EML Mutual since 1910

ANNUAL REPORT 2016

FINANCIAL STATEMENTS 30 JUNE 2016

ANNUAL REPORT 2016

Contents

Director's Annual Report to the Members

For the year ended 30 June 2016

The Directors present their report together with the financial report of Employers Mutual Limited (EML) ("the Company") and the consolidated financial report of the Group, being the Company and its controlled entities, for the year ended 30 June 2016 and the independent 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, AM, 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. On Australia Day 2016 he was appointed as a Member of the Order of Australia.
Appointed 9 December 2010, reappointed 22 November 2011.

Appointed Chairman on 22 November 2011.

Robert G. Cleland, B. Com

Previously Customer Service Manager for EML 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 24 November 2015.

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.
Retired 24 November 2015.

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, 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 Don Dunston Foundation Inc. and Trinity Advisory Pty Ltd, and has previously been a director of Adelaide Fringe Inc.
Appointed 21 June 2007, reappointed 24 November 2015.

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.

Flavia Gobbo, BA, LLB, GAICD

Ms Gobbo was appointed as a Director of EML in May 2016. She has extensive experience as a senior corporate lawyer. She had 15 years' experience with the Telstra Legal team, including acting as General Counsel for Products, Marketing and Innovation, Assistant Company Secretary, and Company Secretary for the Telstra Foundation. Prior to this Ms Gobbo was a Senior Associate at King Wood & Mallesons. She has a wide range of both legal and management experience, particularly in the areas of Product Management, Corporate Governance, Finance and Treasury, Trade Practices, Dispute Resolution and Insurance Law. Ms Gobbo was also Chair of QComp which was the independent statutory authority that regulated the workers compensation scheme in Queensland. Currently a Director of WorkCover Qld, Deputy Chair of Rowing Australia and a Director of SecondBite, a not for profit food rescue organisation.
Appointed 24 May 2016.

Company Secretary

Alexandra Duff BA, LLB

Ms Duff is Legal Counsel and Company Secretary. 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	6	6	3	3	2	2	4	4
R G Cleland	8	6	6	6	3	3	2	1	4	4
D J Iliffe**	8	1	6	3	3	1	2	0	4	1
A J Grant	8	7	6	6	3	1	2	2	4	3
C King	8	8	6	6	3	2	2	2	4	4
P Baker	8	8	6	6	3	1	2	2	4	4
F Gobbo	1	1	0	0	0	0	0	0	0	0

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

*** Mr Iliffe retired during the November 2015 Board Meeting*

Strategy and objectives

EML'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 icare Workers Insurance (formerly Workcover NSW) and icare Self Insurance (formerly NSW Self Insurance Corporation under icare), Return to Work South Australia and WorkSafe Victoria (effective from 1 July 2016). 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, EML has set the following short-term objectives for the 2016 financial year and beyond:

- Successfully embed the new Victorian business and begin to deliver successful return to work outcomes across this, and existing, portfolios
- Continue to challenge our processes and technology in order to maximise outcomes in the most efficient and cost-effective way
- Evaluate and pursue tender opportunities which complement the group's claims management expertise while providing a sustainable financial return
- 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:
  - icare Workers Insurance
  - icare Self Insurance
  - Return to Work SA
  - WorkSafe Victoria (effective 1 July 2016)
- 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 EML (as agent of a statutory authority) may become a member of the Company.

Results and review of operations

The consolidated loss after tax was $1.02m (2015: profit after tax $8.33m).

Factors influencing the Group result include:

- A lower level of profit achieved in the controlled subsidiary, Hospitality Employers Mutual Limited (Hospitality) compared to prior year ($2.59m profit after tax, compared to a 2015 result of $5.43m). Hospitality has continued to achieve better than expected claims experience, which has resulted in a further actuarial release this year, of $2.4m (2015: $2.9m). However, Scheme reform and a changed premium setting model, instigated by the NSW Government, are presenting a challenging environment in which to achieve profitable performance.
- Reduced profits from the Partnership business; with a result of $8m (prior year $15.1m). The Partnership business undertakes the contractual and statutory obligations of EML in respect of workers compensation insurance and management and underwritten insurance activities. The 2016 financial year has continued to see profitable performance across all claims

administration portfolios and the self-insured business. However, these profits have been partially utilised in investing in a successful result in the WorkSafe Victoria tender, as well as significant investment in the Group's technology and associated projects to build an efficient and sustainable future operating platform.

- Considerable expenditure in member benefits, of $9.9m. This is a significant increase on prior year ($6.6m) following a board commitment to allocate a greater level of profits to the programme. These are to be used in support of initiatives in consultation with the regulator and industry experts to provide a positive impact on scheme performance. This investment will assist in supporting contract renewals (and new contracts) in order to ensure the availability of member benefits funding into the future; also allowing for the sharing of knowledge across jurisdictions, improved claims management outcomes and reduced premiums for members.

Events subsequent to balance date

During the year, EML was successful in its tender to manage claims on behalf of WorkSafe Victoria. EML commenced these operations from 1 July 2016. The work is similar to the claims management services provided on behalf of the NSW and SA Governments and is anticipated to be a successful and complementary addition to EML's existing portfolio.

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 2016 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.

Ongoing changes to the NSW Workers Compensation scheme continue to cause uncertainty in the claims management business. These include structural changes to the scheme earlier in the financial year; and benefit reform introduced in August 2015, which continues to have flow-on effects.

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 EML. 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 2016. 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.

Non-audit services

During the financial year, KPMG has performed certain other services for the Company in addition to their statutory duties.

The Directors have considered the non-audit services provided during the financial year by KPMG and, in accordance with written advice provided by resolution of the Audit Committee, are satisfied that the provision of those non audit services by the Company's auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit assignments were approved in accordance with the process set out in the EML framework for engaging auditors for non-audit services; and

- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants of the Institute of Chartered Accountants in Australia and CPA Australia, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards. The level of fees for total non-audit services amounts to approximately $130k of total audit fees (refer to note 21 to the financial statements for further details of costs incurred on individual non audit assignments).

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

The lead auditor's independence declaration is set out on page 11 and forms part of the Directors' Report for the year ended 30 June 2016.

