Consolidated Annual Report for the year ended 30 June 2023

CAPRICORN MUTUAL LIMITED

and its controlled entities

ABN 24 104 601 194

CAPRICORN MUTUAL LIMITED
Consolidated Annual Report
for the year ended 30 June 2023

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DIRECTORS' REPORT

The Directors are pleased to present their report on Capricorn Mutual Limited and its controlled entities for the year ended 30 June 2023.

The following terminology is used throughout the financial report:

- CML, Parent or Company – Capricorn Mutual Limited;
- Consolidated or Group – the Consolidated Entity consisting of Capricorn Mutual Limited and its subsidiaries;
- CIOM – Capricorn (Isle of Man) Limited, a wholly owned subsidiary of CML;
- CMLNZ – CML NZ Limited, a wholly owned subsidiary of CML; and
- CSL – Capricorn Society Limited.

1. Directors of Capricorn Mutual Limited

The names and details of Directors in office at any time during or since the year ended 30 June 2023 are as follows:

Director	Date of Appointment	Special Responsibilities
Mario Pirone	31 January 2022 Appointed Chairman 1 July 2023	Chairman, Non-Executive Director Member of the Audit, Risk and Compliance Committee
Mark Cooper	23 October 2015 Reappointed 21 November 2017 Reappointed 15 October 2020	Non-Executive Director
Bruce Rathie	5 November 2015 Reappointed 27 October 2016 Reappointed 8 November 2018 Reappointed 21 October 2021 Retired as Chairman 1 July 2023	Chairman, Non-Executive Director Director of CIOM
Rachel Thomson	30 March 2023	Independent, Non-Executive Director Chair of the Audit, Risk and Compliance Committee Director of CIOM
John Balmforth	12 March 2014 Reappointed 11 March 2017 Reappointed 11 March 2020 Reappointed 11 March 2022 Retired 11 March 2023	Independent, Non-Executive Director Chairman of the Audit, Risk and Compliance Committee Director of CIOM

1.1 Experience and qualifications of Directors

Mario Pirone B.Bus, Grad. Dip. Bus, FCPA

Chairman, Non-Executive Director

Mario joined the CML Board in January 2022 and was appointed Chairman on 1 July 2023. He is a member of the Audit, Risk and Compliance Committee. He has been an independent director of CSL since July 2014 and is currently a member of the Digital and Transformation Committee and the Remuneration and Nomination Committee. Mario served in the position of Vice Chair to the board from 2019 to February 2023.

Mario brings over 26 years' experience as a Senior Executive and Director in large and complex organisations. Mario has enjoyed a lengthy career in the general insurance, funds management and financial services fields. Mario was formerly CEO of the Guild Group (2009 to 2022), CEO of CGU Insurance (2004-2008) and a Senior Group Executive with Insurance Australia Group (1999-2008). Mario has also held a number of non-executive directorships over the past 11 years.

Mark Cooper Grad. Cert. Comm, GAICD

Non-Executive Director

Mark joined the CML Board in October 2015 and has been a member of the CSL Board since 2013 and Chairman since October 2019. He is a member of Capricorn's Remuneration and Nomination Committee and Digital and Transformation Committee. Mark has been a Member of CSL since 1995 and has been a Member of CML since July 2015.

Mark has been involved in the automotive industry for over 40 years and currently owns and operates several mechanical services and repairs businesses. Mark has a Graduate Certificate in Commercialisation from the University of Tasmania and is a Director of several family-owned companies. Mark also sits on the Executive Committee of the TACC (Tasmanian Automotive Chamber of Commerce).

Bruce Rathie B.Comm, LLB, MBA, FIML, FAICD, FGIA, Grad Dip CSP, SA Fin

Non-Executive Director

Bruce was appointed to the CML Board in November 2015. Bruce has a Masters of Business Administration, a Bachelor of Law, a Bachelor of Commerce, a Graduate Diploma of Applied Corporate Governance, and is a graduate and a Fellow of the Australian Institute of Company Directors, the Governance Institute of Australia and the Australian Institute of Managers and Leaders. Bruce has been a Director of CSL since July 2008 and served as Vice Chair to the board from 2015 to 2018.

Bruce is currently a Non-Executive Director of ASX listed PolyNovo Limited and ASX listed Cettire Limited. He is also currently Chair of ASX listed 4DMedical Limited and ASX listed CleanSpace Holdings Limited. Prior to commencement of his professional governance career in 2000, he had successful careers in private legal practice and then investment banking.

Rachel Thomson B.Sc, FAICD

Independent, Non-Executive Director

Rachel was elected to the CML Board in February 2023 and started her role as Independent Director in March 2023 and Chair of the CML Audit, Risk and Compliance Committee. Rachel Thomson is an experienced Non-Executive Director and Audit and Risk committee Chair, with international and domestic insurance executive experience at global insurance companies.

Rachel is currently a Non-Executive Director of IBL Ltd (the insurance subsidiary of the Australian Institute of Architects), the Country Fire Authority and Central Highlands Water Region Corporation, as well as holding several positions as an Independent Member of public sector Audit & Risk Committees. Rachel holds a Bachelor of Science from the University of Melbourne and is a Graduate and Fellow of the Australian Institute of Company Directors.

DIRECTORS' REPORT (continued)

1.2 Attendance at Board and Committee meetings

The number of meetings of Directors held during the year and the number of meetings attended by each Director was as follows:

Meetings held	Board of Directors 6		Audit, Risk & Compliance Committee 6	
	Eligible	Attended	Eligible	Attended
Mario Pirone	6	6	6	6
Mark Cooper	6	6	6	6
Bruce Rathie	6	6	6	6
Rachel Thomson*	2	2	2	2
John Balmforth*	5	5	4	4

There were 6 Board and ARC Committee meetings respectively.

*During the year ended 30 June 2023 John Balmforth served as Member of the Audit Risk and Compliance Committee to 30 March 2023, with Rachel Thomson joining the committee from 30 March 2023.

2. Principal activity

The principal activity of the Company during the year was to offer mutual financial risk products to members of CSL to protect those members from financial loss. The Company assesses claims lodged by members and promises to exercise its discretion to indemnify the member against their loss efficiently, honestly and fairly in accordance with the Company's Constitution and Rules. The principal activity of the Company has not changed since its inception.

3. Operating and financial review

FY23 saw another successful year for the Group highlighted by:

- gross written protections (GWP) growth of 23% compared to FY22;
- total assets of $174.2m (2022: $175.0m); and
- the acceptance of 99% (2022: 99%) of lodged claims.

3.1 Operating result for the financial year

The Group achieved a net profit after tax of $7.5m for the year ended 30 June 2023 compared with $1.8m in the prior year after member loyalty rebate. The result was mainly driven by the following factors:

- gross protection revenue growth of 23% to $109.0m (2022: $88.6m) from an increase in net new members count (9%) and the higher GEP was achieved by an increase in average sums protected (9%) consisting of indexation (4%) and rate increases (5%);
- a slight decrease in the net claims ratio from 60% in FY22 to 59% in FY23 driven by a reduction in CAT claims offset by adverse large claims; and
- no Member Loyalty Rebate in FY23 (2022: $4.3m) which was treated as an offset to revenue in the Statement of Comprehensive Income.

The combination of these factors resulted in a combined operating ratio of 94% (2022: 98%). Excluding the Member Loyalty Rebate the combined operating ratio is 94% (2022: 93%).

DIRECTORS' REPORT (continued)

3.2 Review of financial condition

A. Financial position

Total assets of the Group as at 30 June 2023 were $174.2m compared to $175.0m at 30 June 2022. The decrease in assets is represented by the net effect of:

- an increase of $13.4m in receivables in line with the growth in Gross written protections;
- a decrease of $22.4m in reinsurance and other recoveries due to majority of the outstanding recoveries relating to the East coast flooding event has been receipted to date;
- an increase of $6.8m in cash and investments due to the high growth in earned protection partially offset by large claims; and
- an increase of $0.9m in deferred acquisition costs due to increase in management fees.

Total liabilities of the Group as at 30 June 2023 were $139.3m compared to $147.7m at 30 June 2022. The increase in liabilities is represented by the net effect of:

- a decrease of $19.2m in outstanding claims liability mainly due to a reduction in the outstanding claims liability relating to the East coast flooding event last year offset by large claims experience;
- an increase of $13.0m in unearned protection revenue due to growth in Gross written protections, and
- a decrease of $2.4m in trade and other payables mainly due to no Member Loyalty Rebate payable to members in FY23 (2022: $4.3m).

Members' Equity increased to $34.9m as at 30 June 2023 compared to $27.3m as at 30 June 2022 in line with the reported profit.

B. Cash from operations

The net cash from operating activities for the financial year ended 30 June 2023 was a net inflow of $6.8m compared to an outflow of $1.0m in 2022. The significant increase in GWP receipts from Members and reinsurance recovery receipts was partially offset by an increase in claims payments and the payment of the FY22 Member Loyalty Rebate. The Board receives and approves a rolling 12 month cashflow forecast each quarter under the financial conditions of CML's Australian Financial Services Licence (AFSL).

C. Investments

The investment policy seeks to maximise returns whilst protecting Members' funds and ensures that funds are available as and when required. It also seeks to minimise foreign exchange exposures and discount rate exposures through providing a natural hedge by matching assets and liabilities where possible.

The Group's investment balance increased to $38.0m as at 30 June 2023 (2022: $26.0m). The increase in investments is driven by an increase in GWP and reinsurance recovery receipts from last year East coast flooding event which was subsequently re-invested into term deposits.

The investments comprise solely of fixed term deposits with Australian banks with a minimum Standard & Poor's (S&P) rating of A. As at balance date, 80% and 20% of the portfolio is rated AA and A respectively. Further details on investment risk management are provided in Note 16 of this Consolidated Financial Report.

DIRECTORS' REPORT (continued)

3.3 Strategy

Strategic Priorities

The year ended 30 June 2023, the Company business strategy is called 'Optimise'. It consists of four themes to deliver CML's Value Proposition and ultimately achieve the Vision.

The strategic intention is to drive profitable growth for CML. CML will leverage its unique service proposition (i.e. a face-to-face, personal service model) to deliver risk protection to its target market, small to medium businesses in the automotive industry who are CSL Members.

OPTIMISE is supported by the following key strategic themes:

- Sales & Service: Using technology and leveraging the face-to-face service model to empower RAMs in the field, enhance the Member relationship and build on our risk specialist role.
- Product & Pricing: Using data and technology to improve pricing sophistication and enhance the CML product.
- Claims: Providing personal, fast and efficient claims experiences that meet or exceed Members' expectations while minimising administrative costs.
- People: Supporting growth by developing skills and recruiting specialists to expand CML's capabilities.

DIRECTORS' REPORT (continued)

3.4 Outlook

Underwriting operations are, by their nature, volatile due to the exposure to natural perils and industry cycles, and more recently the inflationary challenges and thus profit predictions are difficult.

CML expect an increased frequency of weather-related natural catastrophes over the long term and the heightened cost of inflation.

Despite the challenges, we maintained our focus with disciplined risk selection, in providing protections to our members.

CML is targeting GWP growth of 13% in FY24 coming from new memberships, inflationary increases in sums protected and rate increases to reflect risks assumed and higher anticipated reinsurance costs.

4. Indemnification of Directors and Officers

The Company has arranged for insurance premiums to be paid in respect of its Directors, Officers and the Company Secretary of the Company as well as those of its controlled entities. The insurance premium relates to:

- costs and expenses incurred by the relevant Director or Officer in defending proceedings; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

The contract prohibits disclosure of the nature of the liabilities and the amount of the premium.

5. Proceedings

No person has applied for leave of court to bring proceedings on behalf of the Company or its controlled entities, or intervene in any proceedings to which the Company or its controlled entity is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

6. Independence declaration

The Auditors' Independence Declaration on page 10 forms part of the Directors' Report for the year ended 30 June 2023.

