Employers Mutual
Since 1910

ANNUAL REPORT 2015

FINANCIAL STATEMENTS
30 JUNE 2015

ANNUAL REPORT 2015

Contents

Director's Annual Report to the Members

For the year ended 30 June 2015

The Directors present their report together with the financial report of Employers Mutual Limited ("the Company") and the consolidated financial report of the Group, being the Company and its controlled entities, for the year ended 30 June 2015 and the auditor's report thereon.

Directors

The Directors of the Company in office during the financial year and up to the date of this report are:

William J. A. O'Reilly, BDS, Dip Law BAB, FAICD, FACLM (Chairman)

Conjoint Associate Professor Mr. O'Reilly is a general dental practitioner and has been admitted as a barrister of the Supreme Court of New South Wales. Mr. O'Reilly has served two terms as the President of the Australian Dental Association NSW Branch, and two terms as the President of the National Australian Dental Association. He also holds roles as Non-Executive Director of BUPA Dental Corporation and President of the Dental Council of NSW. Previously Director of Manchester Unity Australia for five years and its independent elected Chairman for four years, Mr. O'Reilly is a member of the National Australia Bank nabhealth National Advisory Council, advising the Bank on contemporary dental trends. Director Hospitality Employers Mutual, Board of the Motor Neurone Disease Association of Australia. Mr. O'Reilly assists the Motor Accident Authority of the New South Wales Government in matters related to dental injuries sustained in motor vehicle accidents. Mr. O'Reilly is an experienced Director in general management, strategy, government bodies, member based services and mutual organisations.
Appointed 9 December 2010, reappointed 22 November 2011. Appointed Chairman on 22 November 2011.

Robert G. Cleland, B. Com

Previously Customer Service Manager for Employers Mutual Limited for more than five years, Mr Cleland was a Councillor with the New South Wales Road Transport Association for 20 years including 3 years as President and 6 years as Honorary Treasurer. He has over 30 years of insurance experience.
Appointed 2 March 1982, reappointed 27 November 2013.

David J. Iliffe, FCA

Director of Whitefield Limited. Mr Iliffe has over 30 years of insurance and public accounting experience and was previously Chief Executive Officer of Employers Mutual Limited 1996-2002.
Appointed 19 February 2002, reappointed 29 November 2012.

Andrew J. Grant, B. Bus (Hons) CMA

Director and Principal of Technology Leasing Partnership from 1996, Managing Director of Hal Data Services Pty Limited from 1993, CEO of Leading Edge Group Limited from 2012, Executive Director of Armidale Investment Corporation Limited from 2012 and a Director of Hospitality Employers Mutual Limited. Mr Grant has been an Associate Member of the Chartered Institute of Management Accountants since 1986.
Appointed 19 February 2002, reappointed 29 November 2012.

Catherine A. King

Catherine King has extensive experience in the areas of community and stakeholder relations, communications planning, strategy development and issues management. She has a thorough knowledge of local, state and federal government with over 15 years' experience in government. Ms King has successfully managed communication campaigns in the business, political and community arenas for a diverse range of organisations. For the last decade, she has been leading a business providing strategic communications advice. Ms King is a director of Adelaide Fringe Inc. and Trinity Advisory Pty Ltd.
Appointed 21 June 2007, reappointed 27 November 2013.

Paul Baker, LLB, GAICD

Mr. Baker is the Managing Director and founder of Meridian Lawyers, a mid-sized legal practice with offices in Sydney, Melbourne, Brisbane and Newcastle. Mr. Baker previously held a Director role with Guild Accountants between 2006 and 2009. Mr. Baker is a highly regarded insurance, commercial and health lawyer realised through his involvement in a number of high profile cases since the late 1980's – in particular the generic substitution litigation in the early 1990s, the 1995 Fairfax litigation, as well as in number of high profile sports litigation matters. Mr. Baker has previously held a Health Industry and Government Consumer Medicines Taskforce Committee role and is a past legal member of the South Eastern Sydney Ethics committee. Mr. Baker is an experienced Director in general management and strategy.
Appointed 23 September 2014.

Company Secretary

David Stone BA, LLB
Mr Stone is Senior Legal Counsel & Company Secretary, with practice experience in corporate and commercial law, financial services, insurance and transportation law. He has worked as a lawyer for over 12 years both in law firm private practice and within in-house legal teams, with experience primarily in Australia and also in the United Kingdom.

Resigned 30 June 2015.

Alexandra Duff BA, LLB
Ms Duff is the newly appointed Legal Counsel and Company Secretary for Employers Mutual since May 2015. She has particular experience in both Work, Health and Safety and Immigration Law, after working within the Safety Team at Sparke Helmore Lawyers and completing a Bachelor of Laws/Bachelor of International Studies at the University of Technology, Sydney.
Appointed 1 July 2015.

Matthew Wilson LLB, Grad Dip Legal Practice, Snr Assoc ANZIIF(CIP)
Mr Wilson is General Counsel and Company Secretary. Mr Wilson's background includes corporate lawyer and professional adviser in the fields of risk management, regulatory compliance and corporate governance practice in the Australian financial services sector. Mr Wilson has also held the office of director and company secretary for many financial services companies over the past 20 years.
Appointed 30 September 2010.

Directors' Meetings

The number of Directors' meetings attended by each of the Directors during the financial year is:

Director	Directors' meetings		Audit Committee		Underwriting Committee		Remuneration Committee		Risk Committee	
	No. held*	Attended	No. held*	Attended	No held*	Attended	No. held*	Attended	No. held*	Attended
W J A O'Reilly	8	8	7	6	3	3	2	2	4	4
R G Cleland	8	7	7	7	3	2**	2	2	4	4
D J Iliffe	8	8	7	7	3	3	2	2	4	4
A J Grant	8	6	7	6	3	1	2	1	4	3
C King	8	8	7	7	3	3	2	2	4	4
P Baker	7	7	0	0	0	0	0	0	2	1

** Number held whilst in Director role or a member of the committee*

*** With leave of absence*

Strategy and objectives

Employers Mutual's long-term objective is to be the number one performer in personal injury claims management. The group seeks to provide the highest quality insurance service to its mutual policyholders. It does so both by achieving faster and more durable return to work outcomes and by reducing employers' workers compensation costs. These reduced costs are achieved through the development and delivery of solutions to prevent workplace injuries and through providing assistance to employees to recover from any injuries that do occur.

The strategy to achieve these objectives has been to continue to develop into one of Australia's leading specialist workers compensation managers, providing claims and underwriting management services to WorkCover NSW, the NSW Government and Return to Work South Australia. The group has also been able to develop specialised insurance solutions for the hotels and clubs industries through Hospitality Employers Mutual. In addition, it delivers claims management activities on behalf of large self-insured workers compensation schemes.

In order to meet its goals, Employers Mutual has set the following short-terms objectives for the 2016 financial year and beyond:

- Continue to monitor and seek improvement in return to work outcomes across core business units
- Pursue tender opportunities which complement and build upon the group's claims management expertise while providing a sustainable financial return
- Seek process improvements to maximise outcomes cost-effectively
- Careful and considered reinvestment of funds through the member benefits program to improve occupational health, safety and injury management programs for members.

Principal activities

The principal activities of the Group comprise:

- The provision of workers compensation management services to employer members as an agent of:
  - WorkCover NSW
  - Return to Work SA
  - NSW Self Insurance Corporation
- Underwriting workers compensation insurance in the NSW hospitality industry through the controlled entity Hospitality Employers Mutual Limited
- The provision of workers compensation claims management services to self-insured clients
- Run-off of the pre-1987 underwritten workers compensation insurance portfolio
- Investment of accumulated funds

Any person or corporation who holds insurance with the company or its controlled entity or has a policy managed by Employers Mutual (as agent of a statutory authority) may become a member of the Company.

Results and review of operations

The consolidated profit after tax was $8,328,000 (2014: $15,779,000). This is another strong result for the group; albeit lower than prior year largely because of the exceptional profits derived from the Hospitality Employers Mutual (Hospitality) business in 2014. In prior year, Hospitality experienced a significant actuarial release, of $6m, as well as achieving premium growth. A further actuarial release has been achieved in the 2015 financial year, partly driven by better than expected active claims, but this is more modest at $2.9m. Premium has also remained relatively stable. In the financial year under review, this controlled subsidiary returned a profit of $5.43m after tax. (2014: $10.33m).

Other factors influencing the Group result include:

- Continued strong profits from the Partnership business; with a positive result of $15.1m (prior year $13.5m). The Partnership business undertakes the contractual and statutory obligations of Employers Mutual in respect of workers compensation insurance and management and underwritten insurance activities. The 2015 financial year has seen excellent performance from the Return to Work SA portfolio, as well as continued strength in the WorkCover NSW and TMF schemes. Claims management activities on behalf of self-insured workers compensation schemes continue to perform well and contribute to the profitable result.
- Investment revenue of $4.5m (2014: $7.3m) reflects both the low outright level of interest rates coupled with a net gain on interest bearing securities from the fall in interest rates in the period. This outcome, while positive, is below the abnormally strong returns generated in the prior year.
- Increased expenditure on member benefit expenses, of $6.6m (2014: $5m).

Events subsequent to balance date

On 4 August 2015, the Minister for Finance, Services and Property NSW announced an increase to a number of workers compensation benefit types. The effects of this reform package cannot yet be quantified; hence no adjustment has been made to the financial statements. Other than the proposed reforms, there have been no other matters or circumstances other than those disclosed in the financial report that have arisen since the end of the financial year and have significantly affected or may significantly affect either the Company or the Consolidated Group.

Membership

The Company is a company limited by guarantee and without share capital. In the event of winding up of the Company, all members will be required to contribute an amount limited to $2 per member.

Statutory information

State of affairs

There have been no other significant changes in the state of affairs of the consolidated entity during the last financial year nor has any other matter arisen since 30 June 2015 which will significantly affect the operations of the consolidated entity or the results of those operations or the state of affairs of the consolidated entity in the next financial year.

Likely developments

The Company will continue to focus on markets where we can provide a high level of service to current and future members while achieving appropriate returns relative to the risk of operations.

The WorkCover NSW legislative reforms which were legislated in June 2012 and commenced in stages from then on have had a significant effect on the claims management business. As noted, further reforms have been proposed subsequent to year end, indicating an increased number of workers compensation benefits. The ultimate impact of the proposed reforms remains uncertain.

Directors' indemnification

Since the end of the previous year, the Company has paid insurance premiums in respect of a Directors' and Officers' liability policy that covers the Directors and Officers of Employers Mutual Limited. The terms of the policy specifically prohibit disclosure of details of the amount of the insurance cover and the nature of the liability insured against.

Since the end of the previous financial year, no Director of the consolidated entity has received any benefit by reason of any contract made by the consolidated entity with a Director or with a firm of which they are a member or with a company in which they have a substantial financial interest other than under policies of insurance in the normal course of business.

Presentation of the Parent Entity Financial Statements

Parent entity financial statements have been included in the consolidated financial statements for the year ended 30 June 2015. The Company is the kind of Company referred to in the class order as 10/654 dated 26 July 2010 issued by the Australian Securities and Investments Commission.

Lead auditor's independence declaration under section 307c of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 10 and forms part of the Directors' Report for the year ended 30 June 2015.

Signed on behalf of the Board, in accordance with a resolution of the Directors.

