond the insurance operations, Catholic Church Insurances and its staff actively engage in the wider Church community. The company works with other Church groups and has long-standing relationships with Catholic Health Australia, the Australian Catholic Primary Principals Association, Association of Principals of Catholic Secondary Schools in Australia, and Catholic Welfare Australia.

At the end of each year Catholic Church Insurances returns any surplus, after expenses and provisions, back to Church; in the last 25 years more than \$66 million has been returned in this way.

Many words are used when describing Catholic Church Insurances – often a mutual or a co-operative; and whilst these are true, the fundamental purpose of the activities of the company is summed up, simply, in its vision statement "Serving Church".

## OUR VISION

OUR VISION IS THE FUNDAMENTAL PURPOSE OF THE COMPANY.

### “SERVING CHURCH”

Catholic Church Insurances serves Church in many different ways – as the Church’s own insurer, as the provider of risk consultancy services, and as an active member of the Church community. Because the company returns any surplus to Church, Church communities throughout Australia benefit. We operate under co-operative principles, to fulfil our vision – Serving Church.

## OUR MISSION

THE MISSION STATEMENT OF CATHOLIC CHURCH INSURANCES IS:

*“To provide on-going security to the Catholic community by identifying and ethically servicing its insurance and related needs”.*

## OUR VALUES

THE COMPANY’S VALUES SUPPORT OUR VISION – “SERVING CHURCH” – AND CLEARLY EXPRESS OUR COMMITMENT TOWARDS THE CHURCH COMMUNITY.

~ *Honesty*

~ *Fairness*

~ *Commitment to Serve*

## ORGANISATIONAL STRUCTURE

### Board

Mr William R d'Apice ~ *Chairman*  
 Mr Raymond J Ebbage  
 Mr John M Feenan  
 Mr Norman E B Griffiths  
 Mr James A (Tony) Killen  
 Reverend Brian J Lucas  
 Mr Christopher R O'Malley  
 Sister Angela Ryan CSB

### General Manager

Peter Rush

### Company Secretary

John Pollock

### Executive Group

Peter Rush ~ *Chairman*  
 Kym Bennetts  
 Edd Branigan  
 Hans Buettner  
 Anthony Buhler  
 Stephen Hunt  
 Peter Latham  
 John Pollock

### Management Committee

Dominic Chila ~ *Chairman*  
 David English  
 Bob Faorlin  
 Edmund Fernandez  
 Jeff Giltinan  
 Judith McCarthy  
 Charlie Nettleton  
 Ray Wilson

### Department Heads

#### Client Services & Marketing

Assistant General Manager  
 Client Relations  
 ~ Kym Bennetts

Marketing Manager  
 ~ Judith McCarthy

National Accounts Manager  
 ~ Duncan Richardson

Regional Manager VIC/TAS  
 ~ Doug Evans

Regional Manager NSW/ACT  
 ~ Edd Branigan

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

### Insurance Operations

Assistant General Manager

Insurance Operations

~ Peter Latham

Claims Manager

~ Edmund Fernandez

Operations Manager

~ Ray Wilson

Risk Management Manager

~ Hans Buettner

Reinsurance Manager

~ Kevin Guinan

### Information Technology

Chief Information Officer

~ Anthony Buhler

### Investments

Investment Manager

~ John Pollock

CCI Investment Management  
 Manager

~ Ian Smith

Superannuation Administration  
 Manager

~ Bob Faorlin

### Finance and Administration

Chief Financial Officer

~ John Pollock

Finance and Administration  
 Manager

~ Stephen Hunt

Human Resources Manager

~ Charlie Nettleton

Administration Manager

~ Clara Provenzano

Finance Manager

~ Dominic Chila

# OUR STRATEGIC OVERVIEW

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IN SUPPORT OF OUR VISION STATEMENT “SERVING CHURCH”, EIGHT STRATEGIC OBJECTIVES HAVE BEEN IDENTIFIED WHICH WILL PROVIDE THE COMPANY WITH A CLEAR DIRECTION AND A PLATFORM ON WHICH OUR FUTURE GROWTH WILL BE BUILT.

The fulfilment of these objectives underpins our future strategic direction.

**1. Cost effective approaches to insurance**

To provide cost-effective approaches to insurance through the provision of risk consultancy and other value adding services.

**2. Financial Strength**

To grow the financial strength of the company through the provision of current and new financial services products and management of corporate risk.

**3. Contribute to shareholder return and provide a broader income base**

To contribute to shareholder return and provide a broader income base by substantially growing the contribution from the personal lines portfolio.

**4. Maintain and grow customer base**

To retain existing business and invest in the future growth of the company through growing our client base and increasing market penetration.

**5. Employer of Choice**

To invest in our people and become an “Employer of Choice” – attracting and retaining highly skilled and motivated staff.

**6. Establishment of strategic alliances and partnerships**

To support our shareholders and benefit the Church through the establishment of strategic alliances and partnerships with Church and external organisations, and the mutually beneficial sharing of resources.

**7. Differentiation**

To communicate a strong differentiation of Catholic Church Insurances in the marketplace based on ethical market leadership and in support of the organisation’s client relationship philosophy.

**8. Information Management**

To enable the company to achieve our strategies through appropriate information and technology management.

# HIGHLIGHTS OF THE YEAR 2003

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- ~ An operating profit of \$10.79 million was achieved after a strong turnaround in performance following the days leading up to the war in Iraq
- ~ A dividend of 20% has been recommended
- ~ Profit sharing distributions to the Australian Catholic Bishops Conference, Catholic Dioceses, Religious Institutes and policyholders totalled \$6.0 million bringing the total distributions in the last 25 years to \$66.15 million
- ~ \$14.8 million has been allocated to subsidising the installation of security alarms in over 1,000 Catholic schools over the last 16 years
- ~ A strong solvency margin and first class reinsurance support ensures financial security
- ~ First quartile returns were achieved on the company’s investment portfolio

- ~ Strategic objectives identified to strengthen the company’s commitment to “Serving Church” are being progressively implemented
- ~ Risk management services continue to be expanded and developed to assist clients with the control of claims
- ~ The company continues to provide free personal accident insurance policies for Clergy and Religious
- ~ The superannuation department administers the superannuation savings of 32,646 employees of Catholic organisations and provides a worthwhile contribution to the profit sharing distributions of Catholic Church Insurances
- ~ The performance of the CCI Investment Management Trusts continues to improve with top quartile results for the last 3 quarters.

## CHAIRMAN'S REPORT



**Mr William R d'Apice**  
Chairman,  
Catholic Church Insurances

THE 2002/2003 FINANCIAL YEAR WAS A PERIOD OF CONSOLIDATION BOTH FOR THE INSURANCE INDUSTRY AND CATHOLIC CHURCH INSURANCES. I AM PLEASED TO PROVIDE YOU WITH AN OVERVIEW OF OUR OPERATIONS HIGHLIGHTING OUR RESPONSES AND ACTIONS TO A NUMBER OF ISSUES.

effectively resolved. However, throughout that debate Catholic Church Insurances continued to insure Catholic hospital and doctors, the only local underwriter of this type of protection.

In an effort to control the rising cost of liability insurance, each State and Territory has embarked on a regime of tort reforms during the year. These reforms offer solutions to a range of issues which affected the legal processes relating to liability claims.

Despite these reforms, liability insurance premiums have continued to rise but perhaps not as much as if the reforms were not in place. We have carefully considered our liability premiums and the impact of the imposition of increases. The increases you may have experienced are the minimum we require to ensure proper prudential management of that portfolio. In fact our fair premium pricing has attracted new clients from other denominations who now enjoy our specialised service.

### Regulation and Compliance

A major focus for the company over the past two years has been compliance with the new prudential regulation of the Australian insurance industry. The industry is controlled under a framework of regulation designed by Commonwealth Treasury.

The Australian Prudential Regulation Authority (APRA) is the regulator of insurance companies, superannuation funds, and other financial institutions. APRA's responsibilities include the establishment and

### Company Performance

The combination of sound business and investment strategies, as well as prudent management has contributed to a solid company performance. The achievement of a \$10.79 million surplus is a strong turnaround from the previous year's outcome and was assisted by the improvement in the financial markets in the latter months of the financial year.

This result allows the Directors to recommend profit-sharing distributions to the Australian Catholic Bishops' Conference, Catholic Dioceses, Religious Institutes and policyholders which total \$6.0 million, bringing the total distributions to \$66.15 million over the past 25 years.

### Market

Environmental and regulatory issues continue to dominate the activities of Australian insurance companies and to affect the performance of Catholic Church Insurances.

The financial year began with debate on the cost of and availability of liability insurance, especially medical malpractice cover, an issue which is still not

enforcement of appropriate standards and practices to ensure financial commitments are able to be met.

The critical requirement for Catholic Church Insurances, under APRA's supervision, is the maintenance of our solvency margin as prescribed under the Insurance Act 1973, this measurement being a test of the company's financial stability. I am pleased to confirm that Catholic Church Insurances comfortably exceeds APRA's minimum requirements in this regard.

Catholic Church Insurances is further regulated for market integrity and consumer protection by the Australian Security & Investments Commission (ASIC). ASIC is an independent Commonwealth government body concerned with regulating market conduct, disclosure standards, complaints handling and licensing of insurers, agents and brokers.

In March 2002, the Federal Government enacted the Financial Service Reform Act 2001 (FSRA) to harmonise the regulatory regime for the broader financial service industry. ASIC ensures that all Australian insurers operate within the prudential regulation of the FSRA.