7. Auditor

PricewaterhouseCoopers, Chartered Accountants continues in office in accordance with section 327B of the *Corporations Act 2001*.

8. Non-Audit services

During the year, PricewaterhouseCoopers, Chartered Accountants performed tax and other assurance activities for CML and CML NZ. This included advice in relation to transfer pricing and other assurance activities for the implementation of the new accounting standard AASB 17 - Insurance Contracts.

9. ASIC relief regarding disclosure of separate information on the Company

This financial report includes the financial statements of the Consolidated Entity and the Company. The Company is the kind of company referred to in the class order 10/654 Inclusion of Parent Entity Financial Statements in Financial Reports issued by ASIC. As a result, the summarised financial position of the Company has not been presented.

DIRECTORS' REPORT (continued)

10. Rounding of amounts

The Company is of a kind referred to in the ASIC Corporations (Rounding in financial / Directors' Reports) Instrument 2016/191. Amounts have been rounded off in the Directors' Report to the nearest thousand dollars or, in certain cases, to the nearest dollar in accordance with that instrument.

11. Subsequent events

In the opinion of the Directors, there are no other factors that have occurred since the balance date that may significantly affect the Group or the Company's operations, the results of those operations, or the Company's state of affairs in future periods.

12. Environmental regulation

The Company's operations are not subject to any significant environmental regulation under either Commonwealth or State legislation.

Signed in accordance with a resolution of the Directors:

Mario Pirone	Rachel Thomson
Chairman	Director
15 September 2023	15 September 2023

Auditor's Independence Declaration

As lead auditor for the audit of Capricorn Mutual Limited for the year ended 30 June 2023, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Capricorn Mutual Limited and the entities it controlled during the period.

Christopher Verhaeghe
Partner
PricewaterhouseCoopers

Sydney
15 September 2023

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STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2023

	Note	Consolidated 2023 $'000	Consolidated 2022 $'000	Company 2023 $'000	Company 2022 $'000
Gross protection revenue	3	**109,002**	88,578	**109,002**	88,578
Reinsurance expense	4	**(11,297)**	(9,208)	**(11,297)**	(9,208)
Net protection revenue		**97,705**	79,370	**97,705**	79,370
Gross claims expense	4,5	**(58,174)**	(99,422)	**(58,174)**	(99,422)
Reinsurance and other recoveries	5	**359**	51,693	**359**	51,693
Net incurred claims expense	5	**(57,815)**	(47,729)	**(57,815)**	(47,729)
Acquisition costs	4	**(14,176)**	(12,879)	**(14,176)**	(12,879)
Other underwriting expenses	4	**(17,607)**	(14,333)	**(17,652)**	(14,388)
Net underwriting result		**8,107**	4,429	**8,062**	4,374
Investment revenue	3	**1,498**	238	**1,481**	238
Foreign exchange gain/(loss)	3	**174**	(359)	**180**	(359)
Other operating expenses	4	**(1,975)**	(2,456)	**(1,925)**	(2,414)
Profit before income tax		**7,804**	1,852	**7,798**	1,839
Income tax expense	13	**(302)**	(9)	**(302)**	(9)
Profit after income tax		**7,502**	1,843	**7,496**	1,830
Other comprehensive income		**-**	-	**-**	-
Total comprehensive income attributable to the Members of Capricorn Mutual Limited		**7,502**	1,843	**7,496**	1,830

The accompanying notes form part of these financial statements.

STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2023

	Note	Consolidated 2023 $'000	Consolidated 2022 $'000	Company 2023 $'000	Company 2022 $'000
Assets					
Cash and cash equivalents	15	**21,968**	27,121	**21,628**	26,788
Investments	8	**38,000**	26,000	**38,000**	26,000
Receivables	9	**81,973**	68,604	**81,968**	68,604
Reinsurance and other recoveries	10	**21,724**	44,082	**21,724**	44,082
Deferred expenses	11	**6,190**	5,655	**6,190**	5,655
Deferred acquisition costs	11	**4,312**	3,430	**4,312**	3,430
Income tax asset	13	**-**	131	**-**	132
Total Assets		**174,167**	175,023	**173,822**	174,691
Liabilities					
Trade and other payables	12	**12,185**	14,570	**11,882**	14,274
Unearned protection revenue	7	**66,900**	53,806	**66,900**	53,806
Outstanding claims liability	6	**60,064**	79,298	**60,064**	79,298
Income tax payable	13	**167**	-	**167**	-
Total Liabilities		**139,316**	147,674	**139,013**	147,378
Net Assets		**34,851**	27,349	**34,809**	27,313
Members' Equity					
Retained earnings		**34,851**	27,349	**34,809**	27,313
Total Members' Equity		**34,851**	27,349	**34,809**	27,313

The accompanying notes form part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2023

	Consolidated $'000	Company $'000
For the year ended 30 June 2023		
Balance at the beginning of the year	**27,349**	**27,313**
Total comprehensive income for the year	**7,502**	**7,496**
Balance at the end of the year	**34,851**	**34,809**
For the year ended 30 June 2022		
Balance at the beginning of the year	25,506	25,483
Total comprehensive income for the year	1,843	1,830
Balance at the end of the year	27,349	27,313

The accompanying notes form part of these financial statements.

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2023

	Note	Consolidated		Company	
		2023 $'000	2022 $'000	2023 $'000	2022 $'000
Cash flows from operating activities					
Contributions from Members		**107,338**	90,801	**107,338**	90,801
Reinsurance & other recoveries received		**24,930**	17,403	**24,930**	17,403
Claims paid		**(74,338)**	(60,983)	**(74,338)**	(60,983)
Reinsurance expenses paid		**(10,845)**	(10,849)	**(10,845)**	(10,849)
Management fees		**(30,804)**	(26,225)	**(30,849)**	(26,280)
Payments to suppliers		**(7,085)**	(5,838)	**(7,037)**	(5,798)
GST inflows		**4,215**	3,334	**4,215**	3,333
GST outflows		**(3,198)**	(2,832)	**(3,198)**	(2,832)
Interest received		**766**	315	**749**	315
Interest paid		**-**	-	**-**	-
Taxes (paid)/received		**(26)**	37	**(25)**	(48)
Member loyalty rebate		**(4,109)**	(6,151)	**(4,109)**	(6,151)
Net cash flows from operating activities	15	**6,844**	(988)	**6,831**	(1,089)
Cash flows from investing activities					
Investments in term deposits		**(40,000)**	(31,000)	**(40,000)**	(31,000)
Maturity of term deposits		**28,000**	46,000	**28,000**	46,000
Net cash flows from investing activities		**(12,000)**	15,000	**(12,000)**	15,000
Cash flows from financing activities					
Payment of interest-bearing liabilities		**-**	-	**-**	-
Net cash flows from financing activities		**-**	-	**-**	-
Net movement in cash and cash equivalents		**(5,156)**	14,012	**(5,169)**	13,911
Cash and cash equivalents at the beginning of the year		**27,121**	13,228	**26,788**	12,996
Foreign exchange gain/(loss)		**3**	(119)	**9**	(119)
Cash and cash equivalents at the end of the year	15	**21,968**	27,121	**21,628**	26,788

The accompanying notes form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL REPORT

NOTE 1. REPORTING ENTITY

The financial report covers Capricorn Mutual Limited (CML, Parent or Company) and its controlled entities (Consolidated or Group), CML NZ Limited (CMLNZ) and Capricorn (Isle of Man) Limited (CIOM). The Company together with CMLNZ and CIOM in this report refers to the Consolidated Entity.

CML is a public company limited by guarantee, incorporated in Australia on 2 May 2003 and domiciled in Australia.

CMLNZ is a company limited by shares, incorporated in New Zealand on 6 May 2003 and domiciled in New Zealand.

CIOM is a company limited by shares, incorporated in Isle of Man on 12 November 2008 and domiciled in the Isle of Man.

The Company is not an authorised insurer and therefore is not subject to general insurance prudential standards and guidance established by the Australian Prudential Regulation Authority (APRA).

The Company has been granted an AFSL which is regulated by the Australian Securities and Investments Commission (ASIC).

The nature of the operations and principal activities of the Consolidated Entity are described in the Directors' Report.

NOTE 2. BASIS OF PREPARATION

2.1 Statement of compliance

This Consolidated Financial Report is a general purpose financial report that was authorised by the Board of Directors on 15 September 2023 and has been prepared in accordance with Australian Accounting Standards (AAS) and other pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. It also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The Directors have the power to amend and reissue the financial report.

2.2 Basis of measurement

This Consolidated Financial Report has been prepared on an historical cost basis. The Statements of Financial Position have been prepared using a liquidity basis. The Board has determined that this presentation on the Statements of Financial Position is more relevant than a current/non-current classification.

2.3 Functional and presentation currency

Items included in the financial statements are measured using the currencies of the economic environments in which the Consolidated Entity operates (the functional currency). The Consolidated Financial Statements are presented in Australian dollars, which is the Group's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statements of Comprehensive Income. Translation differences on non-monetary items held at fair value through profit or loss, are reported as part of the fair value gain or loss.

NOTE 2. BASIS OF PREPARATION (continued)

2.4 Use of estimates and judgements

The preparation of the Group's financial statements requires management to make judgements and estimates that affect reported amounts. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in this financial report is included in the following notes:

- Note 6 – Outstanding claims liability;
- Note 7.2 – Liability Adequacy Test (LAT);
- Note 10 – Reinsurance and other recoveries on outstanding claims; and
- Note 11 – Deferred underwriting expenses.

There are other amounts relating to underwriting contracts that are based on allocation methodologies supported by assumptions (e.g. deferred acquisition costs). These estimates relate to past events, do not incorporate forward looking considerations and assumptions generally do not change from year to year.

2.5 Changes in accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out in Note 20. These policies have been consistently applied to all periods presented, unless otherwise stated.

2.6 ASIC relief regarding disclosure of separate information on the Company

This financial report includes the financial statements of the Consolidated Entity and the Company. The Company is the kind of company referred to in the class order 10/654 *Inclusion of Parent Entity Financial Statements in Financial Reports* issued by ASIC. As a result, the summarised financial position of the Company has not been presented.

2.7 Rounding of amounts

The Company is of a kind referred to in the *ASIC Corporations (Rounding in financial / Directors' Reports) Instrument 2016/191*. Amounts have been rounded off in the financial report to the nearest thousand dollars or, in certain cases, to the nearest dollar in accordance with that instrument.

NOTE 3. REVENUE

	Consolidated		Company	
	2023	2022	**2023**	2022
	$'000	$'000	**$'000**	$'000
(i) Gross protection revenue				
Gross written protections	**121,928**	99,586	**121,928**	99,586
Movement in unearned protection revenue	**(13,094)**	(6,836)	**(13,094)**	(6,836)
Member Loyalty Rebate	**33**	(4,294)	**33**	(4,294)
Membership fees	**135**	122	**135**	122
	109,002	88,578	**109,002**	88,578
(ii) Reinsurance and other recoveries				
Reinsurance and other recoveries (Note 5)	**359**	51,693	**359**	51,693
	359	51,693	**359**	51,693
(iii) Investment revenue				
Interest revenue	**1,498**	238	**1,481**	238
	1,498	238	**1,481**	238
(iv) Foreign exchange				
Foreign exchange gains/(losses)	**174**	(359)	**180**	(359)
	174	(359)	**180**	(359)
Total Revenue	**111,033**	140,150	**111,022**	140,150

NOTE 4. EXPENSES

	Consolidated		Company	
	2023	2022	**2023**	2022
	$'000	$'000	**$'000**	$'000
Gross claims expense (Note 5)	**58,174**	99,422	**58,174**	99,422
Acquisition costs	**14,176**	12,879	**14,176**	12,879
Reinsurance expense	**11,297**	9,208	**11,297**	9,208
	83,647	121,509	**83,647**	121,509
(i) Other underwriting expenses				
CSL collection charges	**4,940**	4,183	**4,940**	4,183
Management fees	**12,667**	10,150	**12,712**	10,205
	17,607	14,333	**17,652**	14,388
(ii) Other operating expenses				
Reinsurance broking fees	**450**	453	**450**	453
Directors' fees	**395**	342	**383**	332
Audit and tax consulting fees	**424**	253	**414**	243
Legal fees	**91**	167	**91**	167
Actuarial costs	**140**	134	**140**	135
Other expenses	**475**	1,107	**447**	1,084
	1,975	2,456	**1,925**	2,414
Total Expenses	**103,229**	138,298	**103,224**	138,311

NOTE 5. NET CLAIMS EXPENSE

Current year claims relate to claim events that occurred in the current financial year. Prior year claims relate to a reassessment of the claim events that occurred in all previous financial periods.