W J A O'Reilly
Director

A J Grant
Director

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the Directors of Employers Mutual Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2015 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

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

KPMG

KPMG

A. R

Andrew Reeves
Partner

Sydney
22 September 2015

Statements of Comprehensive Income

For the year ended 30 June 2015

	Note	2015 The Company $000	2015 Consolidated $000	2014 The Company $000	2014 Consolidated $000
Premium revenue	5(a)	-	55,969	-	56,758
Outwards reinsurance expense		47	(15,475)	39	(15,543)
		47	40,494	39	41,215
Claims expense	20	213	(27,876)	(57)	(20,802)
Reinsurance and other recoveries	20	(563)	7,415	441	6,973
Net claims expense	20	(350)	(20,461)	384	(13,829)
Other underwriting expenses	5(b)	-	(9,675)	-	(9,320)
Underwriting surplus/(deficit)		(303)	10,358	423	18,066
Investment revenue	5(c)	5,476	4,485	3,708	7,285
Management fees received	5(d)	161,339	161,340	136,578	136,582
Other revenue	5(e)	16,124	16,707	14,146	14,403
General and administration expenses		(1,668)	(9,730)	(1,594)	(9,182)
Member benefit expense		(6,568)	(6,568)	(5,001)	(5,001)
Management fees paid	5(f)	(163,228)	(163,229)	(138,433)	(138,437)
Profit before related income tax expense		11,172	13,363	9,827	23,716
Income tax expense attributable to operating profit	6(a)	2,736	5,035	3,486	7,937
Profit for the year		8,436	8,328	6,341	15,779
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		8,436	8,328	6,341	15,779
Profit attributable to:					
Equity holders of the parent		8,436	6,698	6,341	12,679
Non-controlling interest		-	1,630	-	3,100
Profit for the year		8,436	8,328	6,341	15,779
Total comprehensive income attributable to:					
Equity holders of the parent		8,436	6,698	6,341	12,679
Non-controlling interest		-	1,630	-	3,100
Total comprehensive income for the year		8,436	8,328	6,341	15,779

The Statements of Comprehensive Income are to be read in conjunction with the notes to the financial statements

Statements of Financial Position

As at 30 June 2015

		2015		2014	
	Note	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Current assets					
Cash and cash equivalents		6,549	10,055	3,463	12,805
Trade and other receivables	7	46,188	99,008	39,056	90,671
Reinsurance and other recoverables receivable	8	96	4,869	682	4,288
Financial assets at fair value	12	4,977	15,193	2,008	16,898
Deferred reinsurance expense	9	-	12,057	-	11,725
Prepayments		432	19,928	204	18,900
Other assets	11	464	30,715	3,996	32,314
Total current assets		58,706	191,825	49,409	187,601
Non-current assets					
Trade and other receivables	7	2,733	2,598	2,558	2,558
Reinsurance and other recoverables receivable	8	1,213	18,965	1,252	16,828
Deferred tax assets	6(c)	641	1,513	1,737	2,450
Financial assets at fair value	12	44,485	73,687	41,761	65,242
Prepayments		-	5,334	-	5,531
Other assets	11	8,687	8,687	6,363	6,363
Total non-current assets		57,759	110,784	53,671	98,972
TOTAL ASSETS		116,465	302,609	103,080	286,573
Current liabilities					
Trade and other payables	14	4,975	43,816	2,037	40,776
Unearned premium liability	15	-	39,621	-	38,425
Outstanding claims liability	16(a)	788	15,423	837	13,613
Income tax payable	6(b)	1,559	2,607	-	3,568
Provisions	17	2,241	2,241	1,691	1,691
Unearned income	18	243	6,495	-	13,018
Total current liabilities		9,806	110,203	4,565	111,091
Non-current liabilities					
Outstanding claims liability	16(a)	13,329	80,251	13,621	69,327
Total non-current liabilities		13,329	80,251	13,621	69,327
TOTAL LIABILITIES		23,135	190,454	18,186	180,418
NET ASSETS		93,330	112,155	84,894	106,155
EQUITY					
Reserves	19	25,307	25,307	25,307	25,307
Retained earnings		68,023	74,453	59,587	67,755
Total equity attributable to equity holders of the Company		93,330	99,760	84,894	93,062
Non-controlling interest		-	12,395	-	13,093
TOTAL EQUITY		93,330	112,155	84,894	106,155

The Statements of Financial Position are to be read in conjunction with the notes to the financial statements

Statements of Changes in Equity

For the year ended 30 June 2015

	The Company			Consolidated			
	General Reserves $000	Retained Earnings $000	Total $000	General Reserves $000	Retained Earnings $000	Non-controlling interest $000	Total $000
Balance at 1 July 2013	25,307	53,246	78,553	25,307	55,076	10,410	90,793
Total comprehensive income for the year							
Profit for the year attributable to	-	6,341	6,341	-	12,679	3,100	15,779
Total comprehensive income for the year	-	6,341	6,341	25,307	12,679	3,100	15,779
Dividend paid	-	-	-	-	-	(417)	(417)
Balance at 30 June 2014	25,307	59,587	84,894	25,307	67,755	13,093	106,155
Balance at 1 July 2014	25,307	59,587	84,894	25,307	67,755	13,093	106,155
Total comprehensive income for the year							
Profit for the year	-	8,436	8,436	-	6,698	1,630	8,328
Total comprehensive income for the year	-	8,436	8,436	-	6,698	1,630	8,328
Dividend paid	-	-	-	-	-	(2,328)	(2,328)
Balance at 30 June 2015	25,307	68,023	93,330	25,307	74,453	12,395	112,155

The Statements of Changes in Equity are to be read in conjunction with the notes to the financial statements

Employers Mutual
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Statements of Cash Flows

For the year ended 30 June 2015

	Note	2015		2014	
		The Company $000	Consolidated $000	The Company $000	Consolidated $000
Cash flows from operating activities					
Premium revenue received		-	54,217	-	59,231
Reinsurance and other recoveries received		62	8,073	1	6,972
Reinsurance paid		-	(16,172)	-	(17,209)
Management fees received		116,454	152,705	88,027	129,617
Dividends received		5,628	363	1,511	786
Interest received		986	4,014	1,096	3,940
Trust distributions received		63	260	(1)	(1)
Other revenue received		15,607	15,607	12,900	12,900
Claims paid		(123)	(15,498)	(518)	(13,642)
Acquisition costs paid		-	(624)	-	(565)
Member benefits paid		(6,018)	(6,018)	(5,911)	(5,911)
General expenses and management fees paid		(109,890)	(174,761)	(102,270)	(160,425)
Borrowing costs paid		-	-	1	1
Income taxes paid		(81)	(5,060)	4	(1,451)
Net cash provided by/(used in) operating activities	25 (b)	22,688	17,106	(5,160)	14,243
Cash flows from financing activities					
Loan repayments received		2,442	2,442	1,297	1,297
Dividends paid non-controlling interest		-	(2,328)	-	(417)
Net cash provided by financing activities		2,442	114	1,297	880
Cash flows from investing activities					
Proceeds from disposal of investments		46,368	111,645	42,136	154,419
Payments for investments		(54,506)	(121,545)	(36,658)	(164,800)
Payments for acquisition of debtors		(13,906)	(10,070)	(2,197)	(2,197)
Net cash provided by/(used in) investing activities		(22,044)	(19,970)	3,281	(12,578)
Net (decrease)/increase in cash and cash equivalents		3,086	(2,750)	(582)	2,545
Cash and cash equivalents at the start of the financial year		3,463	12,805	4,045	10,260
Cash and cash equivalents at the end of the financial year	25 (a)	6,549	10,055	3,463	12,805

The Statements of Cash Flows are to be read in conjunction with the notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2015

NOTES TO THE FINANCIAL STATEMENTS

Notes to the Financial Statements

For the year ended 30 June 2015

Note 1 Reporting Entity, Basis of Preparation and Significant Accounting Policies

Reporting Entity

The consolidated financial report of Employers Mutual Limited (the "Company") as at and for the year ended 30 June 2015 comprises the Company and its subsidiaries (together referred to as the "Group"). Employers Mutual Limited is a public company limited by guarantee, domiciled in Australia.

The Group is a for-profit entity and its principal activities comprise:

- The provision of workers compensation management services to employer members as an agent of:
  - WorkCover NSW
  - Return to Work SA
  - NSW Self Insurance Corporation
- Underwriting workers compensation insurance in the NSW hospitality industry through the controlled entity Hospitality Employers Mutual Limited
- The provision of workers compensation claims management services to self-insured clients
- Run-off of the pre 1987 underwritten workers compensation insurance portfolio
- Investment of accumulated funds

Any person or corporation who holds insurance with the company or its controlled entity or has a policy managed by Employers Mutual (as agent of a statutory authority) may become a member of the Company.

The financial report was authorised for issue by the directors on 22 September 2015.

Basis of Preparation

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been applied consistently to all periods presented and by each consolidated entity.

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

The financial report complies with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The financial report is presented in Australian dollars. The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and, in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars unless otherwise stated.

The financial report is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value – outstanding claims, receivables, payables and investments backing insurance liabilities.

Note 1 Reporting Entity, Basis of Preparation and Significant Accounting Policies (Continued)

Basis of Preparation (Continued)

The preparation of a financial report requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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 estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of Australian Accounting Standards that have significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been applied consistently to all periods presented and by each consolidated entity.

Parent entity financial statements have been included in the consolidated financial statements for the year ended 30 June 2015. The Company is the kind of Company referred to in the class order as 10/654 dated 26 July 2010 issued by the Australian Securities and Investments Commission.

Significant Accounting Policies

(a) Classification of insurance contracts

Contracts under which the Group accepts significant insurance risk from the policyholder or another party by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event adversely affects the policyholder or other beneficiary are classified as insurance contracts. Insurance risk is risk other than financial risk transferred from the holder of a contract to the issuer.

(b) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST). Exchanges of goods or services of the same nature and value without any cash consideration are not recognised as revenues.

(i) Premium Revenue

Premium revenue comprises amounts charged to the policyholder, excluding amounts collected on behalf of third parties, principally stamp duties and GST. The earned portion of premiums received and receivable, including unclosed business, is recognised as revenue. Premium is treated as earned from the date of attachment of risk. Premiums on unclosed business are brought to account using estimates based on the previous year’s actual unclosed business with due allowance for any changes in the pattern of new business and renewals.

The pattern of recognition of income over the policy or indemnity periods is based on time, where it closely approximates the pattern of risks underwritten. Where time does not approximate to the pattern of risk, premium is earned in relationship to the incidence of risk.

Note 1 Reporting Entity, Basis of Preparation and Significant Accounting Policies (Continued)

Significant Accounting Policies (continued)

(b) Revenue recognition (continued)

(ii) Investment Revenue

Dividends and unit trust distributions are brought to account on the date that the underlying shares or units are quoted as ex-dividend or ex-distribution. Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

(iii) Workers compensation management fees

Workers Compensation management performance fees are recognised in the accounts only when the income is deemed probable of being received and the dollar value due can be measured reliably.

Owing to the complex calculations underlying the performance fees and the delays in the provision of the supporting data, it may be the case that performance fees relating to a financial year are not recognised until subsequent financial years, as a result of these recognition criteria not being met.

(iv) Other income – revenue from partnership

Employers Mutual Limited receives 50% of the profit from the partnership between Employers Mutual Limited and the Trustee for ASWIG Management Trust. The partnership income is recognised as it accrues.

(c) Workers compensation statutory funds

During the year, the Company was contracted to maintain statutory insurance funds for external clients. The application of the statutory funds was restricted to the collection of premiums and the payment of claims, related expenses and other payments authorised under the relevant Acts. The Company is not liable for any deficiency in the funds, or entitled to any surplus. Accordingly, the statutory funds are of a separate and distinct nature. The income and expenses of the statutory funds are excluded from the Group's Statement of Comprehensive Income and the assets and liabilities of the statutory funds have been excluded from the Group's Statement of Financial Position.

(i) New South Wales Self Insurance Corporation

The Company has a contractual agreement with the New South Wales Self Insurance Corporation as an agent for the New South Wales Treasury Managed Fund – Workers Compensation Portfolio 2. The NSW Treasury Managed Fund is a scheme of self-insurance introduced by the NSW Government in 1989 and protects the insurable assets and exposures of all NSW public sector agencies financially dependent on the Consolidated Fund, all public hospitals and a number of statutory authorities.

(ii) WorkCover New South Wales

The WorkCover Authority of New South Wales is constituted by the Workplace Injury Management and Workers Compensation Act 1998 as a statutory corporation representing the Crown. The Nominal Insurer is established by the Workers Compensation Amendment (Insurance Reform) Act 2003 ("the Act"). The Nominal Insurer is the legal entity responsible for the NSW WorkCover Scheme. The funds of the Scheme are held in the Workers Compensation Insurance Fund, which are managed by the Nominal Insurer.