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

Catherine King	A J Grant
Director	Director

Signed in Sydney on August 30, 2016

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 2016 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

Signed in Sydney on August 30, 2016

Statements of Comprehensive Income

For the year ended 30 June 2016

	Note	2016 The Company $000	2016 Consolidated $000	2015 The Company $000	2015 Consolidated $000
Premium revenue	5(a)	-	56,567	-	55,969
Outwards reinsurance expense		16	(15,778)	47	(15,475)
		16	40,789	47	40,494
Claims expense	20	(413)	(37,295)	213	(27,876)
Reinsurance and other recoveries	20	179	10,825	(563)	7,415
Net claims expense	20	(234)	(26,470)	(350)	(20,461)
Other underwriting expenses	5(b)	-	(10,276)	-	(9,675)
Underwriting surplus/(deficit)		(218)	4,043	(303)	10,358
Investment revenue	5(c)	768	5,270	5,476	4,485
Management fees received	5(d)	158,278	158,278	161,339	161,340
Other revenue	5(e)	9,094	9,235	16,124	16,707
General and administration expenses		(2,130)	(7,386)	(1,668)	(9,730)
Member benefit expense		(9,944)	(9,944)	(6,568)	(6,568)
Management fees paid	5(f)	(160,216)	(160,216)	(163,228)	(163,229)
Profit/(loss) before related income tax expense		(4,368)	(720)	11,172	13,363
Income tax expense/(benefit) attributable to operating profit	6(a)	(741)	303	2,736	5,035
Profit/(loss) for the year		(3,627)	(1,023)	8,436	8,328
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		(3,627)	(1,023)	8,436	8,328
Profit/(loss) attributable to:					
Equity holders of the parent		(3,627)	(1,800)	8,436	6,698
Non-controlling interest		-	777	-	1,630
Profit/(loss) for the year		(3,627)	(1,023)	8,436	8,328
Total comprehensive income attributable to:					
Equity holders of the parent		(3,627)	(1,800)	8,436	6,698
Non-controlling interest		-	777	-	1,630
Total comprehensive income for the year		(3,627)	(1,023)	8,436	8,328

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 2016

	Note	2016 The Company $000	2016 Consolidated $000	2015 The Company $000	2015 Consolidated $000
Current assets					
Cash and cash equivalents		4,915	11,515	6,549	10,055
Trade and other receivables	7	32,334	75,638	46,188	99,008
Reinsurance and other recoverables receivable	8	69	6,093	96	4,869
Financial assets at fair value	12	9,172	26,043	4,977	15,193
Deferred reinsurance expense	9	-	11,590	-	12,057
Prepayments		311	18,228	432	19,928
Current tax assets	6(b)	331	-	-	-
Other assets	11	510	30,061	464	30,715
Total current assets		47,642	179,168	58,706	191,825
Non-current assets					
Trade and other receivables	7	12,497	12,363	2,733	2,598
Reinsurance and other recoverables receivable	8	1,094	23,429	1,213	18,965
Deferred tax assets	6(c)	1,766	2,456	641	1,513
Financial assets at fair value	12	48,022	91,364	44,485	73,687
Prepayments		-	5,109	-	5,334
Other assets	11	2,382	2,382	8,687	8,687
Total non-current assets		65,761	137,103	57,759	110,784
TOTAL ASSETS		113,403	316,271	116,465	302,609
Current liabilities					
Trade and other payables	14	5,125	34,619	4,975	43,816
Unearned premium liability	15	-	37,991	-	39,621
Outstanding claims liability	16(a)	842	18,104	788	15,423
Current tax liabilities	6(b)	-	385	1,559	2,607
Provisions	17	4,364	4,364	2,241	2,241
Unearned income	18	-	12,265	243	6,495
Total current liabilities		10,331	107,728	9,806	110,203
Non-current liabilities					
Outstanding claims liability	16(a)	13,369	97,411	13,329	80,251
Total non-current liabilities		13,369	97,411	13,329	80,251
TOTAL LIABILITIES		23,700	205,139	23,135	190,454
NET ASSETS		89,703	111,132	93,330	112,155
EQUITY					
Reserves	19	25,307	25,307	25,307	25,307
Retained earnings		64,396	72,653	68,023	74,453
Total equity attributable to equity holders of the Company		89,703	97,960	93,330	99,760
Non-controlling interest		-	13,172	-	12,395
TOTAL EQUITY		89,703	111,132	93,330	112,155

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 2016

	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 2014	25,307	59,587	84,894	25,307	67,755	13,093	106,155
Total comprehensive income for the year							
Profit/(loss) 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
Balance at 1 July 2015	25,307	68,023	93,330	25,307	74,453	12,395	112,155
Total comprehensive income for the year							
Profit/(loss) for the year	-	(3,627)	(3,627)	-	(1,800)	777	(1,023)
Total comprehensive income for the year	-	(3,627)	(3,627)	-	(1,800)	777	(1,023)
Dividend paid	-	-	-	-	-	-	-
Balance at 30 June 2016	25,307	64,396	89,703	25,307	72,653	13,172	111,132

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

Statements of Cash Flows

For the year ended 30 June 2016

	Note	2016 The Company $000	2016 Consolidated $000	2015 The Company $000	2015 Consolidated $000
Cash flows from operating activities					
Premium revenue received		-	63,358	-	54,217
Reinsurance and other recoveries received		325	9,163	62	8,073
Reinsurance paid		-	(17,074)	-	(16,172)
Management fees received		121,585	177,941	116,454	152,705
Dividends received		204	453	5,628	363
Interest received		1,029	5,359	986	4,014
Trust distributions received		6	105	63	260
Other revenue received		12,520	12,520	15,607	15,607
Claims paid		(301)	(17,761)	(123)	(15,498)
Acquisition costs paid		-	(710)	-	(624)
Member benefits paid		(7,821)	(7,821)	(6,018)	(6,018)
General expenses and management fees paid		(123,477)	(191,503)	(109,890)	(174,761)
Borrowing costs paid		-	-	-	-
Income taxes paid		(2,278)	(12,294)	(81)	(5,060)
Net cash provided by/(used in) operating activities	25 (b)	1,792	21,736	22,688	17,106
Cash flows from financing activities					
Loan repayments received		551	551	2,442	2,442
Dividends paid non-controlling interest		-	-	-	(2,328)
Net cash provided by financing activities		551	551	2,442	114
Cash flows from investing activities					
Proceeds from disposal of investments		62,612	152,086	46,368	111,645
Payments for investments		(65,115)	(173,619)	(54,506)	(121,545)
Proceeds from / (payments for) acquisition of debtors		8,526	10,706	(13,906)	(10,070)
Loans advanced		(10,000)	(10,000)	-	-
Net cash (used in) / provided by investing activities		(3,977)	(20,827)	(22,044)	(19,970)
Net (decrease)/increase in cash and cash equivalents		(1,634)	1,460	3,086	(2,750)
Cash and cash equivalents at the start of the financial year		6,549	10,055	3,463	12,805
Cash and cash equivalents at the end of the financial year	25 (a)	4,915	11,515	6,549	10,055

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

FOR THE YEAR ENDED 30 JUNE 2016

NOTES TO THE FINANCIAL STATEMENTS

Notes to the Financial Statements

For the year ended 30 June 2016

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

Reporting Entity

The consolidated financial report of Employers Mutual Limited (EML) (the "Company") as at and for the year ended 30 June 2016 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:
  - icare Workers Insurance
  - icare Self Insurance
  - Return to Work SA
  - WorkSafe Victoria (effective 1 July 2016)
- 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 EML (as agent of a statutory authority) may become a member of the Company.