	Consolidated and Company					
	2023			2022		
	Current Year $'000	**Prior Years $'000**	**Total $'000**	Current Year $'000	Prior Years $'000	Total $'000
Gross claims expense						
Gross claims incurred – undiscounted	**76,882**	**(18,358)**	**58,524**	102,231	(1,834)	100,397
Impact of discounting	**(1,079)**	**729**	**(350)**	(740)	(235)	(975)
Gross claims incurred - discounted	**75,803**	**(17,629)**	**58,174**	101,491	(2,069)	99,422
Reinsurance and other recoveries –undiscounted	**(12,932)**	**12,443**	**(489)**	(52,286)	93	(52,193)
Impact of discounting	**307**	**(177)**	**130**	431	69	500
Reinsurance and other recoveries – discounted	**(12,625)**	**12,266**	**(359)**	(51,855)	162	(51,693)
Net claims expense	**63,178**	**(5,363)**	**57,815**	49,636	(1,907)	47,729

NOTE 6. OUTSTANDING CLAIMS LIABILITY

6.1 Composition of gross outstanding claims liability

	Consolidated and Company	
	2023 $'000	2022 $'000
Case estimates	**30,848**	45,071
IBNR	**14,381**	13,719
Gross central estimate – undiscounted	**45,229**	58,790
Risk margin	**13,690**	19,143
Claims handling expenses	**2,714**	2,583
Gross outstanding claims liability	**61,633**	80,516
Discount to present value	**(1,569)**	(1,218)
Gross outstanding claims liability - discounted	**60,064**	79,298

The outstanding claims liability includes $10.7m (2022: $15.6m) which is expected to be settled after 12 months from reporting date.

The Company's exposure to liquidity risk related to outstanding claims liability is disclosed in Note 16.

CML has a probability of sufficiency of 90% (2022: 90%) to reduce uncertainty surrounding the adequacy of outstanding claims reserves.

NOTE 6. OUTSTANDING CLAIMS LIABILITY (continued)

6.2 Reconciliation of movement in outstanding claims liability

	Consolidated and Company					
	2023			2022		
	Gross	**Reinsurance and other recoveries**	**Net**	Gross	Reinsurance and other recoveries	Net
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Balance at the beginning of the year	**79,298**	**(44,082)**	**35,216**	43,906	(14,148)	29,758
Current year claims incurred	**58,524**	**(489)**	**58,035**	100,397	(52,193)	48,204
Movement in discounting	**(350)**	**130**	**(220)**	(975)	500	(475)
Incurred claims recognised in the Statements of Comprehensive Income	**58,174**	**(359)**	**57,815**	99,422	(51,693)	47,729
Claim (payments)/ recoveries during the year	**(77,408)**	**22,717**	**(54,691)**	(64,030)	21,759	(42,271)
Balance at the end of the year	**60,064**	**(21,724)**	**38,340**	79,298	(44,082)	35,216

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NOTE 6. OUTSTANDING CLAIMS LIABILITY (continued)

6.3 Claims development table

The following table shows the development of the net undiscounted outstanding claims for the four most recent accident years and all prior years, and also a reconciliation to the net discounted outstanding claims liability.

	Consolidated and Company Accident Year					
	2019 and prior $'000	2020 $'000	2021 $'000	2022 $'000	2023 $'000	Total $'000
Net Ultimate claims payments Development						
At end of accident year	219,983	30,208	33,956	44,609	56,334	
One year later	216,983	29,223	33,247	43,449		
Two years later	217,442	28,822	33,483			
Three years later	216,385	28,313				
Four years later	216,829					
Current estimate of net ultimate claim payments	216,829	28,313	33,483	43,449	56,334	378,408
Cumulative payments made to date	216,452	28,083	32,071	40,534	32,874	350,014
Net undiscounted outstanding claims	377	230	1,412	2,915	23,460	**28,394**
Discount to present value	(15)	(22)	(75)	(133)	(563)	(808)
Net discounted outstanding claims	362	208	1,337	2,782	22,897	**27,586**
Reconciliation						
Claims handling expenses						2,714
Risk margin						8,354
Discounting on margin						(314)
Net outstanding claims liability						**38,340**
Reinsurance and other recoveries on outstanding claims liability						21,724
Total gross outstanding claims per the Statements of Financial Position						**60,064**

6.4 Central estimate and risk margin

	Consolidated and Company	
	2023 %	2022 %
Risk margin as a percentage of the net outstanding claims liability	**26.8**	31.0
The probability of sufficiency of the risk margin	**90**	90

NOTE 6. OUTSTANDING CLAIMS LIABILITY (continued)

6.5 Process for determining outstanding claims liability

The outstanding claims liability is determined based on three building blocks being:

- a central estimate of the future cash flows;
- discounting for the effect of the time value of money; and
- a risk margin for uncertainty.

6.5.1 Future cash flows

The estimation of the outstanding claims liability is based on a variety of actuarial techniques that analyze experience, trends, and other relevant factors. The expected future payments include those in relation to claims reported but not yet paid or not yet paid in full, IBNR, IBNER, and the anticipated direct and indirect claims handling costs.

The estimation process involves using the Company's specific data, relevant industry data, and more general economic data. Each class of business is examined separately, and the process involves consideration of a large number of factors. These factors may include the risks to which the business is exposed at a point in time, claim frequencies and average claim sizes, historical trends in the incidence and development of claims reported and finalised, legal, social and economic factors that may impact upon each class of business, the key actuarial assumptions set out in this Note 6, and the impact of reinsurance and other recoveries.

Different actuarial valuation models are used for different claim types and lines of business. The selection of the appropriate actuarial model takes into account the characteristics of a claim type and class of business, and extent of the development of each past accident period.

6.5.2 Discounting

Projected future claims payments, both gross and net of reinsurance, other recoveries, and associated claims handling costs are discounted to a present value using appropriate risk-free discount rates.

6.5.3 Risk margin

The central estimate of the outstanding claims liability is an estimate which is intended to contain no deliberate or conscious over or under estimation and is commonly described as providing the mean of the distribution of future cash flows. It is considered appropriate to add a risk margin to the central estimate in order for the claims liability to have an increased probability of sufficiency. The risk margin refers to the amount by which the liability recognised in this financial report is greater than the actuarial central estimate of the liability.

Uncertainties surrounding the outstanding claims liability estimation process include those relating to the data, actuarial models and assumptions, the statistical uncertainty associated with a claims run-off process and the risks external to CML, for example the impact of future legislative reform. Uncertainty from these sources is examined for each class of business and expressed as a volatility measure relative to the net central estimate. The volatility measure for each class is derived after consideration of statistical modelling and benchmarking to industry analysis.

A risk margin is applied to the outstanding claims liability, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate of the outstanding claims liability. This risk margin increases the probability of the net liability being adequately provided for to a 90% level of sufficiency.

NOTE 6. OUTSTANDING CLAIMS LIABILITY (continued)

6.6 Actuarial assumptions

6.6.1 Process used to determine assumptions

(i) Discounted average term to settlement

The discounted average term to settlement relates to the expected payment pattern for claims (inflated and discounted). It is calculated by class of business and is generally based on historic settlement patterns. The discounted average term to settlement, while itself not an assumption, provides a summary indication of the future cash flow pattern.

(ii) Inflation rate

Claims costs are subject to inflationary pressures. The projected future cash flows include expected inflation.

(iii) Superimposed inflation rate

Superimposed inflation occurs due to non-economic effects such as the costs of court settlements increasing at a faster rate than the economic inflation rate utilised. There is no allowance for superimposed inflation due to the short-tail nature of the portfolio.

(iv) Discount rate

The discount rate is derived from market yields on Commonwealth Government securities at the reporting date having similar duration to the liability cash flows. A single discount rate which is equivalent to the yield curve is adopted.

(v) Undiscounted

A range of different actuarial methods is used depending on the nature of the class of business and the extent and duration of Company experience available. Assumptions are based on the Company's own experience.

For all classes of business the undiscounted outstanding claims liability is established by modelling future payments using two standard actuarial techniques based on the pattern of development of payments and incurred losses. The apparent IBNR and IBNER is the difference to current case estimates.

(vi) Other recoveries

Salvage and subrogation recoveries can be significant; particularly for motor business. Other recoveries are estimated by modelling the proportion of gross claims costs which are recoverable.

(vii) Claims handling expenses

The outstanding claims liability includes allowance for claims handling expenses (CHE) equal to 6% (2022: 6%) of gross outstanding claims. This allowance is based on CML's actual experience.

6.7 The effect of changes in assumptions

6.7.1 General impact of changes

(i) Loss ratios

An increase in loss ratio assumption will increase the outstanding claims liabilities where this is a valuation input. An increase or decrease in the loss ratio will have a corresponding decrease or increase on profit.

(ii) Discount rate

The outstanding claims liability is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will have a corresponding increase or decrease on profit.

NOTE 6. OUTSTANDING CLAIMS LIABILITY (continued)

(iii) Claims handling expenses ratio

An increase in the CHE ratio reflects an increase in the estimate for the internal costs of administering claims. An increase or decrease in the CHE ratio assumption will have a corresponding decrease or increase on profit.

(iv) Incurred claims development

The outstanding claims liability is calculated based on historical claims cost development patterns. Higher or lower levels of claims cost development than assumed will have a corresponding decrease or increase on profit.

6.8 Sensitivity analysis of changes in assumptions

The impact on the Statements of Comprehensive Income after income tax to changes in key actuarial assumptions is summarised below. Each change has been calculated in isolation of the other changes and is net of reinsurance recoveries.

The movements are stated in absolute terms where the base assumption is a percentage. For example, if the loss ratio assumption was 50%, a 10% increase would mean assuming a 60% loss ratio.

The sensitivity test loss ratios are applied for the last three accident months for short-tail classes and the last six accident months for long-tail classes.

	Movement in assumption	Outstanding claims liability Gross $'000	Outstanding claims liability Net $'000	Net %	Profit/ (loss) impact after tax $'000
2023					
Base		**60,064**	**38,340**		
Loss ratio	**+5%**	**56**	**56**	0.1	(56)
	-5%	**(56)**	**(56)**	(0.1)	56
Discount rate	**+1%**	**(356)**	**(252)**	(0.6)	252
	-1%	**354**	**258**	0.7	(258)
Claims handling expense	**+1%**	**567**	**567**	1.5	(567)
	-1%	**(567)**	**(567)**	(1.5)	567
Incurred development	**50%**	**4,969**	**4,969**	13.0	(4,969)
	-50%	**(4,756)**	**(4,756)**	(12.4)	4,756
2022					
Base		79,298	35,216		
Loss ratio	+5%	72	72	0.2	(72)
	-5%	(72)	(72)	(0.2)	72
Discount rate	+1%	(483)	(253)	(0.7)	253
	-1%	495	260	0.7	(260)
Claims handling expense	+1%	483	483	1.4	(483)
	-1%	(483)	(483)	(1.4)	483
Incurred development	50%	4,050	4,050	11.5	(4,050)
	-50%	(3,915)	(3,915)	(11.1)	3,915

NOTE 7. UNEARNED PROTECTION REVENUE

7.1 Reconciliation of movement in unearned protection revenue

	Consolidated and Company	
	2023	2022
	$'000	$'000
Balance at the beginning of the year	**53,806**	46,970
Written protections deferred during the year	**121,928**	99,586
Written protections earned for the year	**(108,969)**	(92,872)
Membership fees	**135**	122
Balance at the end of the year	**66,900**	53,806

The carrying value of unearned protection revenue is expected to be earned in less than 12 months from the reporting date.