Employers Mutual NSW Ltd has been appointed as a Scheme Agent by the Nominal Insurer within the meaning of the Act to provide certain services in relation to premium collection and claims management for workers compensation policies.

Note 1 Reporting Entity, Basis of Preparation and Significant Accounting Policies (Continued)

(c) Workers compensation statutory funds (continued)

(iii) Return to Work SA

Return to Work SA ("RTWSA") is a statutory authority established under the WorkCover Corporation Act 1994 and has responsibility for administration of the Workers Rehabilitation and Compensation Act 1986 (WRC Act). RTWSA has a Board appointed by South Australia's Governor on the recommendation of the Minister for Industrial Relations.

Employers Mutual SA Pty Ltd has been appointed as Scheme Agent by RTWSA to provide case management services.

(d) Reinsurance

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid and incurred claims not yet reported are recorded as revenue. Recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims. The details of discount and inflation rates applied are included in note 16.

(e) Outwards reinsurance

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

(f) Claims

Claims expense and a liability for outstanding claims are recognised as losses occur. The liability for outstanding claims includes claims reported but not yet paid; claims incurred but not yet reported (IBNR) and the anticipated direct and indirect costs of settling those claims. Outstanding claim provisions are subject to external actuarial assessment.

The liability for outstanding claims for long-tail business is measured as the present value of the expected future payments. These payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement, such as normal and superimposed inflation. The expected future payments are discounted to present value at balance date using a risk free rate.

The Company includes a prudential margin in its liability for outstanding claims. Under Prudential Standards issued by the Australian Prudential Regulation Authority, a licensed insurer must include a prudential margin in its actuarially assessed estimate of outstanding claims liabilities for reporting so that the estimated probability of the liability for outstanding claims being sufficient to meet all claims is approximately 75%.

(g) Investments

The assets backing general insurance liabilities are those assets required to cover the technical insurance liabilities plus an allowance for solvency.

The Group has determined that all assets are held to support insurance liabilities. The Group's investment strategy considers the expected pattern of future cash flows arising from insurance liabilities.

The accounting policies applying to assets held to back general insurance activities are:

(i) Financial assets

The Group values financial assets and any assets backing insurance activities at fair value through profit and loss, with any resultant unrealised profits and losses recognised in the Statement of Comprehensive Income. The valuation methodology of the assets valued at fair value is summarised below:

Note 1 Reporting Entity, Basis of Preparation and Significant Accounting Policies (Continued)

(g) Investments (continued)

(i) Financial assets (continued)

- cash assets and bank overdrafts are carried at face value of the amounts deposited or drawn,
- trade and other receivables are stated at their cost less impairment losses,
- shares and fixed interest securities are initially recognised at cost and the subsequent fair value is taken as the quoted bid price of the investment,
- unlisted investments are initially recognised at cost and subsequently valued using a valuation methodology.

(h) Acquisition costs

A portion of acquisition costs relating to unearned premium revenue is deferred and recognised as assets where it represents a future benefit to the consolidated entity. Deferred acquisition costs are measured at the lower of cost and recoverable amount. Any deferred acquisition costs not considered recoverable are written off as an underwriting expense in the year.

Deferred acquisition costs are systematically amortised over the period expected to benefit from the expenditure, which is generally no greater than 12 months.

(i) Consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entities. The financial statements of the controlled entities are included from the date control commences until the date control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements, less any impairment losses.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

(j) Taxation

Income tax on the Statement of Comprehensive Income for the periods presented comprises current and deferred tax. Income tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Note 1 Reporting Entity, Basis of Preparation and Significant Accounting Policies (Continued)

(k) Payables

Liabilities are recognised for amounts to be paid in the future for goods and services received. Trade accounts payable are normally settled within 60 days.

(l) Provision for member benefits

The Company provides member benefits through a number of initiatives which will improve outcomes in relation to injury management and occupational health and safety. The Company recognises a provision for those benefits that have been committed to at the end of the year.

(m) Unexpired risk liability

Provision is made for unexpired risks arising from general business where the expected value of claims and expenses attributed to the unexpired periods of policies in force at the reporting date exceed the unearned premiums provision in relation to such policies, after the deduction of any deferred acquisition costs. The provision for unexpired risk is calculated separately by reference to separate classes of business, which are managed together.

Unexpired risk liability, if any, remaining after writing off deferred acquisition costs is recognised immediately in the Statement of Comprehensive Income.

(n) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

(o) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(p) Managed funds

As explained in note 1(c), the Consolidated Entity does not control or have the capacity to control the statutory funds in terms of AASB 3 Business Combinations and for this reason the funds are not consolidated in the Statement of Comprehensive Income or Statement of Financial Position of the Company.

(q) Joint Arrangements

The Company holds a 50% interest in a jointly controlled entity.

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interest in the joint venture is accounted for using the equity method. It is recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include

Note 1 Reporting Entity, Basis of Preparation and Significant Accounting Policies (Continued)

(q) Joint Arrangements (continued)

the Group's share of the profit or loss and other comprehensive income of equity accounted investees, until the date on which significant influence or joint control ceases.

(r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 July 2015, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company, except for:

- AASB 9 Financial Instruments, which becomes mandatory for the Company's 30 June 2019 financial statements and could change the classification and measurement of financial assets; and
- AASB 15 Revenue from Contracts with Customers, which becomes mandatory for the Company's 30 June 2018 financial statements and could change the determination of whether, how much and when revenue is recognised.

The Company does not plan to adopt these standards early and the extent of the impact has not been determined.

The following new or amended standards are not expected to have a significant impact on the Group's consolidated financial statements:

- AASB 11 Joint Arrangements (amendments to AASB 11)

(s) New standards implemented

No new standards effective for the period beginning 1 July 2014 have a material impact on the financial statements.

Note 2 Accounting estimates and judgements

(a) Accounting estimates and judgments

Management has discussed with the Board Audit Risk and Compliance Committee the development, selection and disclosure of the critical accounting policies and estimates and the application of these policies and estimates.

(b) Key sources of estimation uncertainty

The key areas of estimation uncertainty for the Company and its consolidated entities are described below.

(i) Estimation of workers compensation management fees

Owing to the complex calculations underlying the performance fees and the delays in statutory authorities providing the supporting data, it may be the case that performance fees relating to a financial year are not recognised until subsequent financial years, when further information on past performance become available. The Directors, as at the date of this report, have applied the accounting policy in note 1(b) using data available at the date of this report.

Note 2 Accounting estimates and judgements (continued)

(b) Key sources of estimation uncertainty (continued)

(ii) Estimation of outstanding claims liability

Provision is made at year end for the estimated cost of claims incurred but not settled at the reporting date, including the cost of claims incurred but not yet reported (IBNR) to the Group. Refer to note 16.

The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. 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 to the Group, where more information about the claim event is generally available. In calculating the estimated cost of unpaid claims, the Group uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience.

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

The methods used to analyse past claims experience and to project future claims experience are largely determined by the available data and the nature and maturity of the portfolio.

(iii) Estimation of member benefit provision

The member benefit liability, as disclosed in note 17, comprises a pool of committed funds which has been created to assist members to improve claims and injury outcomes in the workplace. The funds have been allocated to a number of areas, including funding for specific proposals as submitted by members. The year-end provision represents a reasonable estimate of the expected cost of these initiatives.

Note 3 Actuarial assumptions and method

(a) Process used to determine outstanding claims liabilities (actuarial methods)

The general approach to actuarial estimation of insurance liabilities is to analyse all available past experience, including numbers of reported active and finalised claims, amounts of claim payments, changes in case estimates and incurred loss ratios. This analysis allows patterns to be identified in the past experience. Based on this, development patterns associated with the run-off of outstanding claims and premium liabilities at the balance date can be estimated.

The determination of the outstanding claims liabilities involves the following steps:

- The determination of the central estimate of outstanding claims at the balance date. The central estimate of outstanding claims includes an allowance for claims incurred but not reported (IBNR), the further development of reported claims and the direct and indirect costs of settling those claims.
- The central estimate has no deliberate bias towards either over or under estimation. Generally speaking, this means that the central estimate is assessed to have a 50% chance of being adequate.
- The determination of a risk margin and claims handling expense provision to be added to the central estimates of outstanding claims.

The actuarial techniques used to estimate the outstanding claims liabilities were:

Note 3 Actuarial assumptions and method (continued)

(a) Process used to determine outstanding claims liabilities (actuarial methods) (continued)

- For the workers compensation run off - claim number multiplied by claim size approach for all claim types, except the weekly claims, which were valued using an annuity approach.
- For the public liability portfolios – the Bornhuetter-Ferguson technique which uses an initial expectation of a loss ratio and a pattern for the payment of claims and the Incurred Cost Development method which uses a pattern for IBNR development.
- For the underwritten workers compensation portfolio - based on the Payment per Active Claim and Payment per Claim Incurred methodologies. The Payment per Active Claim methodology uses projections of active claims (i.e. the number of claims expected to receive weekly benefit payments in the future) and expected payments of weekly benefits for those active claims. The Payment per Claim Incurred methodology uses average claim sizes, claim frequencies and patterns for the payment of claims for the Medical, Lump Sum, Common Law, Recoveries and Legal, Investigation and Other benefit types.

(b) Actuarial assumptions

The key actuarial assumptions for the determination of the outstanding claims liabilities are as follows:

	2015				2014			
	Underwritten Workers Compensation	Workers Compensation Run-off	Public Liability	Combined	Underwritten Workers Compensation	Workers Compensation Run-off	Public Liability	Combined
Average term to settlement years*	6.83	10.14	2.80	6.66	6.30	10.35	2.76	6.99
Average claim sizes $	20,937	72,900	n/a	21,713	21,371	69,930	n/a	22,819
Expense rate	9.40%	5.40%	0.0%	8.40%	8.80%	5.40%	0.0%	8.40%
Discount rate	3.30%	3.34%	2.46%	3.32%	3.80%	3.92%	3.04%	3.76%

** varies depending on the insurance terms of the policy*

(c) Process used to determine actuarial assumptions

A description of the processes used to determine the key actuarial assumptions is provided below:

(i) Future number of workers compensation claims

For asbestos claims, estimated future numbers of claims are based on the assumed latency period of the Company's exposures and the Company's assumed level of asbestos exposure relative to the industry. The key assumptions are the number of claims expected to be reported in 2015/2016, the future period over which reporting will occur as well as the period at which the peak for reporting occurs.

Due to the relatively small size of the Company's asbestos exposures, external benchmarks regarding the peak period and the pattern of future reporting have been considered.

For all other claim types (excluding weekly claims) future claim numbers have been estimated based on the "decay rate" of claim reports for each claim type observed in recent years.

It has been assumed that no more weekly claims will be reported.

Note 3 Actuarial assumptions and method (continued)

(c) Process used to determine actuarial assumptions (continued)

(ii) Average claim size for workers compensation claims

The average claim size for each type of future workers compensation claims has been determined based on inspection of the Company's historical settlement experience.

(iii) Public liability schemes

For the public liability schemes, the future loss costs have been estimated based on an assumed loss ratio or based on case estimates and an assumed pattern of IBNR development. These assumptions have been based on analysis of the historical experience for the schemes.

(d) Average term to settlement – underwritten workers compensation

A payment pattern has been selected based on a combination of the Company's historical and (where there is limited experience) on benchmarked industry experience adjusted for the Company's actual written business exposure. This implies an average discounted term to settlement shown in the assumptions above.

(e) Expense rate

The adopted claims handling expense rates were based on the schedule of expenses agreed between the Company and the partnership.

(f) Loss ratio

Where a loss ratio has been used, the future loss costs have been estimated based on assumed average claim sizes, claim frequencies and assumed claims and payment development patterns. Separate projections are carried out for the Weekly, Medical, Lump Sum, Common Law and Legal, Investigation and Other benefit types. These assumptions have been based on analysis of the Company's claims experience and benchmarked industry experience with adjustments for the Company's business mix.