The financial report was authorised for issue by the directors on 30 August 2016.

Statement of Compliance

This general purpose financial report has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board, and other authoritative pronouncements of the Australian Accounting Standards Board.

International Financial Reporting Standards (IFRS) refer to the overall framework of standards and pronouncements approved by the International Accounting Standards Board (IASB). IFRS forms the basis of the AASBs. This financial report of the Company complies with IFRS. The current IFRS standard for insurance contracts does not include a comprehensive set of recognition and measurement criteria. The IASB continues to work on a project to issue a standard that does include such criteria. Until the issuance of that standard, the financial reports of insurers in different countries that comply with IFRS may not be comparable in terms of the recognition and measurement of insurance contracts.

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

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, which is the Company's functional currency. The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191 and, in accordance with that ASIC instrument, 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.

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 2016. 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.

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

Significant Accounting Policies (continued)

(b) Revenue Recognition (continued)

(i) Premium Revenue

Premium receivable is recognised as the amount due and is normally settled between 30 days and 12 months. The recoverability of premium receivable is assessed and provision is made for impairment based on objective evidence and having regard to past default experience. Premium receivable is presented on the balance sheet net of any provision for impairment.

Premium revenue comprises amounts charged to the policyholder, net of any discounts, 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.

(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

EML receives 50% of the profit from the partnership between EML 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.

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

Significant Accounting Policies (continued)

(c) Workers compensation statutory funds (continued)

(i) icare Self Insurance

The Company has a contractual agreement with icare Self Insurance (formerly NSW Self Insurance Corporation) as an agent for icare TMF (Treasury Managed Fund). The 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) icare Workers Insurance

The Company has a contractual agreement with Insurance and Care NSW (formerly the Workcover Authority of New South Wales) as an agent of the Workers Compensation Nominal Insurer, which was established by the Workers Compensation Amendment (Insurance Reform) Act 2003 ("the Act"). The Nominal Insurer is the legal entity responsible for the NSW Workers Compensation 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.

(iii) Return to Work SA

Return to Work SA ("RTWSA") is a statutory authority established under the Return to Work Corporation of South Australia Act 1994 (formerly WorkCover Corporation Act 1994) and has responsibility for administration of the Return to Work Act 2014 (formerly Workers Rehabilitation and Compensation Act 1985). 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.

(iv) WorkSafe Victoria

WorkSafe Victoria is the trading name of the Victorian WorkCover Authority, a statutory authority established under section 18 of the Accident Compensation Act 1985. WorkSafe Victoria is responsible for the compensation and rehabilitation of injured workers and managing employer workplace injury insurance and premiums under the Workplace Injury Rehabilitation and Compensation Act 2013.

EML VIC Pty Ltd has been appointed as Scheme Agent by WorkSafe Victoria to manage workers insurance and compensation claims from 1 July 2016.

(d) Reinsurance and other recoveries

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid and incurred claims not yet reported are recorded as revenue. All recoveries receivable on outstanding claims are measured as the present value of the expected future receipts calculated on the same basis as the outstanding claims liability. Reinsurance does not relieve the originating insurer of its liabilities to policyholders and is presented separately on the balance sheet. The details of discount and inflation rates applied are included in note 16.

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

Significant Accounting Policies (continued)

(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) Liability Adequacy test

The liability adequacy test is an assessment of the carrying amount of the unearned premium liability and is conducted at each reporting date. If current estimates of the present value of the expected future cash flows relating to future claims arising from the rights and obligations under current general insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate, exceed the unearned premium liability (net of reinsurance) less related deferred acquisition costs, then the unearned premium liability is deemed to be deficient. Any deficiency arising from the test is recognised in profit or loss with the corresponding impact on the balance sheet recognised first through the write down of deferred acquisition costs for the relevant portfolio of contracts, with any remaining balance being recognised on the balance sheet as an unexpired risk liability. The test is performed at the level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio.

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

Significant Accounting Policies (continued)

(h) 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:

- 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.

(i) 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.

(j) 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.

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

Significant Accounting Policies (continued)

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) 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. Cash and cash equivalents are measured at fair value, being the principal amount. For the purpose of the cash flow statement, cash also includes other highly liquid investments not subject to significant risk of change in value, with short periods to maturity, net of any bank overdraft.

(p) 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.

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

Significant Accounting Policies (continued)

(p) Impairment of financial assets (continued)

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.

(q) 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.

(r) Joint Arrangements

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 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.

(s) Contingent Liabilities

Contingent liabilities are not recognised on the balance sheet but are disclosed here where the possibility of settlement is less than probable but more than remote. Provisions are not required with respect to these matters as it is not probable that a future sacrifice of economic benefits will be required or the amount is not reliably measurable. If settlement becomes probable, a provision is recognised. The best estimate of the settlement amount is used in measuring a contingent liability for disclosure. The measurement involves judgement.

In the normal course of business, transactions are entered into that may generate a range of contingent liabilities. These include litigation arising out of insurance policies. It is not believed that there are any other potential material exposures to the Company.

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

Significant Accounting Policies (continued)

(t) New standards and interpretations not yet adopted

(i) Australian Accounting Standards issued but not yet effective

As at the date of this financial report, there are a number of new and revised accounting standards published by the Australian Accounting Standards Board for which the mandatory application dates fell after the end of this current reporting year. None of these standards gave been early adopted and applied in the current reporting period.