7.2 Liability Adequacy Test (LAT)

The LAT has been conducted using the central estimate of the contribution liabilities together with an appropriate margin for uncertainty to arrive at a probability of sufficiency of 75%. The 75% probability of sufficiency for future claims differs from the 90% adopted in determining the outstanding claims liability as outlined in Note 20.17. The margin included in the Company's expected future cash flows for future claims as a percentage of the central estimate is 15.3% (2022: 18.5%).

The application of the LAT has identified a surplus of $13.6m as at 30 June 2023 (2022: $9.9m).

	Consolidated and Company	
	2023	2022
LAT Calculation	**$'000**	$'000
Unearned protection revenue	**66,900**	53,806
Deferred acquisition costs	**(4,312)**	(3,430)
Deferred reinsurance expenses	**(5,902)**	(5,295)
Future reinsurance expenses required	**(244)**	254
Total provision available	**56,442**	45,335
Actuarial estimate of future liabilities		
Central estimate of present value of expected future cash flows from future claims	**42,155**	33,589
Present value of expected future cash inflows arising from reinsurance recoveries on future claims	**(5,053)**	(3,723)
Risk margin	**5,690**	5,536
Total actuarial estimate of future liabilities	**42,792**	35,402
Net surplus	**13,650**	9,933
Risk margin percentage (discounted)	**15.3%**	18.5%

NOTE 8. INVESTMENTS

8.1 Composition

	Consolidated and Company	
	2023	2022
	$'000	$'000
Fixed term deposits	**38,000**	26,000
Total investments	**38,000**	26,000

All investments mature within 12 months from reporting date, in line with last year.

The investments held at reporting date have yields ranging from 3.25% to 5.00% p.a.

The Company's exposure to credit and interest rate risks related to investments is disclosed in Note 16.

8.2 Determination of fair value

The total investments balance is based on a hierarchy that reflects the significance of the inputs used in the determination of fair value. The fair value hierarchy has the following levels:

(i) Level 1 - Quoted prices

Derived from quoted prices (unadjusted) in active markets for identical financial instruments.

(ii) Level 2 - Observable inputs

Derived from valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable).

(iii) Level 3 - Unobservable inputs

Derived from valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable).

All investments have been categorised in the Level 1 fair value hierarchy (2022: Level 1).

8.3 Investments in controlled entities

	Consolidated		Company	
	2023	2022	**2023**	2022
	$	$	**$**	$
Investments in subsidiaries	**-**	-	**91**	91
Total investments in controlled entities	**-**	-	**91**	91

NOTE 9. RECEIVABLES

	Consolidated		Company	
	2023	2022	**2023**	2022
	$'000	$'000	**$'000**	$'000
(i) Contributions receivable				
Contributions receivable from Members	**66,539**	53,359	**66,539**	53,359
Contributions receivable from CSL	**11,413**	9,640	**11,413**	9,640
Total Contributions receivable	**77,952**	62,999	**77,952**	62,999
(i) Other receivables				
Investment income receivable	**832**	99	**832**	99
Reinsurance receivable on paid claims	**3,189**	5,506	**3,184**	5,506
Total other receivables	**4,021**	5,605	**4,016**	5,605
Total receivables	**81,973**	68,604	**81,968**	68,604

Members pay contributions for their protections via their Capricorn account with CSL and have the option to pay either in one lump sum or in monthly instalments. There is no additional charge for the option to pay in instalments.

CSL remits the collections it makes to the Company on a monthly basis in arrears and charges a service fee on all collections received and guarantees payment to the Company. If a Member fails to make payment, their protection is cancelled and the carrying amount of the remaining receivable is reduced accordingly, as is the unearned revenue, effectively resulting in no net Profit and Loss effect.

Under the terms of the Preferred Supplier Trade Agreement (PSTA) between CSL and CML, CSL does not assume the debt owed by Members to CML and CML's Members' liability to make payments to CML is not discharged when CSL receives those funds, it is discharged only once CML receives the due amount.

The carrying value of receivables includes nil (2022: nil) which is expected to mature more than 12 months from reporting date. No receivables are considered impaired at 30 June 2023.

The Company's exposure to credit and market risks and impairment losses related to trade and other receivables is disclosed in Note 16.

NOTE 10. REINSURANCE AND OTHER RECOVERIES ON OUTSTANDING CLAIMS

10.1 Reinsurance and other recoveries on outstanding claims

	Consolidated and Company	
	2023	2022
	$'000	$'000
Expected reinsurance and other recoveries on outstanding claims – undiscounted	**16,835**	34,002
Risk margin	**5,336**	10,656
Discounted to present value	**(447)**	(576)
Expected reinsurance and other recoveries on outstanding claims – discounted	**21,724**	44,082

NOTE 10. REINSURANCE AND OTHER RECOVERIES ON OUTSTANDING CLAIMS (continued)

The reinsurance and other recoveries asset includes $3.9m (2022: $7.6m) which is expected to be settled after 12 months from reporting date.

The Company's exposure to liquidity risk related to reinsurance and other recoveries is disclosed in Note 16.

See Note 5 for a reconciliation of reinsurance and other recoveries receivable movement.

10.2 Actuarial assumptions

The measurement of reinsurance and other recoveries on outstanding claims is an inherently uncertain process involving estimates. The amounts are generally calculated using actuarial assumptions and methods similar to those used for the outstanding claims liability (refer Note 6).

The valuation of outstanding reinsurance recoveries is subject to similar risks and uncertainties as the valuation of the outstanding claims liability. Significant individual losses are analysed on a case by case basis for reinsurance purposes.

10.3 The effect of changes in assumptions

The effect of changes in assumptions on the net outstanding claims liability, which incorporates the reinsurance recoveries on outstanding claims and other recoveries, is disclosed in Note 6.

NOTE 11. DEFERRED UNDERWRITING EXPENSES

	Consolidated and Company	
	2023	2022
	$'000	$'000
(i) Deferred acquisition costs		
Balance at the beginning of the year	**3,430**	3,380
Acquisition costs deferred during the year	**15,058**	12,929
Acquisition costs expensed for the year	**(14,176)**	(12,879)
Balance at the end of the year	**4,312**	3,430
(ii) Deferred expenses		
(a) Deferred reinsurance expenses		
Balance at the beginning of the year	**5,295**	4,077
Reinsurance expenses deferred during the year	**11,904**	10,426
Reinsurance expenses realised during the year	**(11,297)**	(9,208)
Balance at the end of the year	**5,902**	5,295
(b) Deferred reinsurance brokerage expenses		
Balance at the beginning of the year	**161**	87
Brokerage expenses deferred during the year	**385**	527
Brokerage expenses realised during the year	**(450)**	(453)
Balance at the end of the year	**96**	161
(c) Prepaid Expenses		
Balance at the beginning of the year	**199**	200
Expenses deferred during the year	**435**	431
Prepaid expenses realised during the year	**(442)**	(432)
Balance at the end of the year	**192**	199
Total deferred expenses	**6,190**	5,655

The carrying value of $5.95m (FY22: $5.45m) of deferred expenses is expected to be expensed less than 12 months from the reporting date and $0.24m (FY22: $0.20m) is expected to be expensed after 12 months from the reporting date.

NOTE 12. TRADE AND OTHER PAYABLES

	Consolidated		Company	
	2023	2022	**2023**	2022
	$'000	$'000	**$'000**	$'000
Trade creditors	**7,464**	7,000	**7,161**	6,704
Member loyalty rebate	**-**	4,294	**-**	4,294
Reinsurance expense payable	**4,721**	3,276	**4,721**	3,276
Total trade and other payables	**12,185**	14,570	**11,882**	14,274

NOTE 12. TRADE AND OTHER PAYABLES (continued)

Trade and other payables are unsecured, non-interest bearing and are normally settled within 30 days except for reinsurance expense which is payable in quarterly instalments. Amounts have not been discounted because the effect of the time value of money is not material. The carrying amount of payables is a reasonable approximation of the fair value of the liabilities because of the nature of the liabilities.

No member loyalty rebate liability has been recognised at 30 June 2023 (2022: $4.3m). This liability relates to the return of capital to members through Capricorn reward points, in line with CML's Capital Return Policy. The full rebate of $4.3m last year has been recognised within gross protection revenue in the statement of comprehensive income and is paid via a one-time reward point allocation eligible to members who have an active policy and 3 years of consecutive tenure at 30 June 2022.

NOTE 13. INCOME TAX

13.1 Composition

	Consolidated		Company	
	2023	2022	**2023**	2022
	$'000	$'000	**$'000**	$'000
Current income tax expense/(benefit)	**217**	(31)	**217**	(31)
Movement in deferred tax liability/(asset)	**85**	40	**85**	40
Income tax expense	**302**	9	**302**	9

13.2 Income Tax Reconciliation

A reconciliation between income tax expense and the profit before income tax multiplied by the applicable tax rate is as follows:

	Consolidated		Company	
	2023	2022	**2023**	2022
	$'000	$'000	**$'000**	$'000
Profit for the year before income tax	**7,804**	1,852	**7,798**	1,839
Income tax calculated @ 30% (2022: 30%)	**2,341**	556	**2,339**	551
Adjustments in respect of current income tax of previous years	**85**	40	**85**	40
Mutual activities not subject to tax	**(2,304)**	(502)	**(2,302)**	(497)
Deferred tax	**180**	(85)	**180**	(85)
Income tax expense	**302**	9	**302**	9

The Company is limited by guarantee and operates for the mutual benefit of Members. Accordingly, the Company is not liable for income tax on contributions received from Members, nor are the related outgoings tax deductible. The Company is, however, liable for income tax on investment income.

NOTE 13. INCOME TAX (continued)

13.3 Income Tax Payable

	Consolidated		Company	
	2023	2022	**2023**	2022
	$'000	$'000	**$'000**	$'000
Income tax due	**(37)**	(54)	**(37)**	(54)
Instalment paid	**50**	100	**50**	101
Deferred tax (liability)/asset	**(180)**	85	**(180)**	85
Income tax (payable)/receivable	**(167)**	131	**(167)**	132

NOTE 14. CAPITAL MANAGEMENT

The Company holds an AFSL issued by ASIC. A number of conditions of the licence require the Company to maintain certain levels of capital.

As at 30 June 2023, the Company has met the minimum capital requirements to satisfy all applicable conditions.

NOTE 15. NOTES TO THE STATEMENTS OF CASH FLOWS

Cash and cash equivalents represent cash on hand and held with banks and deposits at call readily convertible to cash. There are no cash balances held that are not available for use in normal operations.

15.1 Composition

For the purpose of the Statements of Cash Flows, cash and cash equivalents comprise the following as at 30 June 2023:

	Consolidated		Company	
	2023	2022	**2023**	2022
	$'000	$'000	**$'000**	$'000
Cash at bank	**21,968**	27,121	**21,628**	26,788
Total cash and cash equivalents	**21,968**	27,121	**21,628**	26,788

15.2 Significant Risks

The net carrying amount of cash and cash equivalents represents the maximum exposure to credit risk relevant to cash and cash equivalents at reporting date and is equivalent to the fair value of the assets because of the negligible credit risk.