(g) Discount rate

The central estimates of the outstanding claims liabilities were discounted to allow for future investment income attributable to the assets backing the liabilities during the run off period. The future investment earnings assumptions are estimates of the future annual risk free rates of return. They have been based on the yield curve on Australian Government Bonds as at 30 June 2015.

Note 3 Actuarial assumptions and method (continued)

(h) Sensitivity analysis

The outstanding claims liabilities included in the reported results are calculated based on the key actuarial assumptions as disclosed above. The movement in any of the above key actuarial assumptions will impact the performance and equity of the Group. The table below describes how a change in each of the assumptions will affect the outstanding claims liabilities.

Key actuarial assumptions	Changes	Impact on central estimate of outstanding claims liabilities and equity $000
All classes EML		
Expense rate	+1% / -1%	84 / (84)
Normal inflation rate	+1% / -1%	1,125 / (1,125)
Discount rate	+1% / -1%	(1,166) / 1,166
All classes HEM		
Expense rate	+1% / -1%	461 / (461)
Discount rate	+1% / -1%	(3,195) / 3,810
Average claim size	+10% / -10%	5,236 / (5,236)
Average term to settlement	+10% / -10%	(1,155) / 1,221
Workers Compensation Run-off		
Gross average claim size	+10% / -10%	877 / (877)
Number of future claims reported	+10% / -10%	860 / (860)
Public Liability		
Initial expected loss ratio	+10% / -10%	13 / (13)

Note 4 Risk management

(a) Risk appetite

The Board has adopted a Risk Appetite Statement (RAS) that articulates the level of risk the company is prepared to accept. The RAS states the Board's tolerance for risk across a number of exposure or risk areas:

- Capital, earnings and return targets
- Insurance risk
- Regulatory and compliance risk
- Asset risk
- Operational risk
- Strategic and reputation risk
- People and capability risk
- Governance risk

(b) Risk management framework

The Group has established a risk management framework for managing the risks it faces. The Group has a designated Risk and Governance function which is responsible for the development and maintenance of the framework. In accordance with Prudential Standard CPS 220 Risk Management, issued by the Australian Prudential Regulation Authority ("APRA"), the risk management framework is summarised in the Risk Management Strategy (RMS). The Reinsurance Management Strategy (ReMS) also forms part of the risk management framework. The RMS and ReMS are both developed by management

Note 4 Risk management (continued)

(b) Risk management framework (continued)

and approved by the Board. The Group also meets the requirements of the Cross Industry Prudential Standard CPS220 Risk Management effective 1 January 2015.

The risk management framework (and the RMS) have been developed and designed to ensure that the Group operates within the Board's risk tolerances as stated in the RAS. The risk management framework operates with the objective of ensuring risks are managed within tolerance or if a risk should move outside of tolerance that strategies are put in place to return the risk to tolerance as soon as practical.

The RMS and ReMS identify the Group's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the Group. Annually, the Board certifies to APRA that adequate strategies have been put in place to monitor those risks, that the Group has systems in place to ensure compliance with legislative and prudential requirements and that the Board has satisfied itself as to compliance with the RMS and ReMS.

(c) Capital, earnings and return targets

The Group has set a target capital adequacy ratio of 2.5 to 3 times its prescribed capital amount (PCA) which is the minimum level of capital required in APRA's capital standards (assessed at the level 2 Group). The Group has established an internal capital adequacy assessment process (ICAAP) which it uses to monitor and project its capital position, stress test its capital resiliency and to assess the capital and financial impact of business opportunities. Further detail on capital management is included in Note 28.

The Group has adopted a target return on capital (for underwritten businesses) and return on expenses (for other businesses) of over 15% over a business or contract cycle. While the intention is to limit earnings' volatility, it is acknowledged that the nature of the business has an inherent level of uncertainty and below target returns are acceptable in periods of growth and transition. The Group closely monitors the performance of its businesses to ensure they are meeting earnings targets.

(d) Insurance risk

The Group has established policies for accepting insurance risks. The risk under any one insurance contract arises out of the uncertainty surrounding the timing and severity of claims under the contract.

The Group manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines, centralised management of reinsurance and monitoring of emerging issues. Methods of monitoring performance include internal risk measurement models, scenario and stress testing and regular review of performance by product.

The principal risk is that the frequency and severity of claims is greater than expected. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

The Group has an objective to control insurance risk, thus reducing the volatility of operating profits. In addition to the inherent uncertainty of insurance risk, which can lead to significant variability in the loss experience, profits from insurance business are affected by market factors, particularly competition and movements in asset values. Short-term variability is, to some extent, a feature of insurance business.

The Group writes insurance risks only in Australia and currently only underwrites (through its Hospitality subsidiary) workers compensation in NSW. The Group will consider further underwriting opportunities where a business case demonstrates that the capital adequacy and the level of return to shareholders remain within risk tolerances.

The underwriting strategy is to ensure that the Group is able to meet the insurance needs of the majority of customers, whilst achieving the risk management and financial objectives of the Group.

(e) Reinsurance strategy

The Group adopts a conservative approach towards its reinsurance risk management. The Board has determined the level of risk which is appropriate for the Group having regard to its financial resources,

Note 4 Risk management (continued)

(e) Reinsurance strategy (continued)

premium volume and the usual concepts of prudence and regulatory constraint. It uses reinsurance products to mitigate capital and financial risk.

This approach is summarised in the Reinsurance Management Strategy (ReMS) and approved by the Board. The Group has an Underwriting Committee that assesses the effectiveness of the reinsurance management process. The control mechanisms include annual review of reinsurance arrangements, reinsurance programs and criteria for selection of reinsurers.

(f) Concentration of insurance risk

Concentration of insurance risk occurs where multiple exposures or policyholders are subject to losses from the one event and are particularly relevant in the case of catastrophes including natural disasters. The Group has estimated a maximum event retention and purchases excess of loss reinsurance to provide protection above that retention to a level well in excess of its assessed probable maximum loss determined by modelling aggregated exposures and projected losses from catastrophes. The Group reviews its maximum event retention and probable maximum loss regularly to ensure adequate reinsurance coverage.

(g) Regulatory and compliance risks

The Group is subject to regulatory supervision by APRA. It is also subject to supervision by state workers compensation regulators: WorkCover NSW and Return to Work SA. The Group works closely with regulators and monitors regulatory developments to assess any potential impact on its ongoing ability to meet the various regulatory requirements.

The Group utilises a comprehensive enterprise wide program of internal and external audit to assist in managing its regulatory and compliance risk.

(h) Asset risks

The Group has a low tolerance for investment risk for assets backing insurance liabilities and seeks to limit the scope for asset–liability mismatch risk. Asset liability modelling, using dynamic financial analysis techniques, is undertaken annually to match asset and liability durations and to underpin a review of the investment mandate. The investment mandate is established each year by the Board and provides limited scope for the investment manager to make tactical investment decisions around an approved benchmark portfolio.

(i) Liquidity risk

Liquidity risk is the risk that there are insufficient cash resources available to meet current obligations as they fall due without affecting the ongoing operations or the financial or capital position of the Group. Actual and expected cash flow for its businesses are actively monitored and reviewed to ensure that all businesses within the Group have, and continue to have, sufficient funds.

(j) Credit risk

Credit risk is the risk of a loss arising from a counterparty not meeting their financial obligations to the Group. The Group's credit risks predominantly arise from reinsurance arrangements, investment activities and state government agencies (contracting to provide claims management services). In accordance with our ReMS the use of reinsurers is limited to those that are highly rated and investments are limited to investment grade securities through the investment mandate. State governments concerned are highly rated and not considered a material credit risk.

Note 4 Risk management (continued)

(k) Operational risks

Operational risk is the risk of financial loss (including lost opportunities) resulting from internal processes, people and systems which fail to perform as required or are inadequate. When operational controls break down, an operational incident may occur that results in financial loss, breach of regulatory, legal and contractual obligations, fraud or damage to reputation.

The Group's Risk Management Strategy includes consideration of operational risk and the Group uses a framework of operational controls to manage its operational risk exposures – a control framework is established for each business operation. Operational Risk is identified and assessed on an ongoing basis. Management and staff are responsible for identifying, assessing and managing operational risks in accordance with their roles and responsibilities. The Group utilises the risk management function and the internal/external audit functions of the Group as second and third lines of defence to monitor and verify the effectiveness of processes, procedures and controls surrounding operational risk.

(l) Strategic and reputation risks

Strategic and reputation risks are the risk that a failure or weakness in business strategy and business planning may lead to poor decision making and financial losses. The Group establishes business plans for its operations which articulate business strategy and incorporate three year budgets. The Group aims to grow its business and is considering opportunities in both underwritten and non-underwritten business. Business cases are to be established and approved for any material business opportunity in accordance with the business appraisal requirements of the risk management framework. Business cases are required to demonstrate how they meet our strategic objectives and fit within our risk appetite including, but not limited to, target returns and capital adequacy levels.

(m) People and capability risks

A key critical resource for the business is its people and their capability. People and capability risk is the risk that the business does not have sufficient resources or the available resources are not sufficiently skilled to meet the needs of the business. The Group has a range of strategies in place to manage its people risks by recruiting the right staff, providing appropriate training and implementing strategies to improve employee engagement and staff retention.

(n) Governance risks

Governance risk is the risk that a breakdown in governance may lead to financial loss, reputational impacts or regulatory or compliance issues. The Company maintains an independent Board with an effective, robust committee structure to provide arms-length strategic oversight of the business and ensure that the interests of the members are maintained.

Note 5 Operating profit

	2015		2014	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
(a) Premium revenue				
Premium revenue – direct	-	51,696	-	52,094
Profit commission and other recoveries from reinsurance	-	4,273	-	4,664
	-	55,969	-	56,758
(b) Other underwriting expenses				
Acquisition costs	-	(577)	-	(565)
Management fees paid	-	(6,796)	-	(6,438)
WorkCover levy	-	(2,302)	-	(2,317)
	-	(9,675)	-	(9,320)
(c) Investment revenue				
Dividends from external parties	158	329	406	742
Dividends from related parties	5,447	-	1,082	-
Interest revenue	1,121	4,013	1,061	4,016
Trust distributions	63	229	(1)	18
Profit on sale of investments	563	1,120	1,337	1,669
Unrealised investment gains/(losses)	(1,876)	(1,206)	(177)	840
	5,476	4,485	3,708	7,285
(d) Management fees revenue				
Statutory Agent fee revenue	145,536	145,536	128,352	128,352
Other	15,803	15,804	8,226	8,230
	161,339	161,340	136,578	136,582
(e) Other revenue				
Share of profits of joint venture	15,130	15,713	13,502	13,759
Other income	994	994	644	644
	16,124	16,707	14,146	14,403
(f) Management fees paid				
Statutory Agent fee expense	(145,536)	(145,536)	(128,352)	(128,352)
Other	(17,692)	(17,693)	(10,081)	(10,085)
	(163,228)	(163,229)	(138,433)	(138,437)

Note 6 Taxation

	2015		2014	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
(a) Income tax expense				
Prima facie income tax expense calculated at 30% on operating profit	3,351	4,009	2,948	7,115
Increase/(decrease) in income tax expense due to:				
Imputation gross-up on dividends received	711	731	191	234
Franking credits on dividends received	(2,369)	(803)	(638)	(457)
Permanent differences	978	979	898	899
Income tax expense attributable to profit	2,671	4,916	3,400	7,792
Under provision for tax expense in previous years	65	119	86	145
Tax expense/(benefit) attributable to operating profit	2,736	5,035	3,486	7,937
Income Tax Expense is made up of				
Current tax	1,640	4,050	-	4,176
Under provision in prior year	65	119	86	145
Deferred tax	1,031	866	3,400	3,616
	2,736	5,035	3,486	7,937
(b) Current tax liabilities				
Provision for income tax payable	1,559	2,607	-	3,568
(c) Net deferred tax assets/(liabilities)				
Deferred tax assets	881	2,892	2,101	3,729
Deferred tax liabilities	(240)	(1,379)	(364)	(1,279)
Net deferred tax assets/(liabilities)	641	1,513	1,737	2,450
(d) Net deferred tax				
The balance comprises of temporary differences attributable to:				
Claims handling expenses	154	1,984	159	1,643
Member benefit provision	672	672	507	507
Accrued investment income	(46)	(55)	(46)	(53)
Unrealised gain on investments	(194)	(1,199)	(318)	(1,045)
Prior years accumulated tax losses	916	916	3,935	3,935
Current year utilisation of tax losses	(916)	(875)	(2,939)	(3,016)
Other	55	70	439	479
Net deferred tax	641	1,513	1,737	2,450