Standard	Description	Operative Date	Note
AASB 9	Financial Instruments	Monday, 1 January 2018	B
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9	Monday, 1 January 2018	B
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9	Monday, 1 January 2018	B
AASB 2012-6	Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures	Thursday, 1 January 2015	B
AASB 2013-9	Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments: Part C	Monday, 1 January 2018	A
AASB 15	Revenue from contracts with customers	Monday, 1 January 2018	B
AASB 2014-1	Amendments to Australian Accounting Standards: Part E	Monday, 1 January 2018	A
AASB 2014-3	Amendments to Australian Accounting Standards - Accounting for Acquisitions of Interests in Joint Operations	Friday, 1 January 2016	A
AASB 2014-5	Amendments to Australian Accounting Standards arising from AASB 15	Sunday, 1 January 2017	B
AASB 2014-7	Amendments to Australian Accounting Standards arising from AASB 9	Monday, 1 January 2018	B
AASB 2014-8	Amendments to Australian Accounting Standards arising from AASB 9	Thursday, 1 January 2015	B
AASB 2014-9	Amendments to Australian Accounting Standards - Equity Method in Separate Financial Statements	Friday, 1 January 2016	A
AASB 2014-10	Amendments to Australian Accounting Standards - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Friday, 1 January 2016	A
AASB 2015-1	Amendments to Australian Accounting Standards Annual improvement to Australian Accounting standards 2012-2014 Cycle	Friday, 1 January 2016	A
AASB 2015-2	Amendments to Australian Accounting Standards - Disclosure Initiative: Amendment to AASB 101	Friday, 1 January 2016	A
AASB 2015-3	Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality	Wednesday, 1 July 2015	A

Table Notes:
A: These changes are not expected to have a significant, if any, financial and disclosure impact
B: First time adoption of these standards may have a financial impact, but the potential effects are currently being assessed.

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

Significant Accounting Policies (continued)

(t) New standards and interpretations not yet adopted (continued)

(ii) Changes in accounting policies

Standard	Description
AASB 2012-3	Amendments to Australian Accounting Standards arising from AASB 132 - Offsetting Financial Assets and Financial Liabilities
AASB 2013-4	Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting
AASB 2013-5	Amendments to Australian Accounting Standards – Investment Entities
AASB 2013-9	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments: Part B
AASB 2014-1	Amendments to Australian Accounting Standards: Parts A - C

Adoption of the new and amended accounting standards has no material financial impact on the Company

(u) New standards implemented

No new standards effective for the period beginning 1 July 2015 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 Committees 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.

(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.

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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:

- 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 central estimate has been valued at nil. A fixed risk margin has been selected to mitigate the risk of future reported claims. As the portfolios are now deep into runoff the likelihood of future reported claims is very remote.
- 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 and Medical benefit payments in the future) and expected payments of weekly and medical 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 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:

	2016				2015			
	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*	7.39	10.04	n/a	7.13	6.83	10.14	2.80	6.66
Average claim sizes $	20,764	80,020	n/a	22,636	20,937	72,900	n/a	21,713
Expense rate	7.60%	5.40%	n/a	8.70%	9.40%	5.40%	0.0%	8.40%
Discount rate	2.50%	2.29%	n/a	2.44%	3.30%	3.34%	2.46%	3.32%

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

Note 3 Actuarial assumptions and method (continued)

(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 2016/2017, 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.

(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.

(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) 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 2016.

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 $000
All classes EML		
Expense rate	+1% / -1%	86 / (86)
Normal inflation rate	+1% / -1%	1,216 / (1,216)
Discount rate	+1% / -1%	(1,262) / 1,262
All classes HEM		
Expense rate	+1% / -1%	584 / (584)
Discount rate	+1% / -1%	(4,042) / 4,842
Average claim size	+10% / -10%	6,479 / (6,479)
Average term to settlement	+10% / -10%	(1,343) / 1,371
Workers Compensation Run-off		
Gross average claim size	+10% / -10%	908 / (908)
Number of future claims reported	+10% / -10%	893 / (893)

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 and approved by the Board. The Group also meets the requirements of the 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.

Note 4 Risk management (continued)

(d) Insurance risk (continued)

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,

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: State Insurance Regulatory Authority (SIRA), Return to Work SA and WorkSafe Victoria. 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.

Note 4 Risk management (continued)

(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.

(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.

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Note 4 Risk management (continued)

(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

	2016		2015	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
(a) Premium revenue				
Premium revenue – direct	-	52,637	-	51,696
Profit commission and other recoveries from reinsurance	-	3,930	-	4,273
	-	56,567	-	55,969
(b) Other underwriting expenses				
Acquisition costs	-	(666)	-	(577)
Management fees paid	-	(7,244)	-	(6,796)
Workcover levy	-	(2,341)	-	(2,302)
Other Fees	-	(25)	-	-
	-	(10,276)	-	(9,675)
(c) Investment revenue				
Dividends from external parties	190	458	158	329
Dividends from related parties	-	-	5,447	-
Interest revenue	1,119	4,188	1,121	4,013
Trust distributions	6	105	63	229
Profit/(loss) on sale of investments	(4)	177	563	1,120
Unrealised investment gains/(losses)	(543)	342	(1,876)	(1,206)
	768	5,270	5,476	4,485
(d) Management fees revenue				
Statutory Agent fee revenue	140,333	140,333	145,536	145,536
Other	17,945	17,945	15,803	15,804
	158,278	158,278	161,339	161,340
(e) Other revenue				
Share of profits of joint venture	8,019	8,160	15,130	15,713
Other income	1,075	1,075	994	994
	9,094	9,235	16,124	16,707
(f) Management fees paid				
Statutory Agent fee expense	(140,333)	(140,333)	(145,536)	(145,536)
Other	(19,883)	(19,883)	(17,692)	(17,693)
	(160,216)	(160,216)	(163,228)	(163,229)

Note 6 Taxation

	2016		2015	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
(a) Income tax expense				
Prima facie income tax expense/(benefit) calculated at 30% on operating profit/(loss)	(1,310)	(216)	3,351	4,009
Increase/(decrease) in income tax expense due to:				
Imputation gross-up on dividends received	12	34	711	731
Franking credits on dividends received	(43)	(115)	(2,369)	(803)
Permanent differences	246	246	978	979
Income tax expense/(benefit) attributable to profit	(1,095)	(51)	2,671	4,916
Under provision for tax expense in previous years	354	354	65	119
Tax expense/(benefit) attributable to operating profit	(741)	303	2,736	5,035
Income Tax Expense is made up of				
Current tax	-	828	1,640	4,050
Under provision in prior year	354	354	65	119
Deferred tax	(1,095)	(879)	1,031	866
	(741)	303	2,736	5,035
(b) Net Current tax assets/(liabilities)				
Current tax assets	331	-	-	-
Provision for income tax payable	-	(385)	(1,559)	(2,607)
Net Current tax assets/(liabilities)	331	(385)	(1,559)	(2,607)
(c) Net deferred tax assets/(liabilities)				
Deferred tax assets	3,138	6,493	881	2,892
Deferred tax liabilities	(1,372)	(4,037)	(240)	(1,379)
Net deferred tax assets/(liabilities)	1,766	2,456	641	1,513
(d) Net deferred tax				
The balance comprises of temporary differences attributable to:				
Claims handling expenses	158	2,075	154	1,984
Member benefit provision	1,309	1,309	672	672
Accrued investment income	(52)	(63)	(46)	(55)
Unrealised gain on investments	(240)	(1,511)	(194)	(1,199)
Prior years accumulated tax losses	-	40	916	916
Current year accumulated/(utilisation of) tax losses	1,620	1,620	(916)	(875)
Deferred tax on management fee revenue	(1,080)	(1,080)	-	-
Other	51	66	55	70
Net deferred tax	1,766	2,456	641	1,513

