FINANCIAL **STATEMENTS**

30 JUNE 2018

we help people get their lives back

Contents

Directors' Annual Report to the Members

For the year ended 30 June 2018

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 2018 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 Laws BAB, FAICD, FACLM (Chairman)

Mr O'Reilly was appointed as a Director of EML in December 2010, and as Chairman in November 2011. Mr O'Reilly also currently serves as a Director of Hospitality Employers Mutual Limited, one of EML's subsidiary companies. Mr O'Reilly has an extensive record of experience within a number of professional and mutual organisations. In addition to being a qualified general dental practitioner he has been admitted as a barrister of the Supreme Court of New South Wales, Mr O'Reilly was previously a Director of Manchester Unity Australia for five years and its independent elected Chairman for four years. In the 2016 Australia Day Honours List, Mr O'Reilly was made a Member of the Order of Australia (AM) for his "significant service to dentistry, particularly through leadership roles with professional associations, to education, and as a practitioner." Mr O'Reilly was a Director of BUPA Dental Corporation, President and Professional Officer of the Dental Council of NSW, and has assisted the Motor Accident Authority of New South Wales in relation to dental injuries from motor accidents. He was a Member of the National Australia Bank's nabhealth National Advisory Council, Member of the Medical Advisory Panel for BUPA MBF Australia, and a Director of the Motor Neurone Disease Association of Australia as well as a Non-Executive Director on a number of other Boards.

Robert G. Cleland, B. Com

Mr Cleland is a Director of the Board, first being appointed in 1982, and then subsequently re- elected in 2008, 2013 and 2015. Mr Cleland has over 25 years of insurance experience, including over five years as Customer Service Manager for EML. He was also a Councillor with the New South Wales Road Transport Association for 20 years.
Retired 29 November 2017

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

Mr Grant was first appointed as a Director to the Board in 2002 and then subsequently re-elected in 2009 and 2014. Mr Grant also currently serves as a Director of Hospitality Employers Mutual Limited, one of EML's subsidiary companies. Mr Grant has been a Director and Principal of Technology Leasing Partnership since 1996, a Managing Director of HAL Data Services Pty Ltd from 1993 and an Associate Member of the Chartered Institute of Management Accountants since 1986.
Retired 19 April 2018

Directors' Annual Report to the Members (continued)

Directors (continued)

Catherine A. King

Ms King was first appointed as a Director to the Board in 2007, and then subsequently re-elected in 2010, 2013, 2015 and 2017. Ms King has extensive experience in government, community and stakeholder relations, communications and strategy. Ms King has managed a public relations and communications business since 2004. Ms King is also a Director of Adelaide Venue Management Corporation, Homestart SA, Don Dunstan Foundation, SAFECOM and a Board Member of Common Ground Adelaide, Riverland Wine Advisory Panel and ResourceCo Pty Ltd. She has previously been a Director of Adelaide Fringe Inc, Eastside Skillshare and the SA Ambulance Service.

Paul R. Baker LLB GAICD

Mr Baker was appointed as a Director on 23 September 2014 and subsequently re-elected in 2017. Mr Baker also currently serves as a Director of Hospitality Employers Mutual Limited, one of EML's subsidiary companies. Mr Baker has experience in the areas of insurance, commercial and administrative law, risk management, business management and corporate governance. He is a practicing lawyer of almost 30 years and has been Managing Director of Meridian Lawyers since 2004, a law firm which he established and has grown to more than 140 staff. Mr Baker has served as the legal member of the Consumer Medicines Information Commonwealth Government Task Force and South Eastern Sydney Area Health Service Ethics Committee. He was also a partner of Ebsworth and Ebsworth Lawyers and a former Director of Guild Accountants.

Flavia Gobbo, BA, LLB, GAICD

Ms Gobbo was appointed as a Director on 24 May 2016. Ms Gobbo has extensive experience as a senior corporate lawyer with one of Australia's top publicly listed companies, Telstra. With a wide range of both legal and management experience, Ms Gobbo has been involved in the areas of telecommunications, competition, product management, marketing, corporate governance and the Company Secretariat, treasury and dispute resolution. Prior to this Ms Gobbo was a Senior Associate at King Wood & Mallesons. Ms Gobbo