Note 6 Taxation (continued)

	2015		2014	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Reconciliation of Deferred Tax Asset				
Balance at 1 July	1,737	2,450	5,229	6,167
Prior year under provision	(65)	(71)	(92)	(101)
Credited to Statement of Comprehensive Income	(1,031)	(866)	(3,400)	(3,616)
Balance at 30 June	641	1,513	1,737	2,450
Franking Account				
Class C 30% franking credits	40,798	44,846	38,347	40,678

- Balance of franking account is adjusted for:
  - franking credits that will arise from the payment of the amount of the provision for income tax;
  - franking debits that will arise from the payment of dividends recognised as liability at the reporting date; and
  - franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

Note 7 Trade and other receivables

	2015		2014	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Current				
Trade debtors	51	239	105	1,336
Other debtors	35	35	10,672	12,088
Quota share commission	-	7,545	-	5,901
Amount due from Partnership	11,819	11,819	10,363	10,363
Accrued income	34,204	37,984	17,736	23,095
GST receivable	79	48	180	210
Premium receivable	-	41,389	-	37,739
Provision for impairment	-	(51)	-	(61)
	46,188	99,008	39,056	90,671
Non-current				
Amount due from Partnership	2,733	2,598	2,558	2,558
	2,733	2,598	2,558	2,558

Terms and conditions

Amount due from Partnership - revenue from profit share agreement not yet distributed.

Note 8 Reinsurance and other recoveries receivable

	2015		2014	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Reinsurance and other recoveries – current	96	4,869	682	4,288
Reinsurance and other recoveries - non-current	1,213	18,965	1,252	16,828
Total reinsurance and other recoveries	1,309	23,834	1,934	21,116
Reinsurance and other recoveries on claims paid	34	1,054	616	1,594
Expected future reinsurance and other recoveries on outstanding claims liability	1,275	22,780	1,318	19,522
Total reinsurance and other recoveries receivable	1,309	23,834	1,934	21,116

Note 9 Deferred reinsurance expense

	2015		2014	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Deferred reinsurance expense	-	12,057	-	11,725
Reconciliation of changes in deferred reinsurance expense:				
Balance at 1 July	-	11,725	-	11,987
Deferral of reinsurance premiums on current year contracts	-	12,057	-	11,725
Earning of reinsurance premiums previously deferred	-	(11,725)	-	(11,987)
Balance at 30 June	-	12,057	-	11,725

Note 10 Deferred acquisition costs

	2015		2014	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Deferred acquisition costs – current	-	-	-	-
Deferred acquisition costs - non-current	-	-	-	-
Total deferred acquisition costs	-	-	-	-
Reconciliation of changes in deferred acquisition costs:				
Balance at 1 July	-	-	-	-
Acquisition costs incurred in year	-	577	-	565
Amortisation charged to income	-	(577)	-	(565)
Balance at 30 June	-	-	-	-

Note 11 Other assets

	2015		2014	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Current				
Performance guarantee bond	-	-	2,000	2,000
Specialised Insurer Security Deposit	-	30,251	-	28,318
Loan to Clubs NSW	464	464	844	844
Loan to Australian Hotels Association	-	-	1,152	1,152
	464	30,715	3,996	32,314
Non-current				
Performance guarantee bond	5,770	5,770	2,644	2,644
Loan to Clubs NSW	2,917	2,917	3,719	3,719
	8,687	8,687	6,363	6,363

Terms and conditions

The loan to Clubs NSW and the loan to Australian Hotels Association are interest bearing loans. Interest is charged at the RBA 30 day bank bill rate.

Note 12 Financial assets

	Note	2015 The Company $000	2015 Consolidated $000	2014 The Company $000	2014 Consolidated $000
Current					
Bank accepted bills of exchange		3,979	10,454	997	5,469
Government and other public securities		998	4,739	1,011	11,429
		4,977	15,193	2,008	16,898
Non-current					
Investment in controlled entity at cost	13	22,900	-	22,900	-
		22,900	-	22,900	-
Other non-current financial assets					
Shares in listed companies and unit trusts		3,216	10,167	4,433	10,753
Shares in unlisted companies and unit trusts	24(b)	2,510	2,510	4,101	4,101
Floating rate notes		6,336	10,609	1,976	12,307
Government and other public securities		9,523	50,401	8,351	38,081
Total other financial assets		21,585	73,687	18,861	65,242
Total non-current financial assets		44,485	73,687	41,761	65,242
Total financial assets		49,462	88,880	43,769	82,140

All financial assets are designated as fair value through profit and loss.

Employers Mutual
Since 1910

Note 13 Investment in controlled entities

(a) Summarised information of interests in controlled entities is as follows:

	Reporting date	Principal place of business	Principal activity	Consolidated			
				Carrying value		Ownership interest	
				2015 $000	2014 $000	2015 %	2014 %
Employers Mutual NSW Limited*	30 June	Australia	Workers compensation claims administration	500	500	100	100
Hospitality Employers Mutual Limited* [1, 2]	30 June	Australia	Insurance underwriting	22,400	22,400	50	50
				22,900	22,900		

* Audited by KPMG

[1] Employers Mutual Limited holds 50% of the ordinary share capital of Hospitality Employers Mutual Limited, with the remaining 50% owned equally by the Australian Hotels Association NSW and ClubsNSW. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The majority of Hospitality Employers Mutual board members are appointed by Employers Mutual Limited and hence it is deemed that control is exercised by Employers Mutual Limited.

[2] Employers Mutual Limited has an additional investment of $12.8 million of subordinated debt, classified as equity under AASB 139, in Hospitality Employers Mutual Limited. This subordinated debt carries no voting rights.

The ultimate Australian entity and parent entity is Employers Mutual Limited.

None of the controlled entities are listed on a stock exchange. There is no unrecognised share of losses arising from the above controlled entities, both for the reporting year and cumulatively.

(a) Summarised financial information of subsidiaries

Disclosure is based on the financial statements prepared in accordance with AASB under Group accounting policies. The following summarised information represents the financial position and performance of the entities as a whole and not just Employers Mutual Limited's share.

	2015		2014	
	Employers Mutual NSW Limited $000	Hospitality Employers Mutual Limited $000	Employers Mutual NSW Limited $000	Hospitality Employers Mutual Limited $000
Summarised statement of comprehensive income				
Revenue	49,210	40,447	50,044	41,175
Profit / (loss) after tax	1	5,431	7	10,334
Other comprehensive income	-	-	-	-
Total comprehensive income	1	5,431	7	10,334
Summarised balance sheet				
Total assets	22,549	194,162	23,271	183,134
Total liabilities	22,048	152,844	22,755	139,487
Net assets as at reporting date	501	41,318	515	43,647
Carrying value as at 30 June	501	20,659	515	21,824

Note 14 Trade and other payables

	2015		2014	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Trade creditors	384	562	33	6,030
Levies payable	-	2,149	-	2,252
Reinsurance payable	522	16,561	569	15,456
Other creditors	4,069	24,544	1,435	17,038
Total trade and other payables	4,975	43,816	2,037	40,776

Terms and conditions

Trade and other payable transactions with related entities have been made on terms equivalent to arm's length transactions.

Note 15 Unearned premium liability

	2015		2014	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Unearned premium liability – current	-	39,621	-	38,425
Unearned premium liability – non-current	-	-	-	-
Total	-	39,621	-	38,425
Reconciliation of changes in unearned premium liability				
Balance 1 July	-	38,425	-	39,547
Premiums written during the year	-	52,892	-	50,972
Premiums earned during the year	-	(51,696)	-	(52,094)
Balance at 30 June	-	39,621	-	38,425

Note 16 Outstanding claims

	2015		2014	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
(a) Outstanding claims liability				
Outstanding claims liability – current	788	15,423	837	13,613
Outstanding claims liability – non-current	13,329	80,251	13,621	69,327
Total outstanding claims liability	14,117	95,674	14,458	82,940
Central estimate	14,153	102,372	15,887	90,514
Prudential margin	6,171	16,222	6,488	15,012
Claims handling allowance	762	7,497	882	7,316
Discount to present value	(6,969)	(30,417)	(8,799)	(29,902)
Gross outstanding claims liability	14,117	95,674	14,458	82,940

Note 16 Outstanding claims (continued)

(b) The following average annual inflation (normal and superimposed) rates and discount rates were used in measuring the liability for outstanding claims and recoveries for the succeeding and subsequent financial years:

	2015 Employers Mutual	2015 Hospitality Employers Mutual	2014 Employers Mutual	2014 Hospitality Employers Mutual
For the succeeding and subsequent years:				
AWE inflation rate	3.50%	3.50%	3.75%	3.75%
CPI inflation rate	n/a	2.50%	n/a	n/a
Superimposed inflation rate	1.71%	1.00%	1.71%	2.00%
Discount rate	3.34%	3.30%	3.92%	3.70%

(c) The weighted average expected term to settlement of the outstanding claims from balance date is estimated to be 6.66 years (2014: 6.99 years).

(d) Risk Margin

Process used to determine the risk margin

The risk margin is an additional allowance for uncertainty in the ultimate cost of claims. The overall margin adopted is determined by the Board after considering the uncertainty in the portfolio, industry trends and the Group's risk appetite.

To determine the margin adopted, the Appointed Actuary has reviewed the factors impacting the portfolio to establish a recommended margin at the level required by the Boards. Factors considered include:

- variability of claims experience of the portfolio
- quality of historical data
- diversification between different classes within the portfolio

The level of uncertainty varies between classes of business. As such, the adopted prudential margin varies between business classes. The prudential margin is applied to the gross central estimate with the appropriate reinsurance recoveries provided.

The aggregate risk margin, after diversification allowance, is intended to approximate a 75% probability of sufficiency.

The prudential margins applied to the portfolio for a 75% level of adequacy are:

Note 16 Outstanding claims (continued)

(e) Reconciliation of Changes in Discounted Net Outstanding Claims

The Company	2015			2014		
	Gross $000	Reinsurance $000	Net $000	Gross $000	Reinsurance $000	Net $000
Balance at 1 July	14,458	1,317	13,141	14,947	1,493	13,454
Current claims incurred	-	-	-	-	-	-
Change in previous years' claims	(213)	(563)	350	57	441	(384)
Current year claims paid/reinsurance recovered	-	-	-	-	-	-
Previous year claims paid/reinsurance recovered	(128)	521	(649)	(546)	(617)	71
Discounted outstanding claims	14,117	1,275	12,842	14,458	1,317	13,141

Consolidated	2015			2014		
	Gross $000	Reinsurance $000	Net $000	Gross $000	Reinsurance $000	Net $000
Balance at 1 July	82,940	19,522	63,418	75,391	17,258	58,133
Current claims incurred	33,295	8,925	24,370	32,258	8,856	23,402
Change in previous years' claims	(5,419)	(1,510)	(3,909)	(11,456)	(1,883)	(9,573)
Current year claims paid/reinsurance recovered	(5,793)	(1,912)	(3,881)	(5,194)	(1,838)	(3,356)
Previous year claims paid/reinsurance recovered	(9,349)	(2,245)	(7,104)	(8,059)	(2,871)	(5,188)
Discounted outstanding claims	95,674	22,780	72,894	82,940	19,522	63,418

Note 16 Outstanding claims (continued)

(f) Claims development tables are disclosed in order to put the claims estimates included in the financial statements into a context, allowing comparison of those claims estimates with the claims results seen in previous years. In effect, the table highlights the Group's ability to provide an estimate of the total value of claims. The top part of the table provides a review of current estimates of cumulative claims and demonstrates how the estimated claims have changed at subsequent reporting or accident year-ends. The lower part of the table provides a reconciliation of the total reserve included in the Statement of Financial Position and the estimates of cumulative claims.