Note 6 Taxation (continued)

	2016		2015	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Reconciliation of Deferred Tax Asset				
Balance at 1 July	641	1,513	1,737	2,450
Prior year over / (under) provision	30	65	(65)	(71)
Credited to Statement of Comprehensive Income	1,095	878	(1,031)	(866)
Balance at 30 June	**1,766**	**2,456**	**641**	**1,513**

During the year, tax on management fee revenue has been deferred where there is a relative degree of uncertainty, where applicable.

Franking Account				
Class C 30% franking credits	42,460	48,424	40,798	44,846

- 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

	2016		2015	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Current				
Trade debtors	1,704	1,764	51	239
Other debtors	-	-	35	35
Quota share commission	-	7,814	-	7,545
Amount due from Partnership	6,988	6,988	11,819	11,819
Accrued income	23,468	24,098	34,204	37,984
GST receivable	174	162	79	48
Premium receivable	-	34,890	-	41,389
Provision for impairment	-	(78)	-	(51)
	32,334	75,638	46,188	99,008
Non-current				
Amount due from Partnership	2,497	2,363	2,733	2,598
Loan to Partnership	10,000	10,000	-	-
	12,497	12,363	2,733	2,598

Terms and conditions

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

Loan to Partnership – this is to be for a period of two years ending on 30 June 2018 and is in the form of unrestricted cash on deposit

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Note 8 Reinsurance and other recoveries receivable

	2016		2015	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Reinsurance and other recoveries – current	69	6,093	96	4,869
Reinsurance and other recoveries - non-current	1,094	23,429	1,213	18,965
Total reinsurance and other recoveries	1,163	29,522	1,309	23,834
Reinsurance and other recoveries on claims paid	22	1,615	34	1,054
Expected future reinsurance and other recoveries on outstanding claims liability	1,141	27,907	1,275	22,780
Total reinsurance and other recoveries receivable	1,163	29,522	1,309	23,834

Note 9 Deferred reinsurance expense

	2016		2015	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Deferred reinsurance expense	-	11,590	-	12,057
Reconciliation of changes in deferred reinsurance expense:				
Balance at 1 July	-	12,057	-	11,725
Deferral of reinsurance premiums on current year contracts	-	11,590	-	12,057
Earning of reinsurance premiums previously deferred	-	(12,057)	-	(11,725)
Balance at 30 June	-	11,590	-	12,057

Note 10 Deferred acquisition costs

	2016		2015	
	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	-	666	-	577
Amortisation charged to income	-	(666)	-	(577)
Balance at 30 June	-	-	-	-

Note 11 Other assets

	2016		2015	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Current				
Specialised Insurer Security Deposit	-	29,551	-	30,251
Loan to Clubs NSW	510	510	464	464
	510	30,061	464	30,715
Non-current				
Performance guarantee bond	-	-	5,770	5,770
Loan to Clubs NSW	2,382	2,382	2,917	2,917
	2,382	2,382	8,687	8,687

Terms and conditions

The loan to Clubs NSW is an interest bearing loan. Interest is charged at the RBA 30 day bank bill rate.

Note 12 Financial assets

	Note	2016 The Company $000	2016 Consolidated $000	2015 The Company $000	2015 Consolidated $000
Current					
Bank accepted bills of exchange		6,975	16,937	3,979	10,454
Government and other public securities		2,197	9,106	998	4,739
		9,172	26,043	4,977	15,193
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		3,841	13,131	3,216	10,167
Shares in unlisted companies and unit trusts	24(b)	1,810	1,810	2,510	2,510
Floating rate notes		8,232	13,474	6,336	10,609
Government and other public securities		11,239	62,949	9,523	50,401
Total other financial assets		25,122	91,364	21,585	73,687
Total non-current financial assets		48,022	91,364	44,485	73,687
Total financial assets		57,194	117,407	49,462	88,880

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

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 2016 $000	Consolidated Carrying value 2015 $000	Ownership interest 2016 %	Ownership interest 2015 %
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] EML 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 EML and hence it is deemed that control is exercised by EML.

[2] EML 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 EML.

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 EML's share.

	2016		2015	
	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	58,738	40,773	49,210	40,447
Profit / (loss) after tax	14	2,590	1	5,431
Other comprehensive income	-	-	-	-
Total comprehensive income	14	2,590	1	5,431
Summarised balance sheet				
Total assets	18,478	214,373	22,549	194,162
Total liabilities	17,963	170,465	22,048	152,844
Net assets as at reporting date	515	43,908	501	41,318
Carrying value as at 30 June	515	21,954	501	20,659

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Note 14 Trade and other payables

	2016		2015	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Trade creditors	2,410	4,000	384	562
Levies payable	-	1,874	-	2,149
Reinsurance payable	505	16,351	522	16,561
Other creditors	2,210	12,394	4,069	24,544
Total trade and other payables	5,125	34,619	4,975	43,816

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

	2016		2015	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Unearned premium liability – current	-	37,991	-	39,621
Unearned premium liability – non-current	-	-	-	-
Total	-	37,991	-	39,621
Reconciliation of changes in unearned premium liability				
Balance 1 July	-	39,621	-	38,425
Premiums written during the year	-	51,007	-	52,892
Premiums earned during the year	-	(52,637)	-	(51,696)
Balance at 30 June	-	37,991	-	39,621

Note 16 Outstanding claims

	2016		2015	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
(a) Outstanding claims liability				
Outstanding claims liability – current	842	18,104	788	15,423
Outstanding claims liability – non-current	13,369	97,411	13,329	80,251
Total outstanding claims liability	14,211	115,515	14,117	95,674
Central estimate	13,220	118,235	14,153	102,372
Prudential margin	5,603	17,639	6,171	16,222
Claims handling allowance	714	7,475	762	7,497
Discount to present value	(5,326)	(27,834)	(6,969)	(30,417)
Gross outstanding claims liability	**14,211**	**115,515**	**14,117**	**95,674**