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NOTE 15. NOTES TO THE STATEMENTS OF CASH FLOWS (continued)

15.3 Reconciliation of profit for the year to net cash flows from operating activities

	Consolidated		Company	
	2023	2022	**2023**	2022
	$'000	$'000	**$'000**	$'000
Profit after tax for the year	**7,502**	1,843	**7,496**	1,830
Adjustments for:				
(i) Foreign exchange (gain)/loss in cash at bank	**(3)**	119	**(9)**	119
(ii) Movement in operating assets/liabilities				
Decrease/(increase) in operating assets				
Receivables	**(13,369)**	(12,794)	**(13,364)**	(12,794)
Reinsurance and other recoveries	**22,358**	(29,934)	**22,358**	(29,934)
Deferred expenses	**(535)**	(1,291)	**(535)**	(1,291)
Deferred acquisition costs	**(882)**	(50)	**(882)**	(50)
Income tax	**33**	22	**34**	21
Increase/(decrease) in operating liabilities				
Deferred tax	**265**	(46)	**265**	(46)
Trade and other payables	**(2,385)**	(1,085)	**(2,392)**	(1,172)
Unearned protection revenue	**13,094**	6,836	**13,094**	6,836
Outstanding claims liability	**(19,234)**	35,392	**(19,234)**	35,392
Net cash flows from operating activities	**6,844**	(988)	**6,831**	(1,089)

NOTE 16. RISK MANAGEMENT

The operating activities of the Group expose it to risks including underwriting risk, market risk, credit risk, liquidity risk and operational risk.

Risk Management Framework (RMF)

The Group's RMF is embedded at Board level and throughout each functional area. This structure recognises that effective risk management is critical in order for the Group to meet its strategic and operational goals.

The RMF provides reasonable assurance that the material risks in the business are being prudently and soundly managed. The Board understands that all business activity entails varying degrees of risk. The focus of the RMF is to provide a framework to assess the exposure and impact of the risk and then appropriately control or avoid it, in accordance with the Group's defined risk appetite and the Three Lines model.

The RMF details the layers of managerial responsibility, risk management related policies and the key processes used to identify, assess, monitor, report on and mitigate all material risks likely to impact on the operations of the Group.

The Board has delegated its authority for the oversight of the RMF to the Audit Risk and Compliance Committee (ARC). In turn, the ARC Committee works closely with the dedicated Line 2 risk management function within the business to ensure that the RMF remains appropriate and effective. The ARC Committee is charged with overall accountability for the RMF and risk management capability.

NOTE 16. RISK MANAGEMENT (continued)

The Capricorn Mutual Management Pty Ltd (CMM) team (Line 1) is responsible for the effective identification, assessment and management of the risks. To support Line 1 achieve this goal, the Line 2 Risk Advisory function provides oversight and advice, in addition to attending regular Management meetings. Line 1 and Line 2 provide regular reporting to the ARC Committee.

The key risks addressed by the RMF are discussed below:

16.1 Underwriting risk

a. Nature of risk

Underwriting risk is the risk of financial loss and the inability to meet liabilities due to inadequate or inappropriate product design, pricing, underwriting, concentration risk, reserving, claims management and/or reinsurance management. For all protections, the Group retains ultimate responsibility for:

- acceptance criteria and process;
- pricing;
- product wordings;
- portfolio management; and
- monitoring of underwriting performance.

Group underwriting guidelines include delegations, limits, risk assessment and selection criteria. Underwriting procedures are reviewed regularly, particularly when changes occur in the internal or external environment. Adherence to procedures is subject to Line 1 peer and manager reviews and control testing. The effectiveness of controls may also be subject to Line 2 Risk Advisory reviews, control testing; and/or Line 3 internal audits in line with a CML Board approved audit plan.

b. How risk is managed

The principal risk associated with any protection contract is the possibility of the protected event occurring and the uncertainty of the amount of the resulting claim. To mitigate the impact of underwriting risk, the Group has the following key policies and procedures in place:

NOTE 16. RISK MANAGEMENT (continued)

(i) Selection and pricing of risk

Pricing risk relates to the risk of assigning a contribution amount at a price too low to cover all risks associated with the type of protection sought. The Group has in place the following controls to manage this risk:

- a Board approved Pricing Policy and a Pricing Procedure Manual, which outlines the framework and processes for appropriate pricing and risk selection;
- underwriting delegations to experienced underwriters following a detailed analysis of each class of business being underwritten;
- annual review of Underwriting Guidelines and criteria covering the classes of business the Group underwrites;
- maximum limits are set for the acceptance of risk on an individual contract basis, for classes of business and across the portfolio with particular attention paid to geographic exposure, industry segment and the Group risk appetite;
- prescribed pricing reviews occur quarterly;
- portfolio performance is monitored ongoing, with a Price Committee meeting held monthly to monitor, assess and discuss all pricing matters;
- management information systems are used to provide reliable and accurate data about the various risks being underwritten;
- reporting indicators such as loss ratio development highlight specific classes that require pricing review;
- membership of CML by way of application is assessed on a case by case basis to ensure that potential Members maintain a similar risk profile to the current membership base;
- the diversification of business over numerous classes of business and geography seeks to reduce variability in loss experience; and
- CML Members are CSL Members and are therefore pre-screened for credit worthiness which eliminates a significant component of both credit and moral risk.

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

(ii) Claims risk

Full details of the Group's approach to the management of claims are contained in the Claims Guidelines. These procedures are periodically reviewed by Management. Adherence to procedures is subject to Line 1 peer reviews. The effectiveness of controls may also be subject to Line 2 Risk Advisory control testing and/or Line 3 internal audits in line with a Board approved audit plan. The Group seeks to ensure the adequacy of its reserving and ensure effective claims management through the use of the following controls:

- experienced claims officers are used to assess claims and determine case strategies. Where necessary, they are assisted by external subject-matter experts. It is Group policy to respond to and resolve genuine claims as quickly as possible, in accordance with the provisions of the policy; and
- all claims advices are captured and updated on a timely basis and with a realistic assessment of the ultimate claims costs.

NOTE 16. RISK MANAGEMENT (continued)

(iii) Product risk

The Board has delegated product development to CMM. A process is in place to ensure appropriate underwriting and legal reviews and Board approvals are undertaken prior to the release of a product.

The terms and conditions of protection contracts written are entered into using a standard form basis. There are no specific contract terms and conditions that are expected to have a material impact on this financial report. The Group develops contract terms that are specific to each product written.

(iv) Concentration risk

Concentration exposure is monitored on a regular basis, ensuring the portfolio is sufficiently diversified such that there is no undue concentration by risk class, by industry or by geographical region. The Group underwrites business across broad geographical regions within Australia and New Zealand. Regular reviews are undertaken to gauge the Group's geographic accumulation exposure. Catastrophe reinsurance is purchased to ensure that any accumulation of losses from one area is protected.

Concentration risk is particularly relevant on the occurrence of a catastrophic event. Typically these are weather related but can also be man-made such as industrial accidents and infrastructure collapse. The nature and level of catastrophes in any one year cannot be accurately anticipated but the Group uses predictive modelling in conjunction with its reinsurance broker to manage its exposure.

The Group's exposure to concentration of underwriting risk is mitigated by a portfolio diversified across Australia and New Zealand. Product diversification is achieved through a strategy of developing strong risk acceptance and pricing skills in a wide variety of classes of business.

The tables below provide an analysis of gross written protections by country and class of business.

	Consolidated and Company	
	2023	2022
	%	%
Country		
Australia	**87.87**	87.27
New Zealand	**12.13**	12.73
Total	**100.00**	100.00
Class		
Business Property	**35.32**	34.56
Commercial Motor	**29.24**	28.09
Domestic Motor	**2.25**	2.54
Household Buildings and Contents	**5.36**	5.29
Other Accident	**1.91**	1.96
Public and Products Liability	**25.00**	26.48
Professional Indemnity	**0.92**	1.08
Balance at the end of the year	**100.00**	100.00

(v) Reinsurance risk

Reinsurance is used to limit the Group's exposure to individual claims and multiple claims from catastrophe events. A Reinsurance Management Strategy (REMS) has been developed to ensure that CML implements appropriate reinsurance arrangements in relation to the risks that it underwrites.

NOTE 16. RISK MANAGEMENT (continued)

The REMS outlines the Board's requirements for the purchase and maintenance of the reinsurance program. The REMS is approved by the Board and forms part of the Group's overall RMF.

The Group uses a professional reinsurance broker to determine CML's reinsurance requirements, to source reinsurance capacity and to negotiate the terms of the program each year.

The reinsurance program is approved by the Board annually.

16.2 Market risk

Market risk is the risk of adverse financial impact due to changes in the value or future cash flows of financial instruments from fluctuations in foreign currency exchange rates, interest rates and equity prices.

A. Currency Risk

a. Nature of risk

Currency risk is the risk of loss from unfavourable movements in market exchange rates.

The Consolidated Entity operates internationally and is exposed to foreign exchange risk arising from currency exposure with respect to the New Zealand dollar as a result of offering risk protection products to New Zealand Members. Foreign exchange gains and losses are generated on translation of New Zealand dollar held balances to the presentation currency of Australian dollars.

The Consolidated Entity is not exposed to foreign exchange risk in relation to transactions entered into by CIOM, as they are all denominated and settled in Australian dollars.

b. How risk is managed

The Group has adopted a policy of minimising the exposure to foreign currency through attempting to match assets and liabilities in New Zealand dollars and transferring any excess cash to or from Australian dollars when the rates are favourable. This creates a natural hedge.

c. Sensitivity

The analysis below demonstrates the impact on Profit and Loss after Tax and Members' Equity of a movement in foreign currency exchange rates against the Australian dollar on NZ$ currency exposure using the foreign currency exposures at the reporting date.

NOTE 16. RISK MANAGEMENT (continued)

	Carrying Amount	Consolidated Exposure to NZ$			
		-10%		+10%	
	Balance $'000	Profit/ (Loss) After Tax $'000	Impact on Members' Equity $'000	Profit/ (Loss) After Tax $'000	Impact on Members' Equity $'000
2023					
Financial Assets					
Cash and cash equivalents	**5,256**	**(526)**	**(526)**	**526**	**526**
Receivables	**10,062**	**(1,006)**	**(1,006)**	**1,006**	**1,006**
Total (decrease)/increase		**(1,532)**	**(1,532)**	**1,532**	**1,532**
Financial Liabilities					
Withholding tax payable	**283**	**28**	**28**	**(28)**	**(28)**
Unearned protection revenue	**8,178**	**818**	**818**	**(818)**	**(818)**
Outstanding claims	**6,391**	**639**	**639**	**(639)**	**(639)**
Total increase/(decrease)		**1,485**	**1,485**	**(1,485)**	**(1,485)**
Net (decrease)/increase		**(47)**	**(47)**	**47**	**47**
2022					
Financial Assets					
Cash and cash equivalents	2,764	(276)	(276)	276	276
Receivables	8,238	(824)	(824)	824	824
Total (decrease)/increase		(1,100)	(1,100)	1,100	1,100
Financial Liabilities					
Withholding tax payable	290	29	29	(29)	(29)
Unearned protection revenue	6,633	663	663	(663)	(663)
Outstanding claims	2,411	241	241	(241)	(241)
Total increase/(decrease)		933	933	(933)	(933)
Net increase/(decrease)		(167)	(167)	167	167

NOTE 16. RISK MANAGEMENT (continued)

	Carrying Amount	Company Exposure to NZ$			
		-10%		+10%	
	Balance $'000	Profit/ (Loss) After Tax $'000	Impact on Members' Equity $'000	Profit/ (Loss) After Tax $'000	Impact on Members' Equity $'000
2023					
Financial Assets					
Cash and cash equivalents	**5,249**	**(525)**	**(525)**	**525**	**525**
Receivables	**10,062**	**(1,006)**	**(1,006)**	**1,006**	**1,006**
Total (decrease)/increase		**(1,531)**	**(1,531)**	**1,531**	**1,531**
Financial Liabilities					
Unearned protection revenue	**8,178**	**818**	**818**	**(818)**	**(818)**
Outstanding claims	**6,391**	**639**	**639**	**(639)**	**(639)**
Total increase/(decrease)		**1,457**	**1,457**	**(1,457)**	**(1,457)**
Net (decrease)/increase		**(74)**	**(74)**	**74**	**74**
2022					
Financial Assets					
Cash and cash equivalents	2,759	(276)	(276)	276	276
Receivables	8,238	(824)	(824)	824	824
Total (decrease)/increase		(1,100)	(1,100)	1,100	1,100
Financial Liabilities					
Unearned protection revenue	6,633	663	663	(663)	(663)
Outstanding claims	2,411	241	241	(241)	(241)
Total increase/(decrease)		904	904	(904)	(904)
Net (decrease)/increase		(196)	(196)	196	196

A 10% (2022: 10%) fluctuation in the exchange rate is considered appropriate in the current economic environment considering recent AUD volatility.