The Financial Services Reform Act 2001 requires providers of financial services including general insurers to hold an Australian Financial Service Licence (AFSL). The aim of the legislation is to promote more confident and informed decision making by consumers of financial products and to improve the efficiency and professionalism of the industry.

From the time that the Act came into effect, we have had our FSRA working party in place to prepare the licence application and its extensive supporting documentation. I am pleased to report that, we have now received our Australia Financial Services Licence.

### **Terrorism**

The availability and affordability of reinsurance protection against terrorist attack continues to pressure our ability to provide cover. In an effort to fill the current gap in terrorism cover, the Australian Government has established the Australian Reinsurance Pool Corporation (ARPC). The ARPC will build a pool of \$300 million to be drawn upon as reinsurance cover to fund losses from terrorist activities.

Compulsory premiums will be contributed to the pool until it reaches the fund's target and this will be supported by other financial mechanisms for a further \$10 billion. The ARPC fund does not protect all terrorism risks and we have other arrangements in place to protect any shortfall. It is intended that as the reinsurance market recovers and terrorism cover becomes more readily available that this pool will be wound down.

### **Corporate Governance/Board of Directors**

The Board of Directors of Catholic Church Insurances has had two new members since my last report. Mr Tony Killen joined the Board in May 2003 following the retirement of Mr Bill White. Mr Killen comes to Catholic Church Insurances with extensive board experience over a wide range of businesses and financial services and includes exposure to Asia and New Zealand in the Government and not-for-profit sectors. As the convergence of the insurance and financial services sectors continues and legislative and regulatory regimes move to embrace both sectors, his experience will become invaluable.

Fr Brian Lucas joined the Board in August 2003 following the retirement of Bishop Peter Ingham at the end of June 2003. Fr Lucas is currently the General Secretary of the Australian Catholic Bishops' Conference (ACBC), a position he has held since August 2002. Prior to that he was Archdiocesan Secretary and Financial Administrator of the Archdiocese of Sydney. His presence, advice and expertise will help Catholic Church Insurances to develop both as a member of the wider Church community and as a successful insurance business.

The appointments of Mr Killen and Fr Lucas are in accordance with an on-going process of Corporate Governance objectives which have been adopted by the company.

Also, as part of the Corporate Governance objectives, the Board reviewed a number of matters including its role, structure and expertise, and took the opportunity to re-assess and approve the company's strategic objectives and confirm the direction of the company for the next 3–5 years.

### **CCI Investment Management**

Investment into CCI Investment Management trusts grew over the review period and the Board is confident that the revised investment style and restructuring of the CCIIM trusts will provide a strong base for the future. Its performance will be regularly monitored by the Board.

Of note is the success of the Catholic Values Trust which was launched in January 2002 in order to offer an investment vehicle consistent with the teachings and values of the Church. The fund managers of this trust ensure compliance with socially responsible investment policies and report regularly to CCIIM investors in this regard. Investment interest in this trust has exceeded expectations and confirmed the need for an investment vehicle of this nature within Church.

### **Conclusion**

I would like, on behalf of the Directors of Catholic Church Insurances, to thank Mr Bill White and Bishop Peter Ingham for their many years of dedicated service as Directors of the company. They will be missed for their wise counsel, generous contribution and friendship.

I would also like to reinforce that the Church's insurance company, Catholic Church Insurances Limited, is sound, stable and secure. We have in place many checks and balances to ensure that we respond quickly and effectively to Church needs and market events. We remain focused on serving Church to the very best of our ability into the future.

I would once again like to thank Peter Rush for his strong stewardship of the company, and to the management and staff of Catholic Church Insurances for their loyalty and dedication.

Lastly, I would like to thank the shareholders and policyholders without whom there would be no Catholic Church Insurances Limited; your on-going loyalty to your insurer is appreciated and most valued by the Board.

### **Mr William R d'Apice**

Chairman of the Board of Directors  
Catholic Church Insurances Limited

## GENERAL MANAGER'S REVIEW OF OPERATIONS



**Peter Rush**  
General Manager  
Catholic Church Insurances

THE FINANCIAL YEAR TO 30TH JUNE 2003 WAS ONE OF CHALLENGE, CONSOLIDATION AND GROWTH FOR CATHOLIC CHURCH INSURANCES LIMITED.

The challenges included the continuing management of unpredictable investment markets, further tightening of the reinsurance market and the pressures associated with the resolution of the liability crisis. Those hurdles were met and overcome with good results.

It was a period of consolidation for the company, following major upheavals in the insurance industry experienced in the previous years. Unavoidable premium increases were imposed as renewals fell due. These increases have allowed appropriate reserves to be established to cover future claims, particularly in the long tail area of liability. The premium increases have resulted in the reduction of loss ratios in our insurance portfolio and ensured that a strong solvency margin is maintained.

Internally, finetuning and implementation of the longer term strategic objectives of the company has continued, providing a road map to maintain stability and growth and for improved service to Church.

We have also made a very conscious change in regard to the vision statement of the company. Whilst we will continue to strive to “work in partnership” with the Church, we felt that that statement did not truly reflect our primary purpose. Early in 2003 at a workshop attended by management we developed what we believe is our true vision, which is simply “Serving Church”. We have not adopted this new vision statement lightly and to support its implementation we have developed an internal communication program to assimilate the vision into the normal day to day operations of the company.

During the year we also commenced insurance programs for a number of other denominations who came to Catholic Church Insurances after experiencing a lack of affordable cover in the market.

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## RESULTS

Our results for the year reflect the hard work of our dedicated staff and the prudent advice provided by our actuaries and advisors. I am thankful that we can report an operating surplus of \$10.79 million for the financial year to 30th June 2003. This is a significant improvement on the \$4.9 million loss for the previous reporting period.

The factors which influence our ability to operate a financially stable company are many and varied. This year's surplus is attributable in part to a larger premium pool which provided a greater opportunity to achieve investment income of \$6.73 million, an improvement from \$2.4 million for 2001/2002. The company also implemented strategies to reform the loss ratios of those portfolios where losses were occurring, particular in the liability portfolio; these strategies are crucial to sustainable improvement in the overall result of the company.

Our clients also assisted by implementing risk management programs, many with assistance from our Risk Management team.

The results will allow distributions to occur and we will be returning \$6.0 million back to Church via dividends, rebates and grants.

### Business Risk Management

The protection of the company's people, clients, information, assets and goodwill are critical to the operation of the company and the achievement of our strategic goals.

Being mindful of our obligations to the Church community, Catholic Church Insurances established a process in January 2002 to identify, review and continually monitor our corporate business risks. To ensure best practice, our activities have been developed in accordance with Australian risk management standards.

A major outcome of this process was to develop a set of robust Business Continuity Plans for our key operational areas, and these plans have been steadily implemented during the year.

### Corporate Management

During the previous year a number of senior appointments were made and it is pleasing to report that all have settled well into the company and we can see the benefits of the skills the new recruits have brought with them.

In November 2002, we were pleased to welcome Anthony Buhler as our Chief Information Officer. Anthony comes to us with a broad background in the automotive, financial services and education sectors. With a strong service focus and leadership ability supported by high qualifications, Anthony is a welcome addition to our Executive Group.

We were also pleased to welcome Kym Bennetts, who has been appointed Assistant General Manager – Client Relations. Kym has had more than 29 years experience in the insurance industry, with 13 of those years with another specialist Church insurer. He brings broad skills across reinsurance, underwriting, customer service and insurance company operations. Kym was appointed in September 2003 and is also a new member of our Executive Group.

## GENERAL MANAGER'S REVIEW OF OPERATIONS (CONTINUED)

During the year Hans Buettner, Risk Management Manager was also a new appointment to the Executive Group, which is responsible for the strategic direction of the company. The Executive Group now comprises:

- ~ Kym Bennetts, Assistant General Manager, Client Relations
- ~ Edd Branigan, Regional Manager NSW/ACT
- ~ Hans Buettner, Risk Management Manager
- ~ Anthony Buhler, Chief Information Officer
- ~ Stephen Hunt, Finance and Administration Manager
- ~ Peter Latham, Assistant General Manager, Insurance Operations
- ~ John Pollock, Company Secretary and Chief Financial Officer, and
- ~ Peter Rush, General Manager.



Kym Bennetts – Assistant General Manager, Client Relations



Anthony Buhler – Chief Information Officer

### Investments

The year to 30 June 2003 was another difficult one on investment markets which were severely affected by a lack of growth in the USA, recessionary influences in Europe and Japan, the war in Iraq, threats in North Korea, the outbreak of SARS and the ongoing devastation of terrorist atrocities.

At the low point leading up to the war in mid-March, the All Ordinaries Index was down 15.5% from the start of the financial year and the company's investment income was in significant negative territory. A decision was made at that time to implement an options strategy to protect further downside on the equities portfolio.

As it became apparent that the war was likely to end sooner rather than later, a solid recovery on the stock market, continuing through to 30 June, enabled the company to achieve a major turnaround and produce a positive investment result of \$6.73 million (1.78%) after allowing for the costs of the options strategy. This was achieved due to diversification of the investment portfolio and even though the All Ordinaries Index remained down 5.2% for the year.

The investment performance was acceptable compared with benchmark targets and was in the upper quartile if compared with surveys of similarly structured growth fund managers.

Although some uncertainties remain, economic indicators are beginning to suggest an improved outlook and better conditions for investment in 2003/2004 and we believe the portfolio is well placed to take advantage of any further upturn in the markets.