(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:

	2016 EML	2016 Hospitality Employers Mutual	2015 EML	2015 Hospitality Employers Mutual
For the succeeding and subsequent years:				
AWE inflation rate	3.25%	3.25%	3.50%	3.50%
CPI inflation rate	n/a	2.25%	n/a	2.50%
Superimposed inflation rate	1.64%	1.00%	1.71%	1.00%
Discount rate	2.29%	2.50%	3.34%	3.30%

(c) The weighted average expected term to settlement of the outstanding claims from balance date is estimated to be 7.13 years (2015: 6.66 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:

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Note 16 Outstanding claims (continued)

(d) Risk Margin (continued)

	2016	2015
Workers compensation: Hospitality Employers Mutual	15.0%	14.6%
Workers compensation Run-Off	42.4%	43.4%
Public liability	Fixed $50,000	96.2%

(e) Reconciliation of Changes in Discounted Net Outstanding Claims

The Company	2016			2015		
	Gross $000	Reinsurance $000	Net $000	Gross $000	Reinsurance $000	Net $000
Balance at 1 July	14,117	1,275	12,842	14,458	1,317	13,141
Current claims incurred	-	-	-	-	-	-
Change in previous years' claims	413	179	234	(213)	(563)	350
Current year claims paid/reinsurance recovered	-	-	-	-	-	-
Previous year claims paid/reinsurance recovered	(319)	(313)	(6)	(128)	521	(649)
Discounted outstanding claims	14,211	1,141	13,070	14,117	1,275	12,842

Consolidated	2016			2015		
	Gross $000	Reinsurance $000	Net $000	Gross $000	Reinsurance $000	Net $000
Balance at 1 July	95,674	22,780	72,894	82,940	19,522	63,418
Current claims incurred	37,471	10,518	26,953	33,295	8,925	24,370
Change in previous years' claims	(176)	307	(483)	(5,419)	(1,510)	(3,909)
Current year claims paid/reinsurance recovered	(7,333)	(2,444)	(4,889)	(5,793)	(1,912)	(3,881)
Previous year claims paid/reinsurance recovered	(10,121)	(3,254)	(6,867)	(9,349)	(2,245)	(7,104)
Discounted outstanding claims	115,515	27,907	87,608	95,674	22,780	72,894

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.

	Underwriting Year											
Outstanding claims	Pre 2007*	2007**	2008 ***	2009	2010	2011	2012	2013	2014	2015	2016	Total
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Estimate of ultimate claims cost												
At the end of accident year	20,090	252	160	4,897	6,860	8,825	9,373	19,251	19,150	19,090	22,283	130,231
One year later	24,190	181	784	7,305	10,504	11,977	13,054	20,259	22,914	23,868		135,036
Two years later	25,964	147	796	7,261	9,980	11,621	13,398	19,306	21,011			109,484
Three years later	25,664	113	1,135	7,728	9,101	10,930	10,484	17,281				82,436
Four years later	25,460	86	1,349	7,357	8,588	11,613	9,782					64,235
Five years later	25,977	57	1,316	6,739	6,834	12,751						53,674
Six years later	23,306	32	1,197	8,180	9,041							41,756
Seven years later	23,928	18	1,574	6,255								31,775
Eight years later	23,795	10	1,044									24,849
Nine years later	22,385	329										22,714
Ten years later	21,481											21,481
Current estimate of ultimate claims cost	21,481	329	1,044	6,255	9,041	12,751	9,782	17,281	21,011	23,868	22,282	145,125
Cumulative payments	9,864	329	839	5,126	5,637	6,173	5,930	8,352	7,845	7,268	3,981	61,344
Outstanding claims – undiscounted	11,617	-	205	1,129	3,404	6,578	3,852	8,929	13,166	16,600	18,301	83,781
Discount	2,999	-	62	265	954	1,734	637	1,654	2,381	2,966	3,109	16,761
Outstanding claims	8,618	-	143	864	2,450	4,844	3,215	7,275	10,785	13,634	15,192	67,020
Claims handling expense	527	-	15	83	251	513	283	857	1,204	1,506	1,678	6,917
Risk margin	3,901	-	48	142	401	792	526	1,223	1,808	2,283	2,547	13,671
Total net outstanding claims liabilities	13,046	-	206	1,089	3,102	6,149	4,024	9,355	13,797	17,423	19,417	87,608
Reinsurance and other recoveries on outstanding claims liabilities	1,141	-	63	383	1,087	2,715	1,425	3,660	4,746	6,001	6,686	27,907
Total Gross Outstanding Claims	14,187	-	269	1,472	4,189	8,864	5,449	13,015	18,543	23,424	26,103	115,515

** Includes the payments made since 30 June 2003. 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 2006.*

*** Includes Public Liability for Thoroughbred Racing Industry and Lawn Bowling Clubs, wound up in 2012/13 and 2015/16 respectively*

*** 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 $0.8m (2015: $4.4m).

For the purposes of the LAT, the present value of expected future cash flows for future claims (including the risk margin) of $25.6m (2015: $23m) comprises the discounted central estimate (including allowances for claims handling and policy administration expenses) of $21.8m (2015: $19.7m), and a risk margin of $3.8m (2015: $3.4m).

The risk margin used as a percentage of the central estimate is 17% (2015: 17%). The probability of sufficiency represented by the LAT is 75%. (2015: 75%).