B. Interest Rate Risk

a. Nature of risk

Interest rate risk is the risk of loss arising from an unfavourable movement in market interest rates.

The Group's interest rate exposure is limited to the on-going valuation of protection liabilities which are discounted and the risk that new or renewed investments need to be made at different interest rates.

NOTE 16. RISK MANAGEMENT (continued)

b. How risk is managed

The Group seeks to minimise exposure to interest rate movements on claims liabilities through adherence to the Investment Policy which requires investing in fixed interest securities that are broadly matched in duration to the expected pattern of the claims liabilities. The short-tail nature of the portfolio also means that exposure to discount rate adjustments are minimal.

C. Price Risk

a. Nature of risk

Price risk is the risk of loss arising from unfavourable movements in market prices of financial instruments.

The Group has no exposure to market price risk.

b. How risk is managed

The Group eliminates price risk by investing only in fixed term deposits which do not fluctuate.

16.3 Credit risk

Credit risk is the risk of loss from a counterparty failing to meet their obligations.

a. Nature of risk

The Group's credit risk arises predominantly from investment activities, reinsurance activities and underwriting activities including contributions receivable and third party recoveries receivable.

b. How risk is managed

i) Investments

The Group has an Investment Policy which is approved by the Board. The exposure to any individual entity is limited by entity-specific and Group exposure limits in the Investment Policy. The Investment Policy strictly prohibits any exposure to equities or derivatives.

ii) Reinsurance

The REMS includes references to the minimum Standard & Poor's (S&P) rating that must be used in the composition of the reinsurance panel.

It is Group policy to only deal with reinsurers with credit ratings of at least A- unless approved by the Board. Where the credit rating of a reinsurer falls below the required quality during the period of risk, a contractual right to replace the counterparty exists.

The reinsurance program is spread across major reinsurance markets and reinsurers to avoid over-dependency upon any one market and to generate competition.

In order to reduce concentrations of credit risk, the Group seeks to limit exposure to any single reinsurer, or group of related reinsurers, when purchasing reinsurance.

The Group transacts with a large number of reinsurers in various regions without any individual counterparty having a material outstanding balance or exposure.

iii) Contributions receivable

Contributions receivable are for protections that are charged to Members. A monthly contribution is charged to the members trade account, collected by CSL and are settled monthly. Non or short-payment of contributions results in the cancellation of the protection contract with the Member, eliminating both the credit risk and underwriting risk for the unpaid balance.

NOTE 16. RISK MANAGEMENT (continued)

c. Credit risk exposure

The carrying amount of financial assets in the balance sheet represents the maximum exposure to risk.

The Group's investing activities are restricted to deposits with APRA regulated institutions, i.e. within highly regulated markets which considerably reduces the exposure to credit risk.

The following table provides information regarding the credit risk exposure of the Group based on S&P's counterparty credit ratings to its financial assets. Due to the number of reinsurance counterparties, the rating in the table below is the minimum rating for that group.

Credit Quality Consolidated	**2023 Rating**	2022 Rating	**2023 $'000**	2022 $'000
Cash at bank	AA	AA	**21,968**	27,121
Investments	A to AA	A to AA	**38,000**	26,000
Contributions receivable	Not Rated	Not Rated	**77,952**	62,999
Investment income receivable	A to AA	A to AA	**832**	99
Reinsurance receivables	A to A-	A to A-	**3,189**	5,506
Reinsurance recoveries on outstanding claims	A to A-	A to A-	**16,408**	39,827
Third party claim recoveries	Not Rated	Not Rated	**5,316**	4,255
Total			**163,665**	165,807

Credit Quality Company	**2023 Rating**	2022 Rating	**2023 $'000**	2022 $'000
Cash at bank	AA	AA	**21,628**	26,788
Investments	A to AA	A to AA	**38,000**	26,000
Contributions receivable	Not Rated	Not Rated	**77,952**	62,999
Investment income receivable	A to AA	A to AA	**832**	99
Reinsurance receivables	A to A-	A to A-	**3,184**	5,506
Reinsurance recoveries on outstanding claims	A to A-	A to A-	**16,408**	39,827
Third party claim recoveries	Not Rated	Not Rated	**5,316**	4,255
Total			**163,320**	165,474

Reinsurance recoveries on outstanding claims are not due until the original gross claim is paid by the Group to the Member, however, the credit rating of the underlying reinsurers is extremely important from a balance sheet strength perspective.

No provision for impairment has been recognised for the reinsurance recoveries on outstanding claims balances.

Third Party claim recoveries are due from a wide range of counterparties ranging from individuals, in the case of a not at fault motor claim caused by an uninsured person, to a listed insurer. The table above shows the most conservative position of a Not Rated for all recoveries in this class.

NOTE 16. RISK MANAGEMENT (continued)

The table below shows the maturity profile of contributions receivable.

	Consolidated and Company			
	Neither past due nor impaired $'000	Greater than 1 year $'000	Past due and impaired $'000	Total $'000
2023				
Contributions receivable from Members	**66,539**	**-**	**-**	**66,539**
Contributions receivable from CSL	**11,413**	**-**	**-**	**11,413**
Provision for impairment	**-**	**-**	**-**	**-**
Total receivables	**77,952**	**-**	**-**	**77,952**
2022				
Contributions receivable from Members	53,359		-	53,359
Contributions receivable from CSL	9,640	-	-	9,640
Provision for impairment	-	-	-	-
Total receivables	62,999	-	-	62,999

16.4 Liquidity risk

Liquidity risk is concerned with the risk of there being insufficient cash resources to meet payment obligations without affecting the daily operations or the financial condition of the Group. CML is carefully monitoring the economic and solvency situation of its related entities as well as the political and regulatory requirements regarding corporate capital management activities. CML expects to retain a satisfactory liquidity position, ensuring sufficient resources to support solvency capital requirements within the Group as well as its own operative liquidity needs.

a. Nature of risk

The liquidity position is derived from operating cash flows, investment portfolio and reinsurance arrangements. To ensure payments are made when they fall due, the Investment Policy provides sufficient cash deposits to meet day to day obligations. Investment funds can be realised to meet significant claims payment obligations and in the event of a catastrophe event, immediate cash access is available under the terms of reinsurance arrangements.

An analysis of the Group's investments by contractual maturity is provided in the following table, along with the maturity profile of the estimated net discounted outstanding claims liability, based on the remaining term to settlement at the reporting date.

This maturity profile is a key tool used in the investment of assets backing protection liabilities in accordance with the policy of attempting to match the maturity profile of the assets with the estimated pattern of claims payments.

NOTE 16. RISK MANAGEMENT (continued)

	Consolidated and Company			
	Gross discounted outstanding claims liability		Cash and Investments	
Maturity	**2023 $'000**	2022 $'000	**2023 $'000**	2022 $'000
1 year or less	**49,381**	63,742	**59,968**	53,121
Within 1 to 2 years	**7,800**	11,395	**-**	-
Over 2 years	**2,883**	4,161	**-**	-
Total	**60,064**	79,298	**59,968**	53,121

Timing of future claim payments are inherently uncertain. The table above represents estimated timing.

The financial liabilities that exist are trade and other payables and outstanding claims liabilities. These liabilities are based on an undiscounted contractual obligation basis, except for outstanding claims liabilities which are discounted based on estimated timing of their settlement.

These financial liabilities have the following estimated maturity pattern:

Maturity profile of financial liabilities Consolidated 2023	**1 year or less $'000**	**2 to 5 years $'000**	**Over 5 years $'000**	**Total $'000**
Trade and other payables	**12,185**	**-**	**-**	**12,185**
Outstanding claims liability	**49,381**	**10,657**	**26**	**60,064**
Total	**61,566**	**10,657**	**26**	**72,249**
Consolidated 2022				
Trade and other payables	14,570	-	-	14,570
Outstanding claims liability	63,742	15,488	68	79,298
Total	78,312	15,488	68	93,868

Maturity profile of financial liabilities Company 2023	**1 year or less $'000**	**2 to 5 years $'000**	**Over 5 years $'000**	**Total $'000**
Trade and other payables	**11,882**	**-**	**-**	**11,882**
Outstanding claims liability	**49,381**	**10,657**	**26**	**60,064**
Total	**61,263**	**10,657**	**26**	**71,946**
Company 2022				
Trade and other payables	14,274	-	-	14,274
Outstanding claims liability	63,742	15,488	68	79,298
Total	78,016	15,488	68	93,572

NOTE 16. RISK MANAGEMENT (continued)

16.5 Operational risk

a. Nature of risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. In addition to financial loss, operational risks can result in reputational damage, increased regulatory supervision, loss of members, loss of licence and personal injury.

b. How risk is managed

Operational risks are identified and assessed on an ongoing basis by Line 1 management and staff. Risks are assessed and controls are identified to mitigate inherent risks to an acceptable residual risk level in line with the Group's risk appetite. Active management of any residual risk outside of appetite is assigned to a responsible person, together with the development of a time-bound action plan which is documented in the Group's risk management system. Key controls are also subject to periodic control testing by Line 1 management.

The effectiveness of controls are subject to periodic Line 2 risk reviews and control testing.

A Line 3 internal audit team may also undertake thorough audits to assess the design and effectiveness of the controls in place.

The key controls relied upon to mitigate risks include:

- Staff with industry expertise and/or specialist qualifications are employed and charged with responsibility for implementing the RMF within their functional areas;
- Delegated authorities are based on expertise and proven performance with adherence closely monitored;
- System access controls within the claims and protections system which are subject to six-monthly review;
- Dual authorisation of all payments and for the addition of new supplier banking details;
- Business continuity and disaster recovery plans;
- Documented policies and procedures; and
- Regular and formalised training for staff to maintain and develop professional knowledge and understanding of compliance obligations.

(i) Outsourcing risk

Outsourcing is a significant and important part of the Group's business model and recognises that the reliance on outsourcing agreements to achieve business objectives gives rise to substantial risks.

The Board recognises that material outsourced business activities remain the responsibility of the Board. The Group's primary outsourced service providers are CMM and Capricorn Risk Services Pty Ltd (CRS) with respect to the management of the Group's business.

CML also outsources its collections management to CSL which in turn guarantees payment and also provides access to CSL's membership base.

NOTE 16. RISK MANAGEMENT (continued)

(ii) Business interruption risk

The Board acknowledges that critical events may occur that are beyond the control of the Group, but which may potentially have catastrophic effects on its ability to reach business objectives.

The Group manages these risks through a combination of strategies. Adequate insurance is placed to transfer risk through reducing potential financial losses.

In addition, a system of crisis identification and management has been adopted. Procedures are in place to determine the most appropriate course of action in response to a potential crisis event. The Business Continuity Plan (BCP) details how the Group will ensure the ongoing operation of its critical business functions in the event of a crisis. The Information Technology Disaster Recovery Plan (DRP) details how the Group will ensure the recovery of critical IT systems following an unplanned outage or failure. Both the BCP and the DRP are subject to annual testing.

16.6 Economic risk

a. Nature of risk

Economic risk is the risk of loss from changes in macroeconomic conditions such as government regulation, exchange rates or political stability.