Outstanding claims		Underwriting Year									
	Pre 2007 * $000	2007 $000	2008** $000	2009 $000	2010 $000	2011 $000	2012 $000	2013 $000	2014 $000	2015 $000	Total $000
Estimate of ultimate claims cost											
At the end of accident year	10,122	252	160	4,897	6,860	8,825	9,373	19,251	19,150	19,090	97,980
One year later	20,090	181	784	7,305	10,504	11,977	13,054	20,259	22,914		107,068
Two years later	24,190	147	796	7,261	9,980	11,621	13,398	19,306			86,699
Three years later	25,964	113	1,135	7,728	9,101	10,930	10,484				65,455
Four years later	25,664	86	1,349	7,357	8,588	11,613					54,657
Five years later	25,460	57	1,316	6,739	6,834						40,406
Six years later	25,977	32	1,197	8,180							35,386
Seven years later	23,306	18	1,574								24,898
Eight years later	23,928	10									23,938
Nine years later	23,795										23,795
Ten years later	22,385										22,385
Current estimate of ultimate claims cost	22,385	10	1,574	8,180	6,834	11,613	10,484	19,306	22,914	19,090	122,390
Cumulative payments	10,132	-	1,287	5,977	4,711	6,497	4,830	7,468	6,305	2,660	49,867
Outstanding claims – undiscounted	12,253	10	287	2,203	2,123	5,116	5,654	11,838	16,609	16,430	72,523
Discount	3,840	1	115	794	305	1,038	1,437	2,924	3,933	3,597	17,984
Outstanding claims	8,413	9	172	1,409	1,818	4,078	4,217	8,914	12,676	12,833	54,539
Claims handling expense	512	-	25	193	186	447	494	1,321	1,803	1,775	6,756
Risk margin	3,899	4	29	231	297	667	689	1,588	2,037	2,158	11,599
Total net outstanding claims liabilities	12,824	13	226	1,833	2,301	5,192	5,400	11,823	16,516	16,766	72,895
Reinsurance and other recoveries on outstanding claims liabilities	1,274	-	77	640	825	1,851	1,913	4,811	5,658	5,731	22,780
Total Gross Outstanding Claims	14,098	13	303	2,473	3,126	7,043	7,313	16,634	22,174	22,497	95,674

** Includes the payments made since 30 June 2004. Pre 1987 Workers Compensation reserve relates only to treaties written prior to 1987. To demonstrate the development, the analysis has commenced from the projected ultimate claims at 30 June 2004.*

*** In 2008 the group started underwriting Workers Compensation through Hospitality Employers Mutual (previously Hotel Employers Mutual). The increase in the estimate of ultimate claims cost in 2008 from year 1 to year 2 relates to development of Hospitality Employers Mutual's Workers Compensation portfolio.*

Note 16 Outstanding claims (continued)

(g) Liability adequacy test

The liability adequacy test (LAT) has been conducted using the central estimate of premium liabilities together with the appropriate margin for uncertainty for each portfolio of contracts that are managed as a single portfolio and are subject to broadly similar risks. The test is based on prospective information and so is heavily dependent on assumptions and judgements.

The LAT undertaken as at the Statement of Financial Position date has identified a surplus of $4.4m (2014: $5.5m).

For the purposes of the LAT, the present value of expected future cash flows for future claims (including the risk margin) of $23m (2014: $21m) comprises the discounted central estimate (including allowances for claims handling and policy administration expenses) of $19.7m (2014: $18.1m), and a risk margin of $3.4m (2014: $3.1m).

The risk margin used as a percentage of the central estimate is 17% (2014: 17%). The probability of sufficiency represented by the LAT is 75%. (2014: 75%).

Note 17 Provisions

	2015		2014	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Current				
Member benefit	2,241	2,241	1,691	1,691
	2,241	**2,241**	**1,691**	**1,691**
Balance at 1 July	1,691	1,691	2,601	2,601
Amount incurred	6,568	6,568	5,001	5,001
Amount utilised	(6,018)	(6,018)	(5,911)	(5,911)
Balance at 30 June	**2,241**	**2,241**	**1,691**	**1,691**

Note 18 Unearned income

	2015		2014	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Unearned income – current	243	6,495	-	13,018

Note 19 Reserves

	2015		2014	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
General reserve (accumulated funds)	25,307	25,307	25,307	25,307

General reserve

The amount standing to the credit of the General Reserve has resulted from prior period allocations of retained profits for future operating requirements. Transfers back to retained profits will occur if required in the future.

Note 20 Net claims incurred

Company

	2015			2014
	Current Year $000	Prior Years $000	Total $000	Total $000
Gross claims and related expenses – undiscounted	-	(2,422)	(2,422)	(383)
Less: discount	-	2,209	2,209	440
Gross claims and related expenses – discounted	-	(213)	(213)	57
Reinsurance and other recoveries – undiscounted	-	(775)	(775)	324
Less: discount	-	212	212	117
Reinsurance and other recoveries - discounted	-	(563)	(563)	441
Net Claims Incurred	-	350	350	(384)

Consolidated

	2015			2014
	Current Year $000	Prior Years $000	Total $000	Total $000
Gross claims and related expenses – undiscounted	40,645	(12,633)	28,012	31,031
Less: discount	(7,350)	7,214	(136)	(10,229)
Gross claims and related expenses – discounted	33,295	(5,419)	27,876	20,802
Reinsurance and other recoveries – undiscounted	10,912	(2,843)	8,069	9,679
Less: discount	(1,987)	1,333	(654)	(2,706)
Reinsurance and other recoveries - discounted	8,925	(1,510)	7,415	6,973
Net Claims Incurred	24,370	(3,909)	20,461	13,829

The slight deterioration for EML is largely attributable to a movement in discount rates offset by positive claims experience. The net claims incurred for the year is dominated by Hospitality Employers Mutual which had net claims incurred of $20,111,240 (2014: $14,213,675). The improvement in prior year claims is attributable to better than expected claims experience, due to the 2012 NSW Workers Compensation legislative reforms combined with good claims management, as well as actuarial releases from the valuation basis. These have been partially offset by a lower discount rate.

Note 21 Remuneration of auditor

	2015		2014	
	The Company $	Consolidated $	The Company $	Consolidated $
Audit and review services				
Statutory and Regulatory Audits and Reviews	51,000	116,650	50,000	114,000
Total audit and review services	51,000	116,650	50,000	114,000
Other services				
Review of actuary estimates	21,000	46,000	24,500	49,500
ICAAP Review	25,000	50,000	33,500	33,500
Total other services	46,000	96,000	58,000	83,000
Total Auditor Remuneration	97,000	212,650	108,000	197,000

Note 22 Key management personnel disclosure

The following were the key management personnel of the Company at any time during the reporting period:

Directors

- Robert G Cleland
- David J Iliffe
- Andrew J Grant
- Catherine A King
- William J A O'Reilly
- Paul Baker (Appointed 23 September 2014)

Executives

- Mark Coyne*
(Chief Executive Officer)
- David Stone
(Company Secretary) (Resigned 30 June 2015)
- Alexandra Duff*
(Company Secretary) (Appointed 1 July 2015)
- Matthew Wilson (Company Secretary)
- Adrian Diggelmann*
(Chief Financial Officer)

** Employed by a related party*

Transactions with key management personnel

The key management personnel compensation is:

	2015		2014	
	The Company $	Consolidated $	The Company $	Consolidated $
Short-term employee benefits	327,183	603,358	272,250	418,907
	327,183	603,358	272,250	418,907

Note 23 Related party disclosures

Related party transactions

The aggregate amounts included in the profit after income tax expense that resulted from transactions with related parties are:

	2015 $	2014 $
Paid by Employers Mutual Limited		
Employers Mutual Limited & the Trustee for Aswig Management Trust Partnership – Management fees	17,768,438	10,177,174
Employers Mutual Limited & the Trustee for Aswig Management Trust Partnership – Credit risk fee	993,547	644,276
White Outsourcing*	14,850	83,202
White Funds Management*	85,423	68,082
Paid by Hospitality Employers Mutual Limited		
Employers Mutual Limited & the Trustee for Aswig Management Trust Partnership – Management fees	227,949	203,148
White Funds Management*	317,324	368,944
White Outsourcing*	27,781	26,014

The outstanding balances on related party receivables and payables at year end are:

	2015 $	2014 $
Paid by Employers Mutual Limited		
Employers Mutual Limited & the Trustee for Aswig Management Trust Partnership	2,991,137	14,807
White Funds Management*	6,912	-
Paid by Hospitality Employers Mutual Limited		
Employers Mutual Limited & the Trustee for Aswig Management Trust Partnership	19,500	-
White Funds Management*	23,500	-

* transactions with Directors of the company and their Director related entities

Note 24 Equity accounted investees

(a) Joint venture

The Group is a 50% partner in Employers Mutual Limited and the Trustee for the Aswig Management Trust Partnership ("Partnership"). The financial report of the Group includes the financial position, the results from operations and cash flows of the joint venture entity in accordance with the accounting policy described in note 1(q). The principal place of business of the joint venture entity is in Australia.

The Partnership is structured as a separate vehicle and the Group has a residual interest in its net assets. Accordingly, the Group has classified its interest in the Partnership as a joint venture which is equity accounted.

The following is summarised financial information for the Partnership, based on its financial statements prepared in accordance with all applicable Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board.

Summary Financial Information of Joint Venture Entity

	Consolidated 2015 $000	Consolidated 2014 $000
Revenue	173,725	149,570
Profit from continuing operations[1]	30,260	27,004
Other comprehensive income	-	-
Total comprehensive income	30,260	27,004
Current assets[2]	53,316	62,735
Non-current assets	5,465	5,116
Current liabilities	(53,316)	(62,735)
Non-current liabilities	(5,465)	(5,116)
Net assets	-	-

Movement in carrying amount in investment in joint venture entities

	Consolidated 2015 $000	Consolidated 2014 $000
Group's interest in net assets of investee at the beginning of the year	-	-
Share of total comprehensive income	15,130	13,502
Partnership distribution	(15,130)	(13,502)
Carrying amount of interest in investee at end of the year	-	-

Joint venture entity's expenditure commitments

There are no capital or other commitments or contingent liabilities arising from the investment in the Partnership that are significant to the consolidated entity.

1 Includes:
- Interest income $605,194 (2014: $459,436)
- Interest Expense $nil (2014: $nil)

2 Includes cash & cash equivalents of $35,142,921 (2014: $34,284,601)

Note 24 Equity accounted investees (continued)

(b) Equity interest investees

The Group has a combined equity interest in an unlisted company, which exceeds 20% of the investee's equity. Management have assessed both direct and indirect unit holdings and deem that neither control nor significant influence is exercised over this entity. While the combined unit holdings of the Partnership and Employers Mutual Limited exceed 20%, individual unit holdings are significantly below this threshold. In addition, Employers Mutual Limited does not exercise control over the Partnership and has no voting control over its equity interest unit holding, therefore it is considered appropriate and accurate to assess the valuation of the units as two distinct holdings.