Note 17 Provisions

	2016		2015	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Current				
Member benefit	4,364	4,364	2,241	2,241
	4,364	**4,364**	**2,241**	**2,241**
Balance at 1 July	2,241	2,241	1,691	1,691
Amount incurred	9,944	9,944	6,568	6,568
Amount utilised	(7,821)	(7,821)	(6,018)	(6,018)
Balance at 30 June	4,364	4,364	2,241	2,241

Note 18 Unearned income

	2016		2015	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Unearned income – current	-	12,265	243	6,495

Note 19 Reserves

	2016		2015	
	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 expense

Company

	2016			2015
	Current Year $000	Prior Years $000	Total $000	Total $000
Gross claims and related expenses – undiscounted	-	(1,091)	(1,091)	(2,422)
Less: discount	-	1,504	1,504	2,209
Gross claims and related expenses – discounted	-	413	413	(213)
Reinsurance and other recoveries – undiscounted	-	30	30	(775)
Less: discount	-	149	149	212
Reinsurance and other recoveries - discounted	-	179	179	(563)
Net Claims expense	-	234	234	350

Consolidated

	2016			2015
	Current Year $000	Prior Years $000	Total $000	Total $000
Gross claims and related expenses – undiscounted	43,564	(8,713)	34,851	27,993
Less: discount	(6,093)	8,537	2,444	(137)
Gross claims and related expenses – discounted	37,471	(176)	37,295	27,856
Reinsurance and other recoveries – undiscounted	12,175	(1,873)	10,302	8,070
Less: discount	(1,657)	2,180	523	(655)
Reinsurance and other recoveries - discounted	10,518	307	10,825	7,415
Net Claims expense	26,953	(483)	26,470	20,441

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 $26,236,560 (2015: $20,090,848). The improvement in prior year claims is attributable to better than expected claims experience, 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

	2016		2015	
	The Company $	Consolidated $	The Company $	Consolidated $
Audit and review services				
Statutory and Regulatory Audits and Reviews	62,955	148,295	51,000	116,650
Total audit and review services	62,955	148,295	51,000	116,650
Other services				
Review of actuary estimates	-	-	21,000	46,000
ICAAP Review	-	-	25,000	50,000
Other Professional fees	130,450	132,950	-	-
Total other services	130,450	132,950	46,000	96,000
Total Auditor Remuneration	193,405	281,245	97,000	212,650

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
- Flavia Gobbo

Executives

- Mark Coyne* (Chief Executive Officer)
- Alexandra Duff* (Company Secretary)
- 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:

	2016		2015	
	The Company $	Consolidated $	The Company $	Consolidated $
Short-term employee benefits	308,250	555,436	327,183	603,358
	308,250	555,436	327,183	603,358

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:

	2016 $	2015 $
Paid by EML		
Employers Mutual Limited & the Trustee for Aswig Management Trust Partnership – Management fees	23,350,801	17,768,438
Employers Mutual Limited & the Trustee for Aswig Management Trust Partnership – Credit risk fee	1,052,626	993,547
White Outsourcing*	24,750	14,850
White Funds Management*	145,850	85,423
Paid by Hospitality Employers Mutual Limited		
Employers Mutual Limited & the Trustee for Aswig Management Trust Partnership – Management fees	226,603	227,949
White Funds Management*	343,402	317,324
White Outsourcing*	35,974	27,781

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

	2016 $	2015 $
Paid by EML		
Employers Mutual Limited & the Trustee for Aswig Management Trust Partnership	1,686,603	2,991,137
White Funds Management*	17,449	6,912
White Outsourcing*	-	-
Paid by Hospitality Employers Mutual Limited		
Employers Mutual Limited & the Trustee for Aswig Management Trust Partnership	46,213	19,500
White Funds Management*	27,728	23,500
White Outsourcing*	6,900	6,854

* 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 ("the 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 2016 $000	Consolidated 2015 $000
Revenue	166,609	173,725
Profit from continuing operations[1]	16,039	30,260
Other comprehensive income	-	-
Total comprehensive income	16,039	30,260
Current assets[2]	49,589	53,316
Non-current assets	4,995	5,465
Current liabilities[3]	(49,589)	(53,316)
Non-current liabilities	(4,995)	(5,465)
Net assets	-	-

Movement in carrying amount in investment in joint venture entities

	Consolidated 2016 $000	Consolidated 2015 $000
Group's interest in net assets of investee at the beginning of the year	-	-
Share of total comprehensive income	8,019	15,130
Partnership distribution	(8,019)	(15,130)
Carrying amount of interest in investee at end of the year	-	-

1 Includes:
- Interest income $459,275 (2015: $605,194)
- Interest Expense $nil (2015: $nil)

2 Includes cash & cash equivalents of $29,248,943 (2015: $35,142,921)
3 Includes loans advanced by EML of $10,000,000 (2015: $nil)

Note 24 Equity accounted investees (continued)

(b) Joint venture entity's expenditure commitments

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

(c) 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 EML exceed 20%, individual unit holdings are significantly below this threshold. In addition, EML 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:

	2016		2015	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Cash and cash equivalents	4,915	11,515	6,549	10,055

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

	2016		2015	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Total comprehensive income for the year	(3,627)	(1,023)	8,436	8,328
Add/(less):				
Profit on sale of investments	4	(177)	(563)	(1,120)
Increase / (decrease) in market value of investments	543	(342)	1,876	1,206
Net cash provided by operating activities before change in assets and liabilities	(3,080)	(1,542)	9,749	8,414
Changes in assets and liabilities:				
Decrease / (increase) in debtors and accrued income	5,983	15,495	6,490	(5,952)
Decrease / (increase) in prepayments	121	1,925	(228)	(831)
Decrease / (increase) in reinsurance & other recoveries	146	(5,688)	625	(2,718)
Decrease / (increase) in deferred reinsurance expense	-	467	-	(332)
(Decrease) / increase in income tax payable	(1,890)	(2,222)	1,559	(961)
(Increase) / decrease in deferred tax balances	(1,125)	(943)	1,096	937
(Decrease) / increase in payables	(580)	(4,568)	3,188	3,301
Increase in provision for member benefit	2,123	2,123	550	550
(Decrease) / increase in other liabilities	-	(1,522)	-	768
Increase / (decrease) in provision for claims	94	19,841	(341)	12,734
(Decrease) / increase in unearned premium	-	(1,630)	-	1,196
	4,872	23,278	12,939	8,692
Net cash provided by operating activities	1,792	21,736	22,688	17,106

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 2016: 21% (2015: 21%) 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 -1% Profit $000	Interest rate risk +1% Profit $000	Other price risk -10% Profit $000	Other price risk +10% Profit $000
2016 Company					
Cash and Cash Equivalents	4,915	-	-	-	-
Bank Accepted Bills of Exchange	6,975	5	(5)	-	-
Government and Other Public Securities	13,436	719	(719)	-	-
Shares in Listed Securities and Unit Trusts	3,841	-	-	(384)	384
Shares in Unlisted Companies and Unit Trusts	1,810	-	-	(181)	181
Floating Rate Notes	8,232	6	(6)	-	-
	39,209	730	(730)	(565)	565
2016 Consolidated					
Cash and Cash Equivalents	11,515	1	(1)	-	-
Bank Accepted Bills of Exchange	16,937	14	(14)	-	-
Government and Other Public Securities	72,055	4,126	(4,126)	-	-
Shares in Listed Securities and Unit Trusts	13,131	-	-	(1,313)	1,313
Shares in Unlisted Companies and Unit Trusts	1,810	-	-	(181)	181
Floating Rate Notes	13,474	25	(25)	-	-
	128,922	4,166	(4,166)	(1,494)	1,494

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
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

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.