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## INSURANCE OPERATIONS

### The Market

In general, the market was heavily influenced by:

- ~ The liability crisis and related Federal and State Government tort reforms. These reforms are designed to assist in reducing the cost of claims and hence premium increases
- ~ Natural disasters dominated by catastrophic fires in the ACT and other parts of Australia, leaving four persons dead, scores injured and a bill that could reach \$380 million
- ~ The replacement of the mechanism for funding the fire services in WA
- ~ The re-licensing of the majority of the general insurers, including Catholic Church Insurances, as part of the stringent requirements imposed by the introduction of the General Insurance Reform Act. Insurers are now required to meet higher standards for capital requirements and corporate risk management
- ~ The preparations for compliance with the Financial Services Reform Act to regulate the operations of insurers to the ultimate benefit of consumers
- ~ Further acquisitions and mergers in the insurance industry. The six largest insurers now count for 75% of the market
- ~ A downgrading of the credit ratings of many reinsurers, and
- ~ Substantial increases in the cost of reinsurance and a reduction in reinsurers appetite for risk.

### Underwriting Operations

Our underwriting results were positive over the period and we were fortunate not to participate to a great degree in major catastrophes such as the Canberra and country Victorian bushfires.

For the year ending 30 June 2003 an underwriting result of \$8.97 million was achieved. This excellent and better than expected result was mainly due to:

- ~ Rate increases that resulted in premium growth without a corresponding increase in exposure to risk. Premium revenue totalled \$140.67 million
- ~ A reduced number of severe losses over \$500,000. Workers' compensation and public liability common law claims were less than expected and there was a decrease in the number of fire and weather related property claims

~ As in previous years, a profit share commission received from reinsurers.

Our provisions for future, as yet unreported, claims were increased by more than \$22 million in accordance with the advice of our actuaries and the guidelines established by APRA.

### Risk Management

During the year we continued to develop our long term strategy to assist clients in the management of their risks, with the emphasis on duty of care and public liability issues. In partnership with Dioceses, Religious Institutes and other clients, we are making steady progress in the timely delivery of information and the development of tools for the identification and assessment of risk.

The development and implementation of the 'CCI On-Line Help Desk' provides clients in the education sector with practical hands-on resources with the combination of web-based information and a qualified risk manager to help tailor a risk management solution.

Over the review period our risk management department expanded by four staff members to meet the growing demand for consulting services. Each staff member brings a different and unique background to the group thereby broadening the knowledge base and expertise on which the department operates.

The development of electronic and software assessment tools, in partnership with clients, will be important in the future due to their simplicity and flexibility. To reinforce these valuable partnerships, the department performs liability and occupational health and safety reviews at a client level and provides specific risk management advice when required.

Customised risk management papers are regularly presented to groups of clients to encourage them to use the resources offered by the risk management team.

During the year, \$300,000 was spent in maintaining the alarms program and thirty five new security systems were installed. This program demonstrates an active risk management approach to exposed risks. More than 1,000 schools are now protected by electronic security systems to which the company has contributed.

## GENERAL MANAGER'S REVIEW OF OPERATIONS (CONTINUED)

**Reinsurance**

The desire by the global reinsurance market to protect itself from unacceptable levels of risk and to attempt to recover from its ruinous financial position of the past years, continued throughout 2002/2003. All indications are that this will be the pattern for some time to come. This and the many other issues confronting the local insurance/reinsurance market have understandably continued to influence our business.

An early effect on our reinsurance program in the year was the withdrawal of reinsurance protection for terrorism losses. While we were able to purchase limited reinsurance cover for terrorism in our workers' compensation business, the general reinsurance exclusion on terrorism caused the insurance market to exclude cover for such losses from all areas of business as policies were issued or renewed throughout 2002/2003.

While there has been some softening by reinsurers in relation to a total exclusion for terrorism risk, limited cover is only available for domestic business; however, the Federal Government's terrorism pool is taking up the shortfall in non-domestic business. We have been able to provide terrorism cover to all our clients through this pool facility.

The renewal of our reinsurance arrangements for 2003/2004 has only been possible with further price increases throughout the program with particular emphasis on liability business. In addition there has been a constriction of reinsurance contractual terms, including the absolute exclusion of liability cover for asbestos related claims.

The past two years have witnessed a substantial downgrading of the financial security of the global reinsurance market and a number of closures, mergers and acquisitions. This market instability has made the selection and purchase of secure reinsurance capacity difficult. The company always seeks the security of the highest quality of reinsurers in the local and international market place, while striving to contain price increases and negotiate the best possible terms for our reinsurance program.

**Claims**

Claim payments increased by more than 8% to \$60.1 million during the 2002/2003 year, whilst claim provisions increased by \$4.1 million for reported claims, and by \$22.6 million for unreported claims.

Fortunately, there was no major fire loss during the last 12 months but there were five mid sized fire losses with a combined loss of approximately \$5.0 million. The personal accident portfolio suffered two losses that required reserves of \$500,000 each and 12 claims for a cost of \$136,000 resulted from the Bali terrorist attack.

A reduction in the number of large losses in the workers' compensation portfolio contributed to an improved result in all states where we write this class of business. In addition, legislative changes have resulted in fewer common law claims, especially in NSW and WA. A greater focus on injury management and occupational health and safety has also improved results in this segment of our business.

The number of liability claims reported during the last year declined, but payments and reserves on current and prior year claims increased by around \$13.9 million. As tort reform is progressively introduced across Australia, the number and cost of liability claims is expected to reduce, but it will be some time before this can be quantified. Changes to the profile of our medical malpractice account should see a prompt and substantial fall in the number of claims.

**CLIENT SERVICES**

During the 2002/2003 financial year, our Client Services team continued to provide the high standard and personal advice which our clients have come to expect and appreciate. Staff working in state offices, were charged with the responsibility of advising clients of often high premium increases, which coupled with the myriad of Government levies and taxes, greatly impacted on already stretched Church financial resources.

A high level of knowledge, understanding and empathy was required by our service team to carefully work with our clients in delivering solutions to a number of issues.

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In accordance with our strategic positioning as a risk management provider, the team supported risk management initiatives by carrying out property risk reviews, providing risk advice and assistance to clients as required.

Our commitment to serve Church was further strengthened through our partnerships with Catholic organisations. A number of strategic alliances have been established with peak Catholic bodies, highlighting the spirit of co-operation and communicating the benefits that we have to offer other Catholic organisations.

The Catholic community was supported both financially and operationally in a number of ways, including:

#### **Catholic Health Australia**

Catholic Health Australia (CHA) is the national organisation representing more than 680 Catholic health care organisations.

Catholic Church Insurances has supported the health sector over a number of years and has formed a partnership with Catholic Health Australia to expand risk management awareness and activities in that sector. Catholic Church Insurances representatives educate on issues such as manual handling, safe home-based care and occupational health and safety. The company also financially supports the annual Catholic Health Australia conference.

#### **Catholic Welfare Australia**

Catholic Welfare Australia is the peak body representing the social welfare apostolate of the Catholic Church at the national level.

Catholic Church Insurances was proud to support Catholic Welfare Australia in the establishment and sponsorship of the Catholic Welfare Australia Awards.

The awards serve several purposes:

- ~ To recognise and promote the work of Catholic Welfare Australia and its member organisations
- ~ To highlight achievements and encourage excellence, and
- ~ To affirm the importance of the work of member organisations.

#### **Association of Principals of Catholic Secondary Schools in Australia**

The Association of Principals of Catholic Secondary Schools in Australia (APCSSA) operates as the national peak body for the various Australian and state based Catholic principals' associations, involving secondary schools.

The APCSSA work diligently to provide, on a national and international scale, a professional voice for Catholic secondary principals and importantly, to advance the quality of education for secondary students in Catholic schools in Australia.

Catholic Church Insurances enthusiastically supports the APCSSA's commitment to the development of excellence and advancement in the secondary education sector.

#### **Australian Catholic Primary Principals' Association**

The Australian Catholic Primary Principals' Association (ACPPA) represents the interests of Catholic school communities, nationally, speaking on behalf of their members on professional and practical issues. Improving the standard of Catholic education, particularly in primary schools, is the main objective of the ACPPA.

Catholic Church Insurances is working with the ACPPA to bring support in many forms, particularly risk management advice. Catholic Church Insurances has made available its On-Line School Community Safety program to ACPPA members providing online advice and assistance in minimising risks in schools.

#### **Australian Catholic Press Association**

The Australian Catholic Press Association represents the many Catholic publications produced nationally.

Catholic Church Insurances is proud to support the ACPA Annual Awards which recognise excellence in publishing.

## GENERAL MANAGER'S REVIEW OF OPERATIONS (CONTINUED)

**HUMAN RESOURCES**

Over the reporting period the company was supported by our 196 loyal staff members. Our staff are provided with on-going developmental and training opportunities and a generous staff benefits program.

The main focus of the year was the compliance requirements under the Financial Services Reform Act. This legislation sets the minimum training standard for people whose role entails providing product advice to retail clients.

To date we have sufficient staff members fully compliant to more than adequately meet our requirements under the Act.

The year has also seen additional staff members complete the Frontline Management Diploma through the Australian Institute of Management. This program has now been attended by the majority of our middle managers and team leaders and has proven to be very successful in developing the managerial and leadership qualities required in today's financial services environment.

Our staff turnover rate has consistently dropped in recent years and is currently around 10%. In comparison to the market, this level is considered low and would be envied by others in the industry.

Catholic Church Insurances has set strategies to assist in attracting quality people to the company. This year was no different and in addition to replacing staff who left through natural attrition, we also filled newly created positions at senior and middle management levels.