The Group’s exposure to economic risks is identified and managed as part of the group-wide RMF and is overseen by the Board. Through risk profiling and ongoing trend analysis, information on these risks is collected and reported to management and Board and used to update the Group’s strategy at appropriate intervals.

NOTE 17. RELATED PARTY TRANSACTIONS

17.1 Parent entity

The parent entity within the Group is Capricorn Mutual Limited.

17.2 Subsidiaries

Investments in subsidiaries are set out in Note 8.3.

17.3 Inter-company transactions

Transactions between the Company and its controlled entities during the year ended 30 June 2023 are detailed below:

- The Company recognised reinsurance expenses of $11,297,533 (2022: $9,208,351) in accordance with the Agreement for Discretionary Protection with CIOM. It also paid a management fee of $45,000 (2022: $55,000) to CIOM. The amounts payable for Discretionary Protection are equal to the amounts payable by CIOM to CMLNZ and CMLNZ to Aon Benfield Australia Limited (Aon) under the terms of the CMLNZ reinsurance program.
- CIOM recognised reinsurance expenses of $11,297,533 (2022: $9,208,351 in accordance with the Indemnity Agreement with CMLNZ. It also paid a management fee of $10,000 (2022: $10,000) to CMLNZ. The amounts payable for Indemnity are equal to the amounts payable by CMLNZ under the terms of the CMLNZ reinsurance program.
- The Company recognised reinsurance recoveries of $16,408,568 (2022: $39,827,296) in accordance with the Agreement for Discretionary Protection with CIOM.
- CIOM recognised $16,408,568 (2022: $39,827,296) in accordance with the Indemnity Agreement with CMLNZ which CMLNZ recognised from the ultimate reinsurance recoveries from Aon.

NOTE 17. RELATED PARTY TRANSACTIONS (continued)

17.4 Related party transactions

Transactions between the Company and its related parties during the year ended 30 June 2023 are detailed below:

- The Company paid management fees of $16,237,971 (2022: $13,474,780) under the terms of the management agreement with CMM;
- The Company paid management fees of $14,565,742 (2022: $12,750,392) under the terms of the management agreement with CRS; and
- The Company incurred service fees of $4,868,138 (2022: $4,125,511) under the terms of the PSTA with CSL.

Finity Consulting has been engaged to obtain independent industry benchmarking to ensure that annual management fees are on commercial terms.

17.5 Key management personnel

The Directors of the Company have been determined to be Key Management Personnel (KMP) within the scope of AASB 124: Related Party Disclosures. The names of the persons who were Directors of the Company at any time during the financial year were as follows:

- John Balmforth (Retired 11 March 2023)
- Mark Cooper
- Mario Pirone
- Bruce Rathie
- Rachel Thomson (Appointed 30 March 2023)

Directors were in office for the full period unless otherwise stated.

The fees paid to Directors during the year ended 30 June 2023 by the Company are detailed below:

	Short Term Benefits $	Post-Employment Benefits $	Total $
2023	**358,755**	**36,409**	**395,164**
2022	311,509	30,536	342,045

All other KMP are employees of CMM, CRS and CSL. The Company receives management services from CMM, CRS and CSL which includes the provision of KMP. The Company does not remunerate KMP or directly reimburse CMM, CRS or CSL for this cost; rather an overall management fee is paid to CMM and CRS. This is disclosed within Note 17.4 Related Party transactions.

NOTE 18. COMMITMENTS FOR EXPENDITURE

CMM has an agreement with CML to manage its operations until June 2024. CRS has an agreement with CML to distribute its products to Members until June 2024. The remuneration under each agreement is negotiated annually. The total agreed management fee for FY2024 is $35.9m. CML has an agreement with CSL to provide protection to its Members under the terms of a PSTA until June 2024.

NOTE 19. AUDITOR'S REMUNERATION

	Consolidated		Company	
	2023	2022	**2023**	2022
	$	$	**$**	$
(i) Audit services				
PwC and related network firms				
Audit and review of financial reports	**328,957**	195,752	**328,957**	195,752
AASB17 proactive assurance	**80,682**	-	**80,682**	-
Total remuneration for audit services	**409,639**	195,752	**409,639**	195,752
(ii) Other services				
PwC and related network firms				
Tax compliance services, including review of controlled entity income tax returns	**41,000**	36,070	**30,000**	27,000
Transfer Pricing	**-**	9,000	**-**	9,000
Total remuneration for other services	**41,000**	45,070	**30,000**	36,000
Total auditor's remuneration	**450,639**	240,822	**439,639**	231,752

NOTE 20. SIGNIFICANT ACCOUNTING POLICIES

20.1 Basis of consolidation

The Consolidated Financial Report comprises the financial statements of CML and its subsidiaries as at and for the period ended 30 June 2023. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the Statements of Comprehensive Income from the date the Group gains control until the date the Group ceases to control the subsidiary.

NOTE 20. SIGNIFICANT ACCOUNTING POLICIES (continued)

Profit or loss and each component of Other Comprehensive Income is attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- de-recognises the assets (including goodwill) and liabilities of the subsidiary;
- de-recognises the carrying amount of any non-controlling interests;
- de-recognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss; and
- reclassifies the parent's share of components previously recognised in profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

20.2 Outsourced operations

The Company has entered into an agreement with CMM to outsource its underwriting, claims management and general administration and with CRS to distribute its products. The amount of the fee payable to CMM and CRS is determined by the Board each year after reference to independent market information for similar outsourced arrangements.

A corporate administrative agreement is in place between the Company, CIOM, CMM and IQ EQ (Isle of Man) Limited in relation to the administration of the affairs of CIOM.

20.3 Revenue recognition

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

(i) Protection revenue

Protection revenue comprises amounts charged to Members excluding amounts collected on behalf of third parties. Protection revenue is recognised in the Statements of Comprehensive Income when it has been earned. Protection revenue is recognised in the Statements of Comprehensive Income from the attachment date and earned over the period of the contract from its inception date. The proportion of protection revenue not earned in the Statements of Comprehensive Income at the reporting date is recognised in the Statements of Financial Position as unearned protection revenue. The Company also charges membership fees to its Members which are recognised as income when charged.

(ii) Reinsurance and other recoveries revenue

Reinsurance and other recoveries received or receivable on paid claims, reported claims not yet paid, claims incurred but not reported (IBNR) and claims incurred but not enough reported (IBNER) are recognised as revenue. Amounts recoverable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the provision for outstanding claims.

NOTE 20. SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) Interest revenue

Interest revenue is recognised on a time proportion basis using the effective interest method.

20.4 Reinsurance expense

The contractual obligations towards reinsurance contracts held by the Consolidated Entity are recorded as a reinsurance expense and are recognised in the Statements of Comprehensive Income from the attachment date over the period of the contract in accordance with the expected pattern of the incidence of risk ceded. Accordingly, a portion of reinsurance expense is deferred at the reporting date.

20.5 Claims

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

The expected future payments include those in relation to claims reported but not yet paid, IBNR, IBNER and anticipated future claims handling costs.

Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can be indirectly associated with individual claims, such as claims administration costs.

The expected future payments are discounted to present value using a risk-free rate.

A risk margin is applied to the outstanding claims liability, net of reinsurance and recoveries, to reflect the inherent uncertainty in the central estimate of the outstanding claims liability. The risk margin increases the probability of the net liability being adequately provided for at balance date.

20.6 Acquisition costs

Acquisition costs incurred in obtaining protection revenue are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to revenue that will be recognised in the Statements of Comprehensive Income in subsequent reporting periods.

20.7 Borrowing costs

Borrowing costs are recognised as an expense when incurred.

NOTE 20. SIGNIFICANT ACCOUNTING POLICIES (continued)

20.8 Income and other taxes

Current tax consists of the expected tax payable on the taxable income for the year, after any adjustments in respect to previous years. Current tax assets and liabilities are the expected tax recoverable or payable on the taxable income for the year and any adjustments to tax payable in respect of previous financial periods.

Deferred tax is recognised in respect to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are recognised for all temporary differences between the carrying amount and tax bases. Deferred tax assets (deductible temporary differences, carried forward unused tax assets and unused tax losses) are recognised to the extent it is probable that future taxable profits will be available to utilise them before the unused tax losses or credits expire.

No deferred tax assets or liabilities are recognised in the following circumstances:

- temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting or taxable profit or loss.
- temporary differences between the carrying amount and tax bases of investments in subsidiaries when it is probable that the differences will not reverse in the foreseeable future.

Current tax and deferred tax assets and liabilities are offset when there is a legally enforceable right to offset and the tax balances relate to the same taxation authority.

The Company is limited by guarantee and operates for the mutual benefit of its Members. Accordingly the Company is not liable for income tax on contributions received from Members, nor are the related outgoings allowable as an income tax deduction. The Company is, however, liable for income tax on interest and other income from investments. CMLNZ is limited by shares and is liable for income tax in New Zealand. CIOM is not liable for income tax in Isle of Man as it does not meet the required profit thresholds.

Revenues, expenses, assets and liabilities are recognised net of the amount of GST, except where the amount of GST incurred on a purchase of goods or services is not recoverable from the relevant tax authority. In these circumstances, GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense as applicable and receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the relevant tax authority is included as part of receivables or payables in the Statements of Financial Position. Cash flows are included in the Statements of Cash Flows on a gross basis.

The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the relevant tax authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the relevant tax authority.

20.9 Cash and cash equivalents

Cash and cash equivalents include cash at bank and on hand which are used in the cash management function on a day to day basis and short-term deposits with a maturity of three months or less.

Cash and cash equivalents are carried at face value of the amount deposited. The carrying amounts of cash assets approximate their fair value. For the purposes of the Statements of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

NOTE 20. SIGNIFICANT ACCOUNTING POLICIES (continued)

20.10 Investments

Investments comprise of assets held to back protection liabilities and assets that represent Members' Equity. All investments are managed and performance evaluated on a fair value basis for both external and internal reporting purposes.

All investments are designated as fair value through the Statements of Comprehensive Income upon initial recognition. They are initially recorded at fair value (being the cost of acquisition excluding transaction costs) and are subsequently remeasured to fair value at each reporting date. Changes in the fair value are recognised as realised or unrealised investment gains or losses in the Statements of Comprehensive Income. Purchases and sales of investments are recognised on a trade date basis, being the date on which a commitment is made to purchase or sell the asset.

Transaction costs for purchases of investments are expensed as incurred. Investments are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and substantially all the risks and rewards of ownership have transferred.

Investment revenue is brought to account on an accrual basis.

20.11 Investment in subsidiaries

Investment in subsidiaries is initially recognised at cost, being fair value of consideration provided and is subsequently carried at the lower of cost and recoverable amount by the parent entity. Costs incurred in investigating and evaluating an acquisition up to the point of formal commitment to an acquisition are expensed as incurred. Where the carrying value exceeds the recoverable amount, an impairment charge is recognised in the Statements of Comprehensive Income which can subsequently be reversed in certain conditions. Where an additional interest is purchased in an existing subsidiary, the acquisition is treated as a transaction between owners and has no impact on the Statements of Comprehensive Income. Income from these investments, including dividends and trust distributions, is brought to account on an accrual basis.

Dividend revenue is accrued on the date the dividends are declared.

20.12 Assets backing protection liabilities

The Company has determined that all contributions receivable from Members, reinsurance and other recoveries, cash and cash equivalents, investments and trade and other receivables are held to back protection liabilities.

20.13 Receivables

Receivables are stated at the amounts to be received in the future, less any impairment losses. The amounts are discounted where the effect of the time value of money is material. The recoverability of debts is assessed on an on-going basis and provision for impairment is made based on objective evidence and having regard to past default experience. The impairment charge is recognised in the Statements of Comprehensive Income. Debts which are known to be uncollectible are written off.

20.14 Reinsurance and other recoveries receivable

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims. Reinsurance and other recoveries receivable are tested for impairment on an ongoing basis with any resultant changes being recognised in the Statements of Comprehensive Income.