2016 Company

	Trade and other receivables $'000	Reinsurance and other recoverable receivable $'000
Neither past due nor impaired	44,831	1,163
Past due 0-30 days	-	-
Past due 31-120 days	-	-
More than 120 days	-	-

2016 Consolidated

	Trade and other receivables $'000	Reinsurance and other recoverable receivable $'000
Neither past due nor impaired	86,345	29,522
Past due 0-30 days	1,068	-
Past due 31-120 days	434	-
More than 120 days	154	

Note 26 Financial instruments (continued)

(a) Credit risk exposures (continued)

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	-

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

	2016		2015	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Balance at 1 July	-	51	-	61
Impairment loss/(write back) recognised	-	78	-	24
Amounts written off	-	(51)	-	(34)
Balance at 30 June	-	78	-	51

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 $000	AA $000	A $000	BBB $000	Not rated $000	Total $000
2016 Company						
Cash and Cash Equivalents	-	2,768	2,147	-	-	4,915
Financial Assets – Interest Bearing	11,392	6,525	5,000	5,700	26	28,643
Trade and Other Receivables	-	-	-	-	44,831	44,831
Reinsurance and Other Recoveries Receivable	-	-	1,163	-	-	1,163
Loan to Clubs (NSW)	-	-	-	-	2,892	2,892
Other Assets	-	-	-	-	-	-
	11,392	9,293	8,310	5,700	47,749	82,444
2016 Consolidated						
Cash and Cash Equivalents	-	8,374	3,141	-	-	11,515
Financial Assets – Interest Bearing	66,804	10,788	12,114	12,734	26	102,466
Trade and Other Receivables	-	-	-	-	88,001	88,001
Reinsurance and Other Recoveries Receivable	-	26,927	1,876	-	719	29,522
Loan to Clubs (NSW)	-	-	-	-	2,892	2,892
Other Assets	29,551	-	-	-	-	29,551
	96,355	46,089	17,131	12,734	91,638	263,947

Note 26 Financial instruments (continued)

(a) Credit risk exposures (continued)

	AAA $000	AA $000	A $000	BBB $000	Not rated $000	Total $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

(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
2016 Company					
Trade and Other Payables	5,125	-	-	-	5,125
Outstanding Claims Liability	842	983	2,957	9,429	14,211
	5,967	983	2,957	9,429	19,336
2016 Consolidated					
Trade and Other Payables	39,361	-	-	-	39,361
Outstanding Claims Liability	18,104	13,818	31,973	51,620	115,515
	57,465	13,818	31,973	51,620	154,876

	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

(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:

2016 Company

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Bank Accepted Bills of Exchange	-	6,975	-	6,975
Government and Other Public Securities	12,440	996	-	13,436
Shares in Listed Securities and Unit Trusts	3,841	-	-	3,841
Shares in Unlisted Companies and Unit Trusts	-	-	1,810	1,810
Floating Rate Notes	8,232	-	-	8,232
	24,513	7,971	1,810	34,294

2016 Consolidated

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Bank Accepted Bills of Exchange	-	16,937	-	16,937
Government and Other Public Securities	68,070	3,985	-	72,055
Shares in Listed Securities and Unit Trusts	13,131	-	-	13,131
Shares in Unlisted Companies and Unit Trusts	-	-	1,810	1,810
Floating Rate Notes	13,474	-	-	13,474
	94,675	20,922	1,810	117,407

Note 26 Financial instruments (continued)

(c) Net fair values (continued)

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

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

	2016		2015	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Balance at 1 July	2,510	2,510	4,101	4,101
Shares acquired	-	-	-	-
Transfers in to level 3	-	-	-	-
Total gains and losses recognised in:				
- profit and loss	(700)	(700)	(1,591)	(1,591)
- other comprehensive income	-	-	-	-
Balance at 30 June	1,810	1,810	2,510	2,510

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: 5.5 to 6.0 (2015: 7.9 to 8.8)
- Small size discount: 5% (2015: 5%)
- Lack of marketability discount: 20% (2015: 20%)
- Minority discount: 10% (2015: 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:

2016 Significant unobservable inputs	Changes	Impact on fair value measurement $000
EBITDA multiple	+10% / -10%	329 / (330)
Small size discount	+10% / -10%	(22) / 22
Lack of marketability discount	+10% / -10%	(88) / 90
Minority discount	+10% / -10%	(20) / 20
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

EML
Mutual since 1910

Note 27 Other Information

Employers Mutual Limited (EML), 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 EML, has the option to become a member.

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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), 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 – 2016	2016 The Company $000	2016 Consolidated $000
Common Equity Tier 1 (CET1) capital		
General reserves	25,307	25,307
Retained earnings	64,396	72,653
Excess Technical Provisions	-	2,575
Non-controlling interest	-	13,172
Common Equity Tier 1 capital Deductions		
Non-controlling interest excluded from capital	-	(5,190)
Regulatory capital requirement of investment in subsidiaries	(16,036)	-
Net Deferred Tax Asset	(1,766)	(2,456)
Other Common Equity Tier 1 Capital adjustments	(2,070)	-
Total regulatory capital	69,831	106,061
Outstanding claims insurance risk charge	1,830	11,956
Premium liabilities insurance risk charge	-	5,236
Insurance Concentration risk charge	2,000	1,000
Diversified asset risk charge	7,546	14,573
Operational risk charge	274	2,872
Aggregation benefit	(2,256)	(7,283)
Prescribed capital amount (PCA)	9,394	28,354
Surplus	60,437	77,707
PCA Multiple	7.43	3.74

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

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

Note 29 Subsequent events

During the year, EML was successful in its tender to manage claims on behalf of WorkSafe Victoria. EML commenced these operations from 1 July 2016. The work is similar to the claims management services provided on behalf of the NSW and SA Governments and is anticipated to be a successful and complementary addition to EML's existing portfolio.

There have been no other events subsequent to balance date which would have a material effect on the Group's financial statements at 30 June 2016.

Directors' Declaration

1. In the opinion of the directors of Employers Mutual Limited (EML) ('the Company'):
   a. the financial statements and notes set out on pages 12 to 67, 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 2016 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(a) 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 day of August 30, 2016

CATHERINE KING

Director

A J GRANT

Director

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Independent Audit 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 2016, 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 2001and 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 2016 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
30 August 2016

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