The Human Resources department has responsibility for several projects in the coming year under the company's strategic objectives, which will see Catholic Church Insurances strive to be formally recognised as an "Employer of Choice".

**INFORMATION TECHNOLOGY**

Information Technology is a core enabler of the company and a key partner in all the projects related to the company's strategic objectives. This manifests itself in many ways from providing assistance to the superannuation administration area in their needs analysis for a modern computer system, to finding tools to assist risk management in resource management and control, to building a web-based incident reporting system for the workers' compensation business.

The department's efforts have been directed towards ensuring greater stability of our core operations and achieving incremental improvements to client focussed processes. We have also concentrated on identifying and aligning our technology strategies to that of the company's goals.

The major improvements achieved this year include:

- ~ Upgrading our operating systems
- ~ Enhancing the stability of the workers' compensation system
- ~ Completing a 'technology refresh' in a number of areas including replacing some of the core data communications equipment, personal computers and printers
- ~ Enhancing security by the adoption of new equipment and a standard operating environment for personal computers, and
- ~ The implementation of a structured plan for business continuity.

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## SUPERANNUATION ADMINISTRATION

During the year Catholic Church Insurances continued to provide fund administration services to the National Catholic Superannuation Fund. This comprehensive administration of the main activities of the superannuation fund ensures that members' contributions, benefit payments and accounts are accurate and comply with the fund's rules and all relevant legislation.

As part of this administration we have assisted the fund's trustees in managing the fund's investments and ensuring compliance with new legislation. In July 2002 the fund introduced five new member investment options, making a total of eight investment choices available to members.

Financial markets were very volatile during the year and the trustee continued to monitor and position the investment strategies appropriately to suit the economic environment. Our role was to ensure that all information was prepared and that strategic decisions were implemented promptly.

Significant compliance requirements relating to the Financial Services Reform Act required Catholic Church Insurances to ensure that all the regulations under the Act were addressed to enable the fund's trustee to apply for an Australian Financial Services Licence. This process has now been completed.

We continued to provide the trustee with business development services and the fund membership has maintained an upward growth trend, growing from 31,941 members at June 2002 to 32,646 members at June 2003. The number of participating employers increased from 1,148 in 2002 to 1,405 and correspondingly, the fund's assets have grown to over \$302 million at June 2003.

New products and technology received significant attention during the year. In the first half 2003/2004 an Allocated Pension plan will be launched by the trustee following extensive work to establish the necessary structure to administer and support the plan.

We commenced an investigation into an appropriate and updated software system capable of performing a 'new style' electronic based superannuation administration. The objective is to determine whether a new system with the required improved technology can replace the existing administration system.

## CCI INVESTMENT MANAGEMENT

In the volatile investment market in the 2002/2003 financial year CCI Investment Management (CCIIM) investigated ways to improve investment performance and to offer a wider investment product range for Church clients.

As a result, CCIIM restructured the trusts to offer individual sector investments and reviewed the investment style across the Australian equities portfolio.

The restructure was completed in October 2002 and CCIIM introduced new options enabling investors to invest across a range of asset classes according to their individual risk/return profiles. This (in addition to the existing managed products) was a new approach to the operation of managed trusts by providing Church investors with a flexible option to meet their investment needs, with the added benefit of funds being invested with sector specialist managers.

The CCIIM Balanced and Growth trusts had modest growth in funds under management reflecting the market conditions. Results, however, exceeded benchmarks for the year and produced competitive returns with top quartile results for the last 3 quarters.

## GENERAL MANAGER'S REVIEW OF OPERATIONS (CONTINUED)

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### **Conclusion**

The many issues faced during the reporting period have been met and successfully resolved and we are very satisfied both with the result we have achieved for Church and the soundness of the business.

Since the end of the financial year, we have applied for and received our Australian Financial Services Licence and put in place all the requirements to comply with the new FSRA regulations.

Operationally, we are working towards achieving the strategic objectives established in early 2003 and advancing as quickly as financial and human resources will allow.

It is a very exciting time for Catholic Church Insurances with many opportunities where we can prove our worth to Church.

The change of our vision statement to "Serving Church" is indicative of our understanding of our primary role and responsibility. Our vision is as intrinsic to service delivery as it is to our staff's work ethic and our management practices. We look forward to better serving Church during the ensuing year.

I would like to reiterate Mr d'Apice's appreciation of the efforts of our staff who have contributed to a strong turnaround in the company's financial result for the year. It is as a result of this dedication, the ongoing support of the Board of Directors, the loyalty of our many clients and the assistance of our business partners, that Catholic Church Insurances has been able to continue to serve Church.

# CORPORATE GOVERNANCE STATEMENT

for the financial year ended 30 June 2003

THIS STATEMENT SETS OUT THE MAIN CORPORATE GOVERNANCE PRACTICES THAT WERE 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 appointment of the General Manager
- ~ 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 does not have any 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
- ~ 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 Sub-Committees**

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

The Board sub-committees are Audit and Compliance, Budget, Directors Governance, Investment, Reinsurance, Remuneration and Strategy.

## **Audit & Compliance Sub-Committee**

The role of the Audit and Compliance sub-committee is to:

- i review the scope of the external and internal audits annually and make recommendations for the Board
- ii review the reports of the external and internal auditors to assess internal controls and monitor for suitability, reliability and compliance
- iii 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 Disaster Recovery Plan) and various company policies
- iv review the appointment by management of service providers to the company.

## **Budget Sub-Committee**

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

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

**Directors Governance**

The role of this sub-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 sub-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 sub-committee in its deliberations.

**Investment Sub-Committee**

The Investment Sub-Committee is the Board's primary delegate with responsibility for management of the investment portfolio, subject to the objectives, controls and limits approved from time to time. The mandate includes the following specific responsibilities:

- i 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
- ii to 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
- iii to periodically review the appropriateness of selected parameters and recommend to the Board any adjustments considered necessary
- iv to be available for consultation by management in relation to any matters affecting the portfolio or in selection of any particular investment
- v to ensure that reports from management are adequate to determine compliance with policy and the performance of the investment operation.

**Reinsurance Sub-Committee**

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

- i formulation of reinsurance policy and objectives and the establishment of controls, retentions and limits

- ii empowering of management to make reinsurance decisions, consistent with policy and to take advice from external experts as appropriate; and
- iii ensuring that reports from management are adequate to determine compliance with the policy which will include compliance with Statutory and regulatory requirements.

**Remuneration Sub-Committee**

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

**Strategy Sub-Committee**

The role of this sub-committee is to:

- i make recommendations in relation to strategic issues identified by the Board
- ii identify strategic initiatives; and
- iii monitor implementation of the Company's strategic plan.

**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 Law. 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.

It is the practice of the directors that when a potential conflict of interest may arise, the director concerned does not receive a copy of the relevant Board papers and that director withdraws from the Board Meeting whilst such matter is being considered and accordingly takes no part in discussions nor exercises any influence over other members of the Board.

# DIRECTORS' REPORT

THE DIRECTORS OF CATHOLIC CHURCH INSURANCES LIMITED HAVE PLEASURE IN PRESENTING THEIR REPORT ON THE FINANCIAL STATEMENTS OF THE COMPANY AND ITS CONTROLLED ENTITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2003.

## Directors

*The following persons hold office as Directors at the date of this report:*

Mr W R d'Apice (Chairman)

Mr R J Ebbage

Mr J M Feenan

Mr N E B Griffiths

Mr J A Killen

Reverend B J Lucas

Mr C R O'Malley

Sister A Ryan CSB

## Dividends

Provision has been made for a proposed dividend of \$1,173,870 (20% on fully paid capital) for the year ended 30 June 2003 which Directors recommend should be paid. A dividend was not paid last year.

## Review of Operations

The review of operations has been outlined by the General Manager on pages 6 to 14.

## Ecclesiastical

*Directors congratulate the following on their appointments:*

His Eminence George Cardinal Pell DD

Most Reverend Joseph Oudeman DD

*– Auxiliary Bishop of Brisbane*

Most Reverend Christopher Prowse DD

*– Auxiliary Bishop of Melbourne*

Most Reverend Max Davis DD

*– Bishop of the Military Ordinariate ACT*

Most Reverend Julian Porteous DD

*– Auxiliary Bishop of Sydney*

Most Reverend Anthony Fisher DD, OP

*– Auxiliary Bishop of Sydney*

*Directors offer best wishes on retirement to:*

Most Reverend John Joseph Gerry DD

*– Auxiliary Bishop of Brisbane*

## Principal activities

The principal activities of the economic entity during the year were to underwrite the property, workers' compensation and liability risks of corporate entities of the Catholic Church in Australia together with residential and personal accident insurance business including the investment of funds relating thereto. The economic entity also acts as administrator of the National Catholic Superannuation Fund.

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

There have been no significant changes in the nature of these activities during the year.

## Results of Operations

	2003 \$'000	2002 \$'000
Consolidated Profit (loss)	10,788	(4,904)

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

*Directors also note with sadness the deaths of:*

Most Reverend Geoffrey Mayne AM

*– Emeritus Bishop of the Military Ordinariate*

Most Reverend Henry Joseph Kennedy

*– Emeritus Bishop of Armidale*

## 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 this report or the accounts.

## Events subsequent to balance date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material or unusual nature likely, in the opinion of the Directors, to affect substantially the operations of the economic entity, the results of those operations or the state of affairs of the economic entity in subsequent financial years.

## Likely developments

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 would prejudice its interests. That information has therefore not been included in this report.

# INFORMATION ON DIRECTORS



*Catholic Church Insurances Directors*

*left to right, Mr William R d'Apice, Chairman of the Board, Mr Raymond J Ebbage, Mr John M Feenan, Mr Norman E B Griffiths, left to right, Mr J A (Tony) Killen, Reverend Brian J Lucas, Mr Christopher R O'Malley, Sister Angela Ryan CSB.*



**Mr William R d'Apice**  
LLB, KCSJ, MAICD,

Mr William R d'Apice was appointed to the Board in June, 1995. He is a solicitor and Chairman of Partners of NSW law firm, Makinson & d'Apice. Mr d'Apice has been legal adviser to the Australian Catholic Bishops Conference and a number of Dioceses, Religious Congregations, Parishes and ecclesiastical organisations of the Church in NSW for many years. He is a Director of CCI Investment Management Ltd.

**Special responsibilities held in the company:**

*Chairman of the Board of Directors. Chairman of the Directors governance and strategy sub-committees.*

**Mr Raymond J Ebbage**  
FCPA, FCIS

Mr Raymond J Ebbage is a former Director of Mount Isa Mines Ltd and former General Manager – Finance of MIM Holdings Ltd. He has served as Queensland State President of the Australian Society of Certified Practising Accountants and was also a member of the Australian Accounting Standards Board. Mr Ebbage was appointed to the Board in June, 1993. He is also a Director of CCI Investment Management Ltd.

**Special responsibilities held in the company:**

*Chairman of the investment sub-committee and a member of the audit & compliance, budget, Directors governance, and remuneration sub-committees.*

**Mr John M Feenan**  
ACPA

Mr John M Feenan, joined the Board in January 2000. He is a qualified accountant and company secretary and has spent most of his career in the management accounting area with large corporations. He is currently the Business Manager for the Diocese of Maitland-Newcastle, a position he has held since 1989.

**Special responsibilities held in the company:**

*Chairman of the budget sub-committee and a member of the audit & compliance, investment and remuneration sub-committees.*

**Mr Norman E B Griffiths**  
B.E. (Civil), M.I.E. Aust AAI

Mr 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 audit & compliance and reinsurance sub-committees and a member of the budget, remuneration and strategy sub-committees.*



**Mr J A (Tony) Killen**

Mr J A (Tony) Killen joined the Board on 15th April, 2003. Mr Killen has extensive experience over a wide range of businesses and financial services – life and general insurance, funds management, investment banking, financial planning, actuarial consulting, non-bank financial institutions and property development – and includes exposure to Asia and New Zealand in the Government and not-for-profit sectors. He was previously Group Managing Director and Chief Executive Officer of National Mutual Holdings Ltd (now AXA Asia Pacific Holdings Ltd) and is currently Chairman of the Sisters of Charity Health Services Ltd and the Sisters of Charity Healthcare Australia Ltd and a director of Equity Trustees Limited, IRESS Market Technology Ltd, and Templeton Global Growth Fund Ltd. He is also a member of the Diocesan Finance Council of the Archdiocese of Melbourne.

**Special responsibilities held in the company:**

*Member of the investment and strategy sub-committees.*



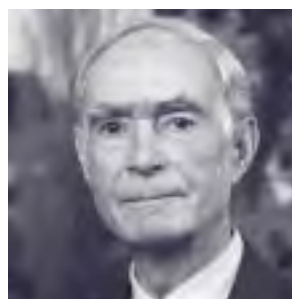
**Reverend Brian J Lucas**

LL.M. M.Gen.Stud. S.T.L. Dip.Jur. Grad.Dip.R.E.

Reverend Brian J Lucas, joined the Board in August 2003. He is the General Secretary of the Australian Catholic Bishops Conference (ACBC) 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:**

*Nil.*



**Mr Christopher R O'Malley**

Mr Christopher R O'Malley joined the Board in February 1997. He was General Manager of the company for 21 years and has 47 years experience in the insurance industry. Mr O'Malley was Chairman of N.C.S.F. Ltd, 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.

**Special responsibilities held in the company:**

*Chairman of the remuneration sub-committee and a member of the budget, Directors governance, investment, reinsurance and strategy sub-committees.*



**Sister Angela Ryan CSB**

Sister Angela Ryan, CSB, a Brigidine Sister, has been a teacher and administrator with wide experience in education, superannuation and industrial relations. She is currently Executive Officer to the National Committee for Professional Standards, and is past Principal of Kilbreda College, Mentone Victoria and a past President of the Australian Conference of Leaders of Religious Institutes. Sister Ryan was appointed to the Board in August, 1992. She is a Director of the Religious Institutes Support Fund and N.C.S.F. Ltd., the corporate trustee of the National Catholic Superannuation Fund.

**Special responsibilities held in the company:**

*Member of the audit & compliance, investment and reinsurance sub-committees.*

## INFORMATION ON DIRECTORS (CONTINUED)

**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 1000 shares in trust.

**Meetings of Directors**

The following table sets out the numbers of meetings of the company's Directors (including meetings of sub-committees of Directors) held during the year ended 30th June, 2003 and the numbers of meetings attended by each Director.

Number of Meetings attended by:	Directors' Meetings		Audit & Compliance		Budget		Directors Governance (formerly Board Review & Nominations)		Investment		Reinsurance		Remuneration		Strategy	
	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	Number Eligible to Attend	Number Attended
W R d'Apice	6	6	—	—	—	—	3	3	—	—	—	—	—	—	1	1
R J Ebbage	6	5	3	3	2	2	3	3	8	7	—	—	1	1	—	—
J M Feenan	6	6	3	3	2	2	—	—	8	7	—	—	1	1	—	—
N E B Griffiths	6	6	3	3	2	1	1	1	—	—	2	2	1	1	1	1
P W Ingham *	6	6	—	—	—	—	3	2	—	—	—	—	—	—	—	—
J A Killen •	2	2	—	—	—	—	—	—	1	1	—	—	—	—	—	—
B J Lucas ••	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
C R O'Malley	6	6	—	—	2	2	3	3	8	8	2	2	1	1	1	1
A Ryan	6	6	3	2	—	—	—	—	8	6	2	2	—	—	—	—
W R White **	4	4	2	2	1	1	—	—	5	5	1	1	—	—	—	—

\* retired 15/6/03

• appointed 15/4/03

\*\* retired 24/2/03

•• appointed 14/8/03

**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 shown in the accounts) 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 30), and as outlined below under the headings of Indemnification and Insurance.

**Indemnification**

During or since the financial year, the company has not indemnified, nor made a relevant agreement for indemnifying, against a liability of any present or former officer or auditor of the company or any of its related bodies corporate as contemplated by section 241 of the Corporations Act.

**Insurance**

During the financial year, the company paid a premium under a contract insuring all Directors and Officers of the company (within the meaning of the Class Order 94/1701) against liability incurred in that capacity.

Disclosure of the nature of the liability and the amount of the premium is prohibited by the confidentiality clause of the contract of insurance.

The company has not provided any insurance for an auditor of the company.

Signed in Melbourne on 8th October 2003 in accordance with a resolution of Directors.



W R d'Apice  
Director



N E B Griffiths  
Director

# FINANCIAL STATEMENTS

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for the financial year ended 30 June 2003



## STATEMENT OF FINANCIAL PERFORMANCE

for the financial year ended 30 June 2003

	Note	Economic Entity		Parent Entity	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Premium revenue	2	140,665	110,769	140,665	110,769
Outwards reinsurance expense		(46,522)	(34,449)	(46,522)	(34,449)
		94,143	76,320	94,143	76,320
Claims expense	3	(86,991)	(82,151)	(86,991)	(82,151)
Reinsurance and other recoveries revenue	4	29,914	26,722	29,914	26,722
Net claims incurred	5	(57,077)	(55,429)	(57,077)	(55,429)
Other underwriting expenses	6	(28,093)	(23,582)	(28,093)	(23,582)
<b>Underwriting result</b>		<b>8,973</b>	<b>(2,691)</b>	<b>8,973</b>	<b>(2,691)</b>
Investment revenue	7	6,733	2,387	6,733	2,433
General and administration expenses		(7,385)	(7,998)	(6,529)	(7,146)
Sundry income		2,467	3,398	2,199	3,154
<b>Operating profit (loss)</b>	8	<b>10,788</b>	<b>(4,904)</b>	<b>11,376</b>	<b>(4,250)</b>
<b>Total changes in equity other than those resulting from transactions with owners as owners</b>					