NOTE 20. SIGNIFICANT ACCOUNTING POLICIES (continued)

20.15 Impairment of assets

Assets are tested annually for impairment or more frequently when changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised as the amount by which the asset's carrying amount exceeds its recoverable amount.

20.16 Deferred acquisition costs

Deferred acquisition costs (DAC) are amortised systematically in accordance with the expected pattern of the incidence of risk under the portfolio to which they relate. This pattern of amortisation corresponds to the earning pattern of the unearned protection revenue.

20.17 Unexpired risk liability

At each reporting date the Consolidated Entity assesses whether the unearned protection revenue is sufficient to cover all expected future cash flows relating to future claims against current protection contracts. This assessment is referred to as the LAT and is performed separately for each group of contracts subject to broadly similar risks and managed together as a single portfolio, see Note 7.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned protection revenue less DAC and deferred reinsurance costs, then the unearned protection revenue is deemed to be deficient.

The entire deficiency is recognised immediately in the Statements of Comprehensive Income. The deficiency is recognised firstly by writing down any DAC with any excess being recorded in the Statements of Financial Position as an unexpired risk liability.

The Company applies a risk margin to achieve a 75% probability of sufficiency for future claims.

20.18 Trade and other payables

These amounts represent liabilities for goods and services provided to the Consolidated Entity prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

20.19 Interest bearing liabilities

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

20.20 Derecognition of financial instruments

The derecognition of a financial instrument takes place when the Consolidated Entity no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

20.21 Critical judgements and estimates

The Company makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates are applied are described below at 20.22 and 20.23.

NOTE 20. SIGNIFICANT ACCOUNTING POLICIES (continued)

20.22 Outstanding claims liability

Provision is made for the estimated cost of claims incurred but not settled at the reporting date, including IBNR to the Company.

The estimation for the cost of claims includes direct expenses to be incurred in settling claims gross of the expected value of reinsurance and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified, where more information about the claim event is generally available. IBNR claims may often not be apparent to the Company until many years after the events giving rise to the claims.

The Public and Products Liability and Professional Indemnity classes of business will typically display greater variations between initial estimates and final outcomes because there is a greater degree of difficulty in estimating reserves. For the property classes, claims are typically reported soon after the event, and hence tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques, generally based upon statistical analysis of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience.

Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses; and
- movements in industry benchmarks.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these claims, the Company has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible, the Company adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected, taking into account the characteristics of the business class and the extent of the development of each accident year.

NOTE 20. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions are calculated gross of any reinsurance and other recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions.

Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in Note 6.

20.23 Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also calculated using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where it can be reliably concluded based on specific evidence that the Company may not receive amounts due to it and these amounts can be reliably measured, in which the case carrying the amount is reduced.

20.24 Reclassification of comparatives

Certain items have been reclassified from CML's prior year financial report to conform to the current year's presentation basis. In particular, the Statements of Cash Flows has had a minor reclassification change within the Contributions from Members and Payments to Suppliers lines.

20.25. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

No new mandatory standards, amendments to standards or interpretations became effective for annual periods beginning 1 July 2022.

The Australian Accounting Standards and amendments detailed in the table below are not mandatory for the Company until the application dates stated; however, early adoption is often permitted. The Company does not plan to adopt these standards early.

New accounting standards and amendments issued but not yet effective

Title	Description	Application date
AASB 17	Insurance Contracts	1 July 2023
AASB 9	Financial Instruments	1 July 2023 - Deferrable when adopted in conjunction with AASB 17
AASB 2021-2	Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates	1 Jan 2023
AASB 2022-1	Amendments to Australian Accounting Standards – Initial Application of AASB 17 and AASB 9 – Comparative Information	1 Jan 2023
AASB 2020-1	Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current	1 Jan 2024

AASB 9 Insurance Contracts

AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement. Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs.

NOTE 20. SIGNIFICANT ACCOUNTING POLICIES (continued)

Debt instruments are subsequently measured at FVTPL, amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held.

There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch. Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss.

For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss.

All other AASB 139 classification and measurement requirements for financial liabilities have been carried forward into AASB 9, including the embedded derivative separation rules and the criteria for using the FVO.

The incurred credit loss model in AASB 139 has been replaced with an expected credit loss model in AASB 9. The requirements for hedge accounting have been amended to more closely align hedge accounting with risk management, establish a more principle-based approach to hedge accounting and address inconsistencies in the hedge accounting model in AASB 139.

CML has considered the impact of AASB 9 on its financial statements and the fair value of financial assets is not expected to be materially impacted by the recognition of expected credit losses if AASB 9 were applied. As allowable under AASB9, CML is electing to adopt AASB 9 in conjunction with AASB17.

AASB 17 Insurance Contracts

AASB 17 Insurance Contracts (AASB 17) is a comprehensive new accounting standard for insurance contracts covering recognition, measurement, presentation and disclosure which was adopted by the AASB in July 2017. In June 2020, the IASB issued Amendments to IFRS 17 which deferred the effective date from 1 January 2021 to 1 January 2023 and made significant amendments to the standard in response to feedback from, and implementation issues raised by, stakeholders. These amendments were adopted by the AASB in July 2020. CML will adopt AASB 17 for the financial year ending 30 June 2024.

(i) Measurement models

AASB 17 introduces a new general measurement model for the recognition and measurement of insurance contracts.

AASB 17 permits the use of a simplified measurement model, the premium allocation approach (PAA), which is similar to the current basis on which general insurance is brought to account under AASB 1023. The PAA can be used if the liability for remaining coverage under the simplified approach is not expected to materially differ from that under the general model, or if the coverage period of the contracts is less than one year. CML has completed a detailed eligibility assessment of AASB 17 and has determined that CML will be eligible to apply the PAA to all its protection contracts and reinsurance held.

NOTE 20. SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Risk adjustment
The measurement of insurance contract liabilities will include a risk adjustment. The risk margin under AASB 1023 reflects the inherent uncertainty in the net discounted central estimate, whereas the risk adjustment is defined as the compensation required for bearing the uncertainty that arises from non-financial risk and is determined on a gross basis. Similar to the risk margin, the risk adjustment includes the benefit of diversification. AASB 17 requires the disclosure of the confidence level that corresponds to the risk adjustment used in the measurement of insurance contract liabilities.

(iii) Discount rates
AASB 17 requires estimates of future cash flows to be discounted to reflect the time value of money and financial risks related to those cash flows but does not prescribe a methodology for determining the discount rates used. CML expects to apply a bottom-up approach which discounts future cash flows based on risk-free market rates, adjusted to reflect the illiquidity of the protection contracts.

(iv) Onerous contracts
AASB 17 requires the identification of ‘groups’ of onerous contracts and recognition of losses arising on these contracts. Onerous contract losses are required to be recognised in the Statement of profit or loss and other comprehensive income on a gross basis when the expected fulfilment cash flows exceed the carrying value of the contract, or group of contracts.

(v) Transition
AASB 17 must be applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach may be applied. Based on our assessment, CML will apply the retrospective approach.

CML has performed an impact assessment which identified the key areas of expected impact. Based on the work performed to date, the impact of AASB 17 adoption on the CML’s reported net assets is unlikely to be material.

(vi) Presentation and disclosure
AASB 17 introduces several significant changes to the presentation of and disclosures in insurers’ financial statements. Existing protection contract line items on the Statement of financial position will be replaced and allocated to single line items representing portfolios of protection contract assets, and separately liabilities. Protection contract liabilities under AASB 17 include all cash flows that relate to the fulfillment of protection contracts including direct costs (such as acquisition, claims settlement and policy administration and maintenance costs) and other costs that are attributable to the fulfilment of protection contract (such as overheads costs). Protection contract liabilities, and separately assets, include portfolios of direct protection contracts issued.

In the Statement of profit or loss and other comprehensive income, gross earned premium will be replaced by protection contract revenue reflecting the amount that CML expects to receive for the services it has provided in the period. Claims incurred, including recoveries other than those from reinsurers, and attributable operational expenses will be combined into a single line item for the protection service expenses. The total of protection contract revenue less the protection service expense will represent the protection service result. The effect of the time value of money on the expected cash flows of protection contract assets and liabilities is presented as protection finance income or expense.

NOTE 21. SUBSEQUENT EVENTS

As at the date of this report, there were no material or unusual events or transactions occurring after the reporting date that the Directors are aware of that would significantly affect the Group’s operations or its state of affairs.

DIRECTORS' DECLARATION

In the opinion of the Directors of Capricorn Mutual Limited:

- the financial report and notes are in accordance with the Corporations Act 2001, including:
  - giving a true and fair view of financial position of the Company and Consolidated Entity as at 30 June 2023 and of their performance, as represented by the results of their operations and their cash flows for the year ended on that date;
  - complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
  - the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.
- 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 this 15th day of September 2023 in accordance with a resolution of Directors.

Mario Pirone

Chairman

Rachel Thomson

Director

Independent auditor's report

To the members of Capricorn Mutual Limited

Our opinion

In our opinion:

The accompanying financial report of Capricorn Mutual Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Company's and Group's financial positions as at 30 June 2023 and of their financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Company and Group financial report comprises:

- the Consolidated and Company statements of financial position as at 30 June 2023
- the Consolidated and Company statements of comprehensive income for the year then ended
- the Consolidated and Company statements of changes in equity for the year then ended
- the Consolidated and Company statements of cash flows for the year then ended
- the notes to the financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Company and the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other information

The directors are responsible for the other information. The other information comprises the information included in the consolidated annual report for the year ended 30 June 2023, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

Christopher Verhaeghe
Partner

Sydney
15 September 2023

CORPORATE DIRECTORY

Registered Office

The registered office of Capricorn Mutual Limited (CML), the parent entity is:
28 Troode Street
West Perth, WA 6005
Australia

The registered office of CML NZ Limited (CMLNZ), a wholly owned subsidiary is:
c/- Buddle Findlay
1 Willis St, Wellington Central
Wellington 6011
New Zealand

The registered office of Capricorn (Isle of Man) Limited (CIOM), a wholly owned subsidiary is:
c/- IQ EQ (Isle of Man) Limited
First Names House
Victoria Road
Douglas
Isle of Man IM1 4DF

Auditor	Actuary
PricewaterhouseCoopers	Finity Consulting
One International Towers Sydney	Level 7, 68 Harrington Street
Watermans Quay	The Rocks
Barangaroo, NSW 2000	Sydney, NSW 2000

Bank	Solicitor
ANZ Banking Group	Lander & Rogers
77 St Georges Terrace	Level 19
Perth, WA 6000	123 Pitt St
	Sydney, NSW 2000

FIVE YEAR FINANCIAL SUMMARY

Consolidated	FY23 $'000	FY22 $'000	FY21 $'000	FY20 $'000	FY19 $'000
Gross written protections	121,928	99,586	86,899	72,854	64,323
Net claims expense	(57,815)	(47,729)	(38,926)	(31,555)	(31,366)
Net underwriting result	8,107	4,429	8,930	8,235	4,195
Income tax expense	(302)	(9)	(52)	(98)	(135)
Profit after tax	7,502	1,843	825	5,538	2,635
Add: member loyalty rebate	33	4,294	6,000	-	-
Profit after tax excluding rebate	7,535	6,137	6,825	5,538	2,635
Total Assets	174,167	175,023	132,037	100,639	87,570
Members' Equity	34,851	27,349	25,506	24,682	19,144
Key Ratios					
Gross written protections growth	22%	15%	19%	13%	15%
Gross claims ratio*	51%	104%	60%	58%	56%
Combined operating ratio**	94%	98%	99%	92%	96%
Combined operating ratio excluding rebate	94%	93%	91%	92%	96%

*Gross Claims Ratio excludes the impact of the Member Loyalty Rebate

**Combined operating ratio includes all P&L items as they are all considered to be part of the operations of the Company