Note 25 Notes of the statement of cash flows

(a) Reconciliation of cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents includes cash on hand and at bank and short term deposits. Cash and cash equivalents at the end of the financial year are reconciled to the related items in the Statement of Financial Position as follows:

	2015		2014	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Cash and cash equivalents	6,549	10,055	3,463	12,805

Note 25 Notes to the statement of cash flows (continued)

(b) Reconciliation of profit from ordinary activities after income tax to net cash provided by operating activities

	2015		2014	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Total comprehensive income for the year	8,436	8,328	6,341	15,779
Add/(less):				
Profit on sale of investments	(563)	(1,120)	(1,336)	(1,669)
Increase / (decrease) in market value of investments	1,876	1,206	306	(711)
Net cash provided by operating activities before change in assets and liabilities	9,749	8,414	5,311	13,399
Changes in assets and liabilities:				
Decrease / (increase) in debtors and accrued income	6,490	(5,952)	(12,898)	(15,060)
(Increase) / decrease in prepayments	(228)	(831)	83	(757)
Decrease / (increase) in reinsurance & other recoveries	625	(2,718)	(440)	(2,805)
(Increase) / decrease in deferred reinsurance expense	-	(332)	-	262
Increase / (decrease) in income tax payable	1,559	(961)	-	2,769
Decrease in deferred tax balances	1,096	937	3,490	3,640
Increase in payables	3,188	3,301	692	7,217
Increase / (decrease) in provision for member benefit	550	550	(910)	(910)
Increase in other liabilities	-	768	-	60
(Decrease) / increase in provision for claims	(341)	12,734	(488)	7,550
Increase / (decrease) in unearned premium	-	1,196	-	(1,122)
	12,939	8,692	(10,471)	844
Net cash provided by operating activities	22,688	17,106	(5,160)	14,243

Note 26 Financial instruments

The activities of the Group expose it to a variety of financial risks such as market risk (including cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Board and senior management of the Group have developed, implemented and maintain a Risk Management Strategy ("RMS") which is discussed in more detail in note 4. The Group's risk management framework recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity.

The key objectives of the Group's asset and liability management strategy are to ensure sufficient liquidity is maintained at all times to meet the Group's obligations, including its settlement of insurance liabilities and, within these parameters, to optimise investment returns for policyholders and shareholders.

(a) Market risk

(i) Price risk

The Group is exposed to price or market value risk on its investment in government and other public securities and shares in listed companies and unit trusts. To manage its price risk, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group. At 30 June 2015: 21% (2014: 24%) of the Group's financial assets and cash were held in listed equity and debt securities. The potential impact of movements in the market value of securities on the Group's Statement of Comprehensive Income and Statement of Financial Position is shown in note 26 (a) (iii).

(ii) Cash flow and fair value interest rate risk

The Group is exposed to interest rate risk arising on interest bearing assets. Assets with floating rate interest expose the Group to cash flow interest rate risk. Fixed interest rate assets expose the Group to fair value interest rate risk. The Group's strategy is to invest in high quality, liquid fixed interest securities and cash and to actively manage duration. The investment portfolios are actively managed to achieve a balance between cash flow interest rate risk and fair value interest rate risk bearing in mind the need to meet the liquidity requirements of the insurance business.

The Group is also exposed to interest rate risk arising from long-term interest bearing liabilities.

Note 26 Financial instruments (continued)

(a) Market risk (continued)

(iii) Summarised sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets to interest rate risk and other price risk.

	Carrying amount $000 AUD	Interest rate risk		Other price risk	
		-1%	+1%	-10%	+10%
		Profit $000	Profit $000	Profit $000	Profit $000
2015 Company					
Cash and Cash Equivalents	6,549	3	(3)	-	-
Bank Accepted Bills of Exchange	3,979	4	(4)	-	-
Government and Other Public Securities	10,521	494	(494)	-	-
Shares in Listed Securities and Unit Trusts	3,216	-	-	(322)	322
Shares in Unlisted Companies and Unit Trusts	2,510	-	-	(251)	251
Floating Rate Notes	6,336	6	(6)	-	-
	33,111	507	(507)	(573)	573
2015 Consolidated					
Cash and Cash Equivalents	10,055	3	(3)	-	-
Bank Accepted Bills of Exchange	10,454	9	(9)	-	-
Government and Other Public Securities	55,140	2,933	(2,933)	-	-
Shares in Listed Securities and Unit Trusts	10,167	-	-	(1,017)	1,017
Shares in Unlisted Companies and Unit Trusts	2,510	-	-	(251)	251
Floating Rate Notes	10,609	11	(11)	-	-
	98,935	2,957	(2,957)	(1,268)	1,268

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Note 26 Financial instruments (continued)

Market risk (continued)

	Carrying amount $000	Interest rate risk		Other price risk	
		-1%	+1%	-10%	+10%
	AUD	Profit $000	Profit $000	Profit $000	Profit $000
2014 Company					
Cash and Cash Equivalents	3,463	2	(2)	-	-
Bank Accepted Bills of Exchange	997	1	(1)	-	-
Government and Other Public Securities	9,362	439	(439)	-	-
Shares in Listed Securities and Unit Trusts	4,433	-	-	(443)	443
Shares in Unlisted Companies and Unit Trusts	4,101	-	-	(410)	410
Floating Rate Notes	1,976	2	(2)	-	-
	24,332	444	(444)	(853)	853
2014 Consolidated					
Cash and Cash Equivalents	12,805	3	(3)	-	-
Bank Accepted Bills of Exchange	5,469	8	(8)	-	-
Government and Other Public Securities	49,510	2,253	(2,253)	-	-
Shares in Listed Securities and Unit Trusts	10,753	-	-	(1,075)	1,075
Shares in Unlisted Companies and Unit Trusts	4,101	-	-	(410)	410
Floating Rate Notes	12,307	13	(13)	-	-
	94,945	2,277	(2,277)	(1,485)	1,485

Prior year interest rate sensitivity calculations have been restated to include all cash balances and fixed interest securities. Prior year other price risk sensitivity calculations have been restated to include Shares in Unlisted Companies and Unit Trusts.

Note 26 Financial instruments (continued)

(a) Credit risk exposures

Credit risk is the risk of loss from a counterparty failing to meet their financial obligations. The Group's credit risk arises predominantly from investment activities and future claims on the reinsurance contracts.

The Group is exposed to credit risk on insurance contracts as a result of exposure to individual clients, intermediaries or reinsurers. The Group does not have any material exposure to individual clients or intermediaries which would materially impact the operating profit. At the reporting date, there are no significant concentrations of credit risk. The credit risk to reinsurers is managed through the Group having a pre-determined policy on the appropriate rating a reinsurer must have to participate in the reinsurance programme.

The Group's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the Statement of Financial Position.

Ageing of the consolidated entity's trade and other receivables, reinsurance and other recoveries receivable is provided below. The amounts are aged according to their original due date. Receivables for which repayment terms have been renegotiated represent an insignificant portion of the balances.

2015 Company

	Trade and other receivables $'000	Reinsurance and other recoverable receivable $'000
Neither past due nor impaired	48,921	1,309
Past due 0-30 days	-	-
Past due 31-120 days	-	-
More than 120 days	-	-

2015 Consolidated

	Trade and other receivables $'000	Reinsurance and other recoverable receivable $'000
Neither past due nor impaired	100,556	23,834
Past due 0-30 days	314	-
Past due 31-120 days	634	-
More than 120 days	102	-

Note 26 Financial instruments (continued)

(a) Credit risk exposures (continued)

2014 Company

	Trade and other receivables $'000	Reinsurance and other recoverable receivable $'000
Neither past due nor impaired	41,614	1,934
Past due 0-30 days	-	-
Past due 31-120 days	-	-
More than 120 days	-	-

2014 Consolidated

	Trade and other receivables $'000	Reinsurance and other recoverable receivable $'000
Neither past due nor impaired	92,306	21,116
Past due 0-30 days	621	-
Past due 31-120 days	288	-
More than 120 days	14	-

The allowance for impairment loss at the end of the year was as follows:

	2015		2014	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Balance at 1 July	-	61	-	138
Impairment loss/(write back) recognised	-	24	-	(8)
Amounts written off	-	(34)	-	(69)
Balance at 30 June	-	51	-	61

Note 26 Financial instruments (continued)

(a) Credit risk exposures (continued)

The table below provides information regarding credit exposure of the Company and the Group according to the long-term S&P credit rating of the counter-parties:

	AAA	AA	A	BBB	Not rated	Total
	$000	$000	$000	$000	$000	$000
2015 Company						
Cash and Cash Equivalents	-	5,104	1,445	-	-	6,549
Financial Assets – Interest Bearing	7,933	4,527	5,567	2,790	19	20,836
Trade and Other Receivables	-	-	-	-	48,921	48,921
Reinsurance and Other Recoveries Receivable	-	-	-	-	1,309	1,309
Loan to AHA (NSW)	-	-	-	-	-	-
Loan to Clubs (NSW)	-	-	-	-	3,381	3,381
Other Assets	-	5,770	-	-	-	5,770
	7,933	15,401	7,012	2,790	53,630	86,766
2015 Consolidated						
Cash and Cash Equivalents	-	8,368	1,687	-	-	10,055
Financial Assets – Interest Bearing	46,474	8,817	15,115	5,778	19	76,203
Trade and Other Receivables	-	-	-	-	101,606	101,606
Reinsurance and Other Recoveries Receivable	-	-	-	-	23,834	23,834
Loan to AHA (NSW)	-	-	-	-	-	-
Loan to Clubs (NSW)	-	-	-	-	3,381	3,381
Other Assets	30,251	5,770	-	-	-	36,021
	76,725	22,955	16,802	5,778	128,840	251,100

Note 26 Financial instruments (continued)

(a) Credit risk exposures (continued)

	AAA	AA	A	BBB	Not rated	Total
	$000	$000	$000	$000	$000	$000
2014 Company						
Cash and Cash Equivalents	-	3,407	56	-	-	3,463
Financial Assets – Interest Bearing	7,053	1,012	4,308	2,444	26	14,843
Trade and Other Receivables	-	-	-	-	41,614	41,614
Reinsurance and Other Recoveries Receivable	-	-	-	-	1,934	1,934
Loan to AHA (NSW)	-	-	-	-	1,152	1,152
Loan to Clubs (NSW)	-	-	-	-	4,563	4,563
Other Assets	-	4,645	-	-	-	4,645
	7,053	9,064	4,364	2,444	49,289	72,214
2014 Consolidated						
Cash and Cash Equivalents	-	11,671	1,134	-	-	12,805
Financial Assets – Interest Bearing	67,578	9,797	16,397	6,412	26	100,210
Trade and Other Receivables	-	-	-	-	93,229	93,229
Reinsurance and Other Recoveries Receivable	-	-	-	-	21,116	21,116
Loan to AHA (NSW)	-	-	-	-	1,152	1,152
Loan to Clubs (NSW)	-	-	-	-	4,563	4,563
Other Assets	28,318	4,645	-	-	-	32,963
	95,896	26,113	17,531	6,412	120,086	266,038

(b) Liquidity risk

Liquidity risk is concern 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. Liquidity facilitates the ability to meet expected and unexpected requirements for cash. The liquidity position is derived from operating cash flows, investment portfolios and access to outside sources of liquidity.

Management of liquidity risk includes assets and liability management strategies. The assets held to back insurance liabilities consist of fixed interest securities and other very high quality securities which can generally be readily sold or exchanged for cash. The assets are managed so as to effectively match the maturity profile of the assets with the expected pattern of claims payments. The money market securities are restricted to investment grade securities with concentrations of investments managed as per the Investment mandate.

Note 26 Financial instruments (continued)

(b) Liquidity risk (continued)

	Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
	$000	$000	$000	$000	$000
2015 Company					
Trade and Other Payables	4,975	-	-	-	4,975
Outstanding Claims Liability	788	927	2,813	9,589	14,117
	5,763	927	2,813	9,589	19,092
2015 Consolidated					
Trade and Other Payables	43,816	-	-	-	43,816
Outstanding Claims Liability	15,423	11,906	27,137	41,208	95,674
	59,239	11,906	27,137	41,208	139,490

	Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
	$000	$000	$000	$000	$000
2014 Company					
Trade and Other Payables	2,037	-	-	-	2,037
Outstanding Claims Liability	837	953	2,888	9,780	14,458
	2,874	953	2,888	9,780	16,495
2014 Consolidated					
Trade and Other Payables	40,776	-	-	-	40,776
Outstanding Claims Liability	13,613	10,517	21,965	36,845	82,940
	54,389	10,517	21,965	36,845	123,716

(c) Net fair values

The Company's financial assets and liabilities are carried in the Statement of Financial Position at amounts that approximate fair value.