*The accompanying notes form part of these accounts*

# STATEMENT OF FINANCIAL POSITION

as at 30 June 2003

	Note	Economic Entity		Parent Entity	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Current Assets</b>					
Cash assets	10	20,859	8,942	22,357	9,961
Receivables	11	35,626	27,111	35,605	27,278
Investments	12	187,926	179,672	188,930	180,676
Tax assets	13	10,810	11,532	10,810	11,532
Other	14	20,023	19,433	20,023	19,433
Total Current Assets		275,244	246,690	277,725	248,880
<b>Non-Current Assets</b>					
Receivables	15	34,539	37,047	34,539	37,047
Investments	16	98,046	78,992	98,046	78,992
Property, plant and equipment	17	3,514	3,893	3,514	3,893
Total Non-Current Assets		136,099	119,932	136,099	119,932
<b>Total Assets</b>		<b>411,343</b>	<b>366,622</b>	<b>413,824</b>	<b>368,812</b>
<b>Current Liabilities</b>					
Payables	18	35,836	31,268	35,779	31,268
Outstanding claims	27	39,065	45,644	39,065	45,644
Unearned premiums		56,070	46,831	56,070	46,831
Other creditors and borrowings	19	246	5,524	701	6,218
Provisions	20	17,717	13,964	17,717	13,964
Tax liabilities	21	2,710	5,818	2,710	5,818
Other	22	1,712	0	1,712	0
Total Current Liabilities		153,356	149,049	153,754	149,743
<b>Non-Current Liabilities</b>					
Outstanding claims	27	190,019	156,294	190,019	156,294
Provisions	23	1,975	1,925	1,975	1,925
Total Non-Current Liabilities		191,994	158,219	191,994	158,219
<b>Total Liabilities</b>		<b>345,350</b>	<b>307,268</b>	<b>345,748</b>	<b>307,962</b>
<b>Net Assets</b>		<b>65,993</b>	<b>59,354</b>	<b>68,076</b>	<b>60,850</b>
<b>Shareholders' Equity</b>					
Contributed equity	24	8,129	8,129	8,129	8,129
Reserves	25	57,844	55,344	57,844	55,344
Surplus (Loss)	26	20	(4,119)	2,103	(2,623)
<b>Total Shareholders' Equity</b>		<b>65,993</b>	<b>59,354</b>	<b>68,076</b>	<b>60,850</b>

*The accompanying notes form part of these accounts*

# CASH FLOW STATEMENT

for the financial year ended 30 June 2003

	Note	Economic Entity		Parent Entity	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Cash flows from operating activities</b>					
Premiums received		148,504	105,215	148,504	105,215
Outwards reinsurance paid		(43,847)	(33,114)	(43,847)	(33,114)
Claims paid		(60,899)	(58,078)	(60,899)	(58,078)
Reinsurance and other recoveries received		23,245	23,384	23,245	23,384
Acquisition costs paid		(215)	(229)	(215)	(229)
Other underwriting expenses		(29,191)	(18,969)	(28,374)	(18,064)
General and administration expenses paid		(5,432)	(5,367)	(5,262)	(5,190)
Sundry income received		2,451	3,468	2,200	3,268
Interest received		64	76	48	34
	32	34,680	16,386	35,400	17,226
<b>Cash flows from investing activities</b>					
Investment trading		(26,930)	(21,510)	(26,930)	(21,510)
Interest and dividends received		9,395	11,109	9,393	11,153
Payments for plant and equipment		(657)	920	(658)	920
		(18,192)	(9,481)	(18,195)	(9,437)
<b>Cash flows from financing activities</b>					
Dividends paid		0	(1,164)	0	(1,164)
Proceeds from share issue		0	51	0	51
Profit sharing rebate paid		711	(6,812)	711	(6,812)
		711	(7,925)	711	(7,925)
Net increase/(decrease) in cash held		17,199	(1,020)	17,916	(136)
<b>Cash at the beginning of the financial year</b>		3,414	4,434	3,740	3,876
<b>Cash at the end of the financial year</b>		20,613	3,414	21,656	3,740

The accompanying notes form part of these accounts

# NOTES TO THE FINANCIAL STATEMENTS

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for the financial year ended 30 June 2003

## **I. Statement of significant accounting policies**

The following summary explains the significant accounting policies that have been adopted. The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Subject to the exceptions noted in the paragraphs below dealing with the valuation of investments and property, the financial report has been prepared on an accrual basis and is based on historical costs.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

### **(a) Consolidation**

The consolidated financial statements are prepared by combining the financial statements of all entities that comprise the economic entity, being Catholic Church Insurances Limited (the parent) and CCI Investment Management Limited (the controlled entity) as defined in accounting standard AASB 1024 "Consolidated Accounts". Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements. Additional information regarding controlled entities can be found in note 33.

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.

In preparing the consolidated financial statements, all inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

### **(b) Premium revenue**

Direct premium comprises amounts charged to the policyholders, including fire service levies, but excluding stamp duties, Goods and Services Tax (GST) and other charges collected on behalf of third parties. The earned portion of premiums received and receivable is recognised as revenue.

The pattern of recognition of income over the policy or indemnity periods is based on time, which closely approximates the pattern of risks underwritten. Unearned premium is determined using a daily pro-rata basis.

### **(c) 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.

### **(d) 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. IBNR's and settlement costs are estimated using statistics based on past experience and current trends. Outstanding claims relating to liability classes are subject to independent actuarial assessment.

The liability for outstanding claims for "long-tail" classes is measured as the present value of the expected future payments. These payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal and "superimposed" inflation. The expected future payments are then discounted to a present value at the balance date using discount rates based on investment opportunities available to the company on the amount of funds sufficient to meet claims as they become payable. The details of rates applied are included in Note 27.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**(e) Reinsurance and other recoveries receivable**

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid and IBNR's are recognised as revenue. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries receivable in relation to "long-tail" classes are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims. The details of discount and inflation rates applied are included in Note 27.

**(f) 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.

**(g) Fire brigade and other charges**

Fire service levies receivable from policyholders are included in premiums. A liability for fire brigade charges is recognised on business written to the balance date, regardless of whether assessments have been issued by the appropriate authorities.

Levies and charges payable by the company are expensed on the same basis as the recognition of premium revenue, with the proportion relating to unearned premium being recorded as a prepayment.

**(h) Investments**

Investments are measured at net market value at balance date. Investments include all freehold land and buildings owned by the company. Buildings are not depreciated.

Changes in the net market value of investments at the current balance date from their net market values at the previous balance date (or cost of acquisition, if acquired during the financial year) are recognised as revenue or expense in the statement of financial performance.

Net market values are determined as follows:

Listed securities	}	Valuation by reference to market quotations
Government securities		
Unlisted securities		Recoverable amount of underlying net assets

Investment revenue is brought to account on an accrual basis. Dividends on quoted shares are deemed to accrue when the relevant shareholding becomes "ex-dividend".

**(i) Plant and equipment**

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by Directors 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.

**Depreciation**

Depreciation 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 depreciation rates used for each class of depreciable assets are:

Class of fixed asset	Depreciation rate
Computer equipment	33.33%
Plant and equipment	1-40%

**(j) 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.

**(k) Taxation**

The entity is not liable for income tax.

**(l) Cash**

For the purposes of the statement of cash flows, 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.

**(m) 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.

**(n) Superannuation**

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

**(o) Derivative financial instruments**

- (i) Financial instruments included in assets

Trade debtors are initially recorded as the amount of the contracted sale proceeds for services provided. Provision for doubtful debts are recognised to the extent that recovery of the outstanding amount is considered less than likely.

Bank deposits and loans are carried at cost. Investments integral to the general insurance activities are carried at net market value.

- (ii) Financial instruments included in liabilities

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the company. Trade accounts payable are settled as they fall due.

Bank overdraft is carried on the balance sheet at its principle amount.

- (iii) Financial instruments included in equity

Ordinary share capital in accordance with changes to the *Corporations Act* is recorded at paid-up value.

- (iv) Derivative instruments

The company's primary reason for holding derivative financial instruments is for trading purposes. Changes in market values are reflected in the statement of financial performance as 'investment revenue'. The market value of derivatives are included in 'other liabilities' as appropriate.

The net market value of derivative financial instruments has been determined at market asking prices, adjusted for costs of settlement.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**(p) 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 statement of financial position are shown inclusive of GST.

**(q) 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.

**(r) Leases**

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

**(s) Rounding**

The parent entity has applied relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial reports and Directors' report have been rounded off to the nearest \$1,000.

	Economic Entity		Parent Entity	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>2. Premium revenue</b>				
Direct	140,665	110,769	140,665	110,769
<b>3. Claims expense</b>				
Direct	86,991	82,151	86,991	82,151
<b>4. Reinsurance &amp; other recoveries revenue</b>				
Reinsurance	29,914	26,722	29,914	26,722

## 5. 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.

	2003			2002		
	Current Year \$'000	Prior Years \$'000	Total \$'000	Current Year \$'000	Prior Years \$'000	Total \$'000
<b>Direct business</b>						
Gross claims incurred and related expenses – undiscounted	67,582	17,709	85,291	68,537	24,031	92,568
Reinsurance and other recoveries – undiscounted	(12,952)	(18,173)	(31,125)	(15,691)	(13,487)	(29,178)
Net claims incurred – undiscounted	54,630	(464)	54,166	52,846	10,544	63,390
Discount and discount movement – gross claims incurred	(7,588)	9,288	1,700	(9,223)	(1,194)	(10,417)
Discount and discount movement – reinsurance and other recoveries	1,367	(156)	1,211	1,569	887	2,456
Net discount movement	(6,221)	9,132	2,911	(7,654)	(307)	(7,961)
Net claims incurred	48,409	8,668	57,077	45,192	10,237	55,429

The reassessment of claims has resulted in net claims incurred of \$8.668 million relating to risks borne in prior periods. This amount has arisen from:

- the amount of one year's interest at the 2002 valuation interest rate (6.0%) applied to the 2002 outstanding claims liabilities;
- the reduction in the number of Workers Compensation claims incurred in 2001/02;
- the increase in delay in settling liability claims;
- the increase in the average claim size for liability claims; and
- the increase in the number of large liability claims from prior periods reported during the year.

	Economic Entity		Parent Entity	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>6. Other underwriting expenses</b>				
Acquisition costs	213	237	213	237
Levies and charges	9,339	7,839	9,339	7,839
Administration expenses	18,541	15,506	18,541	15,506
	28,093	23,582	28,093	23,582

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Economic Entity		Parent Entity	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>7. Investment revenue</b>				
Dividends	9,212	7,560	9,212	7,560
Interest	7,304	5,494	7,304	5,540
Changes in net market values of investments held at the end of the financial year	(3,203)	(8,855)	(3,203)	(8,855)
Investments realised during the financial year	(6,580)	(1,812)	(6,580)	(1,812)
	<b>6,733</b>	<b>2,387</b>	<b>6,733</b>	<b>2,433</b>
<b>8. Operating profit (loss)</b>				
Operating profit (loss) has been determined after:				
(i) charging as expenses:				
Depreciation – plant and equipment	1,630	1,840	1,622	1,839
Auditors remuneration:				
Total amounts received or due and receivable by the auditors for:				
– audit of the accounts	141	97	124	97
– other services	0	38	0	11
	<b>141</b>	<b>135</b>	<b>124</b>	<b>108</b>
Amounts transferred to/or from provision for:				
– Grants	350	315	350	315
– Unearned premiums	9,239	6,853	9,239	6,853
– Risk management	0	(1,000)	0	(1,000)
– Employee entitlements	1,087	(461)	1,087	(461)
Loss or (Gain) upon disposal of property, plant and equipment non-current assets	5	32	5	32
(ii) crediting as revenue:				
Gross written premiums	142,560	110,101	142,560	110,101
Dividends received	9,212	7,560	9,212	7,560
Interest received	7,304	5,494	7,304	5,538
Profit on sale and maturity of investments	(6,579)	(1,812)	(6,579)	(1,812)
Changes in net market value of investments held at the end of the year	(3,203)	(8,855)	(3,203)	(8,855)
<b>9. Dividends proposed – Catholic Church Insurances Limited Ordinary</b>				
Proposed final unfranked dividend	1,174	0	1,174	0

	Economic Entity		Parent Entity	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>10. Cash Assets</b>				
Cash balance comprises:				
– Cash on hand	5	13	5	13
– Cash at call	20,854	8,929	22,352	9,948
	<u>20,859</u>	<u>8,942</u>	<u>22,357</u>	<u>9,961</u>
Reconciliation of cash				
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:				
– Cash	20,859	8,942	22,357	9,961
– Bank overdraft	(246)	(5,528)	(701)	(6,221)
	<u>20,613</u>	<u>3,414</u>	<u>21,656</u>	<u>3,740</u>
<b>11. Receivables (current)</b>				
Premiums receivable	16,198	14,866	16,198	14,866
Provision for doubtful debts	(50)	(50)	(50)	(50)
	<u>16,148</u>	<u>14,816</u>	<u>16,148</u>	<u>14,816</u>
Reinsurance commission receivable	1,914	1,376	1,914	1,376
Reinsurance and other recoveries on outstanding claims	12,218	3,666	12,218	3,666
Investment income accrued	2,221	1,780	2,221	1,780
Sundry debtors	3,125	5,473	3,104	5,640
	<u>35,626</u>	<u>27,111</u>	<u>35,605</u>	<u>27,278</u>
<b>12. Investments (current)</b>				
Listed on a prescribed stock exchange (at net market value)				
– Government and semi-government bonds	0	5,170	0	5,170
– Other fixed interest securities	8,459	4,727	9,490	4,727
– Shares in other corporations	110,047	114,604	109,016	114,604
– Units in unit trust	4,916	5,546	4,916	5,546
– Property	23,727	19,175	23,727	19,175
	<u>147,149</u>	<u>149,222</u>	<u>147,149</u>	<u>149,222</u>
Unlisted (at net market value)				
– Unsecured notes in other corporations	0	75	0	75
– Shares in other corporations	2,761	963	3,765	1,967
– Property	17,536	11,924	17,536	11,924
– Loans – secured	20,480	17,488	20,480	17,488
	<u>40,777</u>	<u>30,450</u>	<u>41,781</u>	<u>31,454</u>
Total current investments	<u>187,926</u>	<u>179,672</u>	<u>188,930</u>	<u>180,676</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Economic Entity		Parent Entity	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>13. Tax assets</b>				
Imputation credits	1,567	1,353	1,567	1,353
Deferred GST refund	9,243	10,179	9,243	10,179
	<b>10,810</b>	<b>11,532</b>	<b>10,810</b>	<b>11,532</b>
<b>14. Other current assets</b>				
Deferred acquisition costs	72	70	72	70
Prepayments – statutory charges	3,809	3,294	3,809	3,294
Unearned reinsurance premiums	15,777	15,747	15,777	15,747
Other	365	322	365	322
	<b>20,023</b>	<b>19,433</b>	<b>20,023</b>	<b>19,433</b>
<b>15. Receivables (non-current)</b>				
Reinsurance and other recoveries on outstanding claims	34,539	37,047	34,539	37,047
<b>16. Investments (non-current)</b>				
Listed on a prescribed stock exchange (at net market value)				
– Government and semi-government bonds	52,159	44,946	52,159	44,946
– Other fixed interest securities	10,535	7,442	10,535	7,442
– Shares in other corporations	6,029	2,421	6,029	2,421
– Unsecured notes in other corporations	3,048	5,084	3,048	5,084
	<b>71,771</b>	<b>59,893</b>	<b>71,771</b>	<b>59,893</b>
Unlisted (at net market value)				
– Unsecured notes in other corporations	425	0	425	0
– Units in unit trust	13,835	13,904	13,835	13,904
– Other fixed interest securities	1,031	0	1,031	0
– Loans – secured	10,973	5,149	10,973	5,149
– unsecured	11	46	11	46
	<b>26,275</b>	<b>19,099</b>	<b>26,275</b>	<b>19,099</b>
Total non-current investments	<b>98,046</b>	<b>78,992</b>	<b>98,046</b>	<b>78,992</b>
<b>17. Property, plant &amp; equipment</b>				
Motor vehicles and office equipment (at cost)	13,128	12,470	13,128	12,470
Less provision for depreciation	(9,614)	(8,577)	(9,614)	(8,577)
Written down value	<b>3,514</b>	<b>3,893</b>	<b>3,514</b>	<b>3,893</b>

	Economic Entity		Parent Entity	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>18. Payables (current)</b>				
Trade creditors	32,894	28,766	32,894	28,766
Accrued expenses	840	857	783	857
Sundry creditors	2,102	1,645	2,102	1,645
	<u>35,836</u>	<u>31,268</u>	<u>35,779</u>	<u>31,268</u>
<b>19. Other creditors and borrowings (current)</b>				
Unsecured – Other creditors	246	5,524	701	6,218
<b>20. Provisions (current)</b>				
Profit sharing distributions	4,919	1,198	4,919	1,198
Proposed dividends	1,174	0	1,174	0
Research and development	1,217	1,217	1,217	1,217
Information technology development	3,445	3,445	3,445	3,445
Risk management	3,914	6,091	3,914	6,091
Loss control	498	498	498	498
Annual & other leave entitlements	2,550	1,515	2,550	1,515
	<u>17,717</u>	<u>13,964</u>	<u>17,717</u>	<u>13,964</u>
<b>21. Tax liabilities</b>				
GST provision	2,710	5,818	2,710	5,818
<b>22. Other current liabilities</b>				
Financial liability – options	1,712	0	1,712	0
<b>23. Provisions (non-current)</b>				
Long service leave entitlements	475	425	475	425
Reinsurance equalisation	1,500	1,500	1,500	1,500
	<u>1,975</u>	<u>1,925</u>	<u>1,975</u>	<u>1,925</u>
<b>24. Contributed equity</b>				
Issued & paid-up 2,934,676 ordinary shares fully paid	8,129	8,129	8,129	8,129

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Economic Entity		Parent Entity	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>25. Reserves</b>				
(a) Composition				
General reserve	57,844	55,344	57,844	55,344
	<b>57,844</b>	55,344	<b>57,844</b>	55,344
(b) Movements				
General reserve				
Opening balance	55,344	55,344	55,344	55,344
Transfer from retained profits	2,500	0	2,500	0
Closing balance	<b>57,844</b>	55,344	<b>57,844</b>	55,344
<b>26. Retained profit (loss)</b>				
Retained profits at the beginning of the financial year	(4,119)	785	(2,623)	1,627
Net profit (loss) attributable to members of the company	10,788	(4,904)	11,376	(4,250)
Total available for appropriation	6,669	(4,119)	8,753	(2,623)
Dividends provided for or paid	(1,174)	0	(1,174)	0
Provision for profit sharing distribution	(2,975)	0	(2,975)	0
Transfers to and from reserves – general reserve	(2,500)	0	(2,500)	0
Retained profit (loss) at the end of the financial year	<b>20</b>	(4,119)	<b>2,103</b>	(2,623)

	Economic Entity		Parent Entity	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>27. Outstanding claims</b>				
Expected future claim payments (undiscounted)	266,177	240,732	266,177	240,732
Discount to present value	(37,093)	(38,794)	(37,093)	(38,794)
Liability for outstanding claims	229,084	201,938	229,084	201,938
Current	39,065	45,644	39,065	45,644
Non-current	190,019	156,294	190,019	156,294
	229,084	201,938	229,084	201,938

(a) The weighted average expected term to settlement from the balance date of the outstanding claims is estimated to be:

– long tail classes	
– public liability	4 years 3 months
– workers' compensation	2 years 4 months
– short tail classes	less than 1 year

(b) The following average inflation (normal and superimposed) rates and discount rates were used in measuring the liability for outstanding claims:

Claims expected to be paid:	Inflation Rate	Discount Rate
not later than 1 year		
– long tail classes		
– public liability	6.0%	4.5%
– workers' compensation	6.0%	4.5%
– short tail classes	0.0%	0.0%
later than 1 year		
– long tail classes		
– public liability	6.0%	4.5%
– workers' compensation	6.0%	4.5%
– short tail classes	0.0%	0.0%

## 28. Segment reporting

The controlling entity operates as a general insurance and investment entity in Australia.  
The subsidiary entity operates as a trustee and manager of an investment unit trust in Australia.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Economic Entity		Parent Entity	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>29. Remuneration and retirement benefits</b>				
<b>Directors</b>				
The names of persons who were Directors of Catholic Church Insurances Limited at any time during the financial year are as follows:				
W R d'Apice				
R J Ebbage				
J M Feenan				
N E B Griffiths				
P W Ingham				
J A Killen				
C R O'Malley				
A Ryan				
W R White				
<b>Remuneration</b>				
a) Directors' remuneration				
Income paid or payable to all Directors of each entity in the economic entity by the entities of which they are Directors	326	282	0	0
Income paid or payable to all Directors of the parent entity and any related parties	0	0	198	164
Remuneration band:			Number	Number
\$0 – \$9,999			1	0
\$10,000 – \$19,999			1	5
\$20,000 – \$29,999			5	3
\$30,000 – \$39,999			2	0
\$40,000 – \$49,999			0	0
b) Retirement and superannuation payments				
Amounts of prescribed benefit given during the year by the parent entity or related party to a Director or prescribed superannuation fund in connection with the retirement from a prescribed office	14	0	14	0

	Economic Entity		Parent Entity	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>30. Related parties</b>				
A Director, 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.				
The aggregate amount of these transactions with Directors and their Director-related entities were as follows:				
Legal fees	257	459	257	459
<b>31. Expenditure commitments</b>				
Lease expenditure commitments				
– not later than one year	1,934	1,795	1,934	1,795
– later than one year and not later than two years	1,461	1,795	1,461	1,795
– later than two years and not later than five years	3,483	3,485	3,483	3,485
– later than five years	1,411	1,773	1,411	1,773
– aggregate lease expenditure contracted for at balance date but not provided for	8,289	8,848	8,289	8,848
<b>32. Statement of cash flows</b>				
Reconciliation of cash flow from operations with profit from ordinary activities				
Profit from ordinary activities	10,788	(4,904)	11,376	(4,250)
Increase in unearned premium	13,888	5,327	13,888	5,327
(Increase)/decrease in premiums receivable	449	(3,125)	449	(3,125)
Decrease in reinsurance and other recoveries receivable	(3,994)	(2,002)	(3,994)	(2,002)
Increase in outstanding claims	26,092	24,073	26,092	24,073
Increase in acquisition costs	(2)	8	(2)	8
Increase in prepaid statutory charge liability	1,352	(1,086)	1,352	(1,086)
Decrease in other statutory charge liability	(515)	(231)	(515)	(231)
Increase in other provisions	(6,645)	715	(6,513)	893
Increase in operating assets	2,717	1,633	2,707	1,641
Investment income	(6,733)	(2,387)	(6,733)	(2,387)
Depreciation	(1,630)	(2,096)	(1,622)	(2,096)
Provision for employee entitlements	(1,087)	461	(1,085)	461
Cash flow from operating activities	34,680	16,386	35,400	17,226

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Country of Incorporation	Ownership interest	
		2003 \$'000	2002 \$'000
<b>33. Controlled entities</b>			
<b>Name of entity</b>			
<b>Parent</b>			
Catholic Church Insurances Limited	Australia		
<b>Controlled entities</b>			
CCI Investment Management Limited	Australia	1,004	1,004
Financial information in relation to:			
<b>(a) Statement of financial performance</b>			
Losses from ordinary activity		(588)	(653)
<b>(b) Retained losses</b>			
Retained losses at the beginning of the financial year		(1,496)	(843)
Losses from ordinary activities		(588)	(653)
Dividend provided for or paid		0	0
Retained losses at the end of the financial year		(2,084)	(1,496)
<b>(c) Statement of financial position</b>			
<b>Current Assets</b>			
Cash assets		456	697
Receivables		128	110
Total Current Assets		584	807
<b>TOTAL ASSETS</b>			
		584	807
<b>Current Liabilities</b>			
Payables		164	299
Total Current Liabilities		164	299
<b>Non-Current Liabilities</b>			
Loans		1,500	1,000
Total Non-Current Liabilities		1,500	1,000
<b>TOTAL LIABILITIES</b>			
		1,664	1,299
<b>NET ASSETS (DEFICIENCY)</b>			
		(1,080)	(492)
<b>Shareholders' Equity</b>			
Contributed equity		1,004	1,004
Retained losses		(2,084)	(1,497)
<b>TOTAL SHAREHOLDERS' FUNDS (DEFICIENCY)</b>			
		(1,080)	(492)

## 34. Additional financial instruments disclosure

### (a) Interest rate risk

The company is exposed to interest rate risk through primary financial assets and liabilities. The following table summarises interest rate risk for the company.

2003	Average Interest Rate %	Variable Interest Rate \$'000	Fixed Interest Rate Maturity			Non-Interest Bearing \$'000	Total \$'000
			Less than 1 Year \$'000	1 to 5 Years \$'000	More than 5 Years \$'000		
<b>Financial assets</b>							
Cash assets	5.23	20,854				5	20,859
Trade debtors						18,111	18,111
Other debtors						3,126	3,126
Government & semi-government loans	6.52			17,609	34,550		52,159
Other fixed interest securities	6.41		8,459	8,566	3,000		20,025
Loans	6.56		20,480	9,763	1,221		31,464
Shares, options & trusts						172,821	172,821
Preference shares	6.40			6,029			6,029
Convertible notes	8.52			2,727	746		3,473
Exchange traded options							
		20,854	28,939	44,694	39,517	194,063	328,067
<b>Financial liabilities</b>							
Bank overdraft		(246)					(246)
Trade creditors						32,894	32,894
Other creditors						2,942	2,942
Dividend payable						1,174	1,174
Employee entitlements						3,025	3,025
Exchange traded options						1,712	1,712
		(246)	0	0	0	41,747	41,501

2002	Average Interest Rate %	Variable Interest Rate \$'000	Fixed Interest Rate Maturity			Non-Interest Bearing \$'000	Total \$'000
			Less than 1 Year \$'000	1 to 5 Years \$'000	More than 5 Years \$'000		
<b>Financial assets</b>							
Cash	9.80	8,586				356	8,942
Trade debtors						16,242	16,242
Other debtors						5,473	5,473
Government & semi-government loans	7.22		5,170	30,046	14,900		50,116
Other fixed interest securities	7.06		3,698	4,935	2,507		11,140
Loans	7.24		17,488	3,425	1,769		22,682
Shares, options & trusts						166,117	166,117
Preference shares	6.20				2,421		2,421
Convertible notes	8.39		1,591	3,567			5,158
Exchange traded options							
		8,586	27,947	41,973	21,597	188,188	288,291
<b>Financial liabilities</b>							
Bank overdraft		(5,524)					(5,524)
Trade creditors						28,766	28,766
Other creditors						2,502	2,502
Dividend payable							
Employee entitlements						1,939	1,939
Exchange traded options							
		(5,524)	0	0	0	33,207	27,683

### (b) Credit risk

The risk exposures of the company are to the non-payment of receivables and loans from third parties and the amounts are as indicated by the varying amount of the financial assets. There is no significant concentration of credit risk, as the company transacts with a large number of individual debtors without any single one being material.

### (c) Net fair values

The approach to determining the net fair value of financial instruments is detailed in note 1(o). The net fair value of financial instruments is equal to the carrying value as disclosed in this note.

## DIRECTORS' DECLARATION

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In the opinion of the Directors of CATHOLIC CHURCH INSURANCES LIMITED

- (a) the financial statements and notes for the financial period ending 30 June 2003 have been prepared in accordance with accounting standards applicable under the Corporations Act
- (b) the financial statements and notes for the financial period ending 30 June 2003 present a true and fair view of the financial position and performance of the company and the economic entity
- (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.

Signed in Melbourne on 8th October, 2003 in accordance with a resolution of the Directors.



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W R d'Apice

*Director*



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N E B Griffiths

*Director*

# INDEPENDENT AUDIT REPORT TO MEMBERS OF CATHOLIC CHURCH INSURANCES LIMITED

## Scope

### *The financial report and Directors' responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the Directors' Declaration for Catholic Church Insurances Limited (the company) and the consolidated entity, for the year ended 30 June 2003. The consolidated entity comprises both the company and the entity it controlled during that year.

The Directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

### *Audit approach*

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

### *Independence*

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

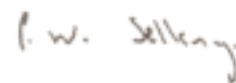
## Audit Opinion

In our opinion:

- (a) the financial statements and notes of the company and of the 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 2003 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.



Chaundy & Henry



Paul W. Selkrig  
Partner

Melbourne

Dated 8 October 2003

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CATHOLIC CHURCH INSURANCES LIMITED  
CHURCH INSURANCE CLAIMS POLICY  
AND GENERAL ENQUIRIES

1300 655 001

SCHOOLCARE HELPLINE

1300 138 498

PERSONAL INSURANCE CLAIMS POLICY  
AND GENERAL ENQUIRIES

1300 655 003

NATIONAL CATHOLIC SUPERANNUATION FUND  
CUSTOMER SERVICE

1300 655 002

CCI INVESTMENT MANAGEMENT  
CUSTOMER SERVICE

1300 655 220

 Catholic Church  
Insurances Limited  
*Serving Church*