The carrying amounts of all financial assets and liabilities are reviewed to ensure they are not in excess of the net fair value.

Note 26 Financial instruments (continued)

(c) Net fair values (continued)

(i) Fair value hierarchy

The investments carried at fair value have been classified under the three levels of the IFRS fair value hierarchy as follows:

- Level 1: quoted prices (unadjusted) in active markets for an identical instrument.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by level in the fair value hierarchy into which the fair value measurement is categorised:

2015 Company

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Bank Accepted Bills of Exchange	-	3,979	-	3,979
Government and Other Public Securities	9,523	998	-	10,521
Shares in Listed Securities and Unit Trusts	3,216	-	-	3,216
Shares in Unlisted Companies and Unit Trusts	-	-	2,510	2,510
Floating Rate Notes	6,336	-	-	6,336
	19,075	4,977	2,510	26,562

2015 Consolidated

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Bank Accepted Bills of Exchange	-	10,454	-	10,454
Government and Other Public Securities	52,147	2,993	-	55,140
Shares in Listed Securities and Unit Trusts	10,167	-	-	10,167
Shares in Unlisted Companies and Unit Trusts	-	-	2,510	2,510
Floating Rate Notes	10,609	-	-	10,609
	72,923	13,447	2,510	88,880

Note 26 Financial instruments (continued)

(c) Net fair values (continued)

2014 Company

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Bank Accepted Bills of Exchange	-	997	-	997
Government and Other Public Securities	9,362	-	-	9,362
Shares in Listed Securities and Unit Trusts	4,434	-	-	4,434
Shares in Unlisted Companies and Unit Trusts	-	-	4,101	4,101
Floating Rate Notes	1,976	-	-	1,976
	15,772	997	4,101	20,870

2014 Consolidated

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Bank Accepted Bills of Exchange	-	5,469	-	5,469
Government and Other Public Securities	44,542	4,968	-	49,510
Shares in Listed Securities and Unit Trusts	10,753	-	-	10,753
Shares in Unlisted Companies and Unit Trusts	-	-	4,101	4,101
Floating Rate Notes	12,308	-	-	12,308
	67,603	10,437	4,101	82,140

The prior year balance for Level 2 Bank Accepted Bills of Exchange has been restated to ensure it is consistent with Note 12.

The following table shows a reconciliation of beginning balances to ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	2015		2014	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Balance at 1 July	4,101	4,101	3,500	3,500
Shares acquired	-	-	-	-
Transfers in to level 3	-	-	472	472
Total gains and losses recognised in:				
- profit and loss	(1,591)	(1,591)	129	129
- other comprehensive income	-	-	-	-
Balance at 30 June	2,510	2,510	4,101	4,101

Total unrealised gains and losses recognised in profit and loss have been included in investment revenue.

Note 26 Financial instruments (continued)

(c) Net fair values (continued)

(i) Valuation technique and significant unobservable inputs

The following describes the valuation technique used in measuring Level 3 fair values, as well as the significant unobservable inputs used.

(a) Capitalisation of future maintainable earnings ("CFME"):

The CFME involves capitalising the earnings of a business at a multiple which reflects the growth prospects of the business and risks inherent in the business. A capitalisation multiple has been applied based on publicly traded comparable companies (after necessary adjustments for size and marketability) to estimated maintainable EBITA.

(b) Significant unobservable inputs:

- Forecast EBITDA multiple: 7.9 to 8.8 (2014: 7.3 to 7.9)
- Small size discount: 5% (2014: 5%)
- Lack of marketability discount: 20% (2014: 20%)
- Minority discount: 10% (2014: 10%)

(c) Inter-relationship between significant unobservable inputs and fair value measurement

The estimated fair value would increase (decrease) if:

- The forecast EBITDA multiple were higher (lower);
- The small size discount were (higher) lower; or
- The lack of materiality discount were (higher) lower
- The minority discount were (higher) lower

(d) Sensitivity analysis

For the fair value of shares in unlisted companies and unit trust, reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects:

2015 Significant unobservable inputs	Changes	Impact on fair value measurement $000
EBITDA multiple	+10% / -10%	445 / (445)
Small size discount	+10% / -10%	(85) / (26)
Lack of marketability discount	+10% / -10%	(173) / 65
Minority discount	+10% / -10%	(28) / 28
2014 **Significant unobservable inputs**	**Changes**	**Impact on fair value measurement $000**
EBITDA multiple	+10% / -10%	609 / (613)
Small size discount	+10% / -10%	(111) / 11
Lack of marketability discount	+10% / -10%	(192) / 194
Minority discount	+10% / -10%	(47) / 44

Note 27 Other Information

Employers Mutual Limited, incorporated and domiciled in Australia, is a public company limited by guarantee. Each policyholder of the Company, or a controlled entity which has a policy managed by Employers Mutual, has the option to become a member.

Principal registered office

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Note 28 Capital Management

(a) Capital management strategy

The capital management strategy plays a key role in managing risk to create shareholder value whilst providing an appropriate level of capital to protect policyholders' and claimants' interests and to satisfy regulators. Capital finances growth, capital expenditure and business plans and also provides support in the face of adverse outcomes from insurance and other activities and investment performance.

The Group manages its capital and the adequacy of its capital through its internal capital adequacy assessment process (or "ICAAP"). The Board has adopted an ICAAP designed for the size and nature of the Group which is summarised in the ICAAP Summary Statement and also incorporates its capital management plan that sets out capital triggers and responses. The Group utilises its ICAAP to monitor its capital position on an ongoing basis, to assess whether it is operating within its stated risk tolerances and to assess the likelihood of breaching a risk tolerance.

The determination of the capital amount and mix is built around two core considerations:

(i) Regulatory capital

The Company (and its subsidiary Hospitality Employers Mutual) are regulated by the Australian Prudential Regulatory Authority ("APRA") as general insurers and are subject to APRA's prudential standards. These standards establish the basis for calculating the prescribed capital amount ("PCA") which is a minimum level of capital that the regulator deems must be held. To ensure the PCA is not breached the Group targets capital levels in the range of 2.5 to 3 times the PCA.

The Company uses the standardised framework for calculating the PCA detailed in the relevant prudential standards and referred to as the prescribed method which is determined to be the sum of the capital charges for asset risk, asset concentration risk, insurance risk, insurance concentration risk and operational risk to assess its prescribed capital requirement.

Capital calculations for regulatory purposes are in part based on the premium liabilities model which is different to the deferral and matching model which underpins the measurement of assets and liabilities in the financial statements. The premium liabilities model assesses future claim payments arising from future events insured under existing policies. This differs to the measurement of the outstanding claims liability on the Statement of Financial Position which considers claims relating to events that occur only up to and including the reporting date.

Note 28 Capital Management (continued)

(a) Capital management strategy (continued)

(ii) Economic capital

In conjunction with the considerations set out above, which are important to the functioning of the business, consideration is given to the operational capital needs of the business. The capital objectives are achieved through dynamic management of the Statement of Financial Position and capital mix, the use of a risk based capital adequacy framework for capital needs that relies on explicit quantification of uncertainty or risk, and the use of modelling techniques to provide valuable input to the capital management process and provide the capacity to quantify and understand this risk/return trade-off.

(b) Capital composition

Total capital is calculated as equity as shown in the Statement of Financial Position.

(c) Regulatory capital compliance

Under the Prudential Standards issued by the Australian Prudential Regulatory Authority (APRA) effective from 1 January 2013, the prescribed capital amount (PCA) is calculated by assessing the risks inherent in the business, which comprise:

- The risk that the provision for outstanding claims is not sufficient to meet the obligations to the policyholders arising from losses incurred up to the reporting date (outstanding claims insurance risk);
- The risk that the unearned premium amount is insufficient to meet the obligations to policyholders arising from losses incurred after the reporting date on existing policies (premium liabilities insurance risk);
- The risk that the value of assets is diminished (asset risk); and
- The risk of a catastrophe giving rise to major claims losses up to the retention amount under existing reinsurance arrangements (insurance concentration risk)

These risks are quantified to determine the minimum capital required under the Prudential Standards. This requirement is compared to the capital held by the Company. Any provisions for outstanding claims and insurance risk in excess of the amount required to provide a level of sufficiency at 75% is classified as capital.

Note 28 Capital Management (continued)

(c) Regulatory capital compliance (continued)

Regulatory capital requirements – 2015	2015 The Company $000	2015 Consolidated $000
Common Equity Tier 1 (CET1) capital		
General reserves	25,307	25,307
Retained earnings	68,023	74,453
Excess Technical Provisions	-	5,124
Non-controlling interest	-	12,395
Common Equity Tier 1 capital Deductions		
Non-controlling interest excluded from capital	-	(5,670)
Regulatory capital requirement of investment in subsidiaries	(13,862)	-
Net Deferred Tax Asset	(641)	(1,513)
Other Common Equity Tier 1 Capital adjustments	(2,093)	-
Total regulatory capital	76,734	110,096
Outstanding claims insurance risk charge	1,798	9,888
Premium liabilities insurance risk charge	-	4,727
Insurance Concentration risk charge	2,000	1,000
Diversified asset risk charge	8,192	13,788
Operational risk charge	268	2,431
Aggregation benefit	(2,296)	(6,599)
Prescribed capital amount (PCA)	9,962	25,235
Surplus	66,772	84,861
PCA Multiple	7.70	4.36

Note 28 Capital Management (continued)

(c) Regulatory capital compliance (continued)

Regulatory capital requirements – 2014	2014 The Company $000	2014 Consolidated $000
Common Equity Tier 1 (CET1) capital		
General reserves	25,307	25,307
Retained earnings	59,587	67,755
Excess Technical Provisions	-	5,909
Non-controlling interest	-	13,093
Common Equity Tier 1 capital Deductions		
Non-controlling interest excluded from capital	-	(7,026)
Regulatory capital requirement of investment in subsidiaries	(12,330)	-
Net Deferred Tax Asset	(1,737)	(2,450)
Other Common Equity Tier 1 Capital adjustments	(4,494)	-
Total regulatory capital	66,333	102,588
Outstanding claims insurance risk charge	1,840	8,568
Premium liabilities insurance risk charge	-	4,300
Insurance Concentration risk charge	2,000	1,000
Diversified asset risk charge	6,038	14,939
Operational risk charge	278	2,129
Aggregation benefit	(2,101)	(6,483)
Prescribed capital amount (PCA)	8,055	24,453
Surplus	58,278	78,135
PCA Multiple	8.24	4.20

The PCA calculations for the Consolidated entity provided above are based on applying APRA Level 2 insurance group requirements.

Note 29 Subsequent events

There have been no events subsequent to balance date which would have a material effect on the Group's financial statements at 30 June 2015.

FOR THE YEAR ENDED 30 JUNE 2015

DIRECTORS' **DECLARATION**

Employers Mutual
Since 1910

Directors' Declaration

1. In the opinion of the directors of Employers Mutual Limited ('the Company'):
    a. the financial statements and notes set out on pages 11 to 62, are in accordance with the Corporations Act 2001, including:
        i. giving a true and fair view of the Company's and the Group's financial position as at 30 June 2015 and of their performance, for the financial year ended on that date; and
        ii. complying with Australian Accounting Standards and the Corporations Regulations 2001;
    b. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors draw attention to note 1 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Dated at Sydney this 22nd day of September 2015

W J A O'REILLY	A J GRANT
Director	*Director*

Independent Auditor's Report to the Members of Employers Mutual Limited

Report on the financial report

We have audited the accompanying financial report of Employers Mutual Limited (the Company), which comprises the Statements of Financial Position as at 30 June 2015, and the Statements of Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flows for the year ended on that date, Notes 1 to 29 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the company and the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report
The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In Note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

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

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

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

Independence
In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Independent Audit Report to the Members of Employers Mutual Limited

Report on the financial report (continued)

Auditor's opinion
In our opinion:

(a) the financial report of Employers Mutual Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2015 and of their performance for the year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

KPMG

KPMG

Andrew Reeves
Partner

Sydney
22 September 2015

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Employers Mutual
Since 1910

we help people get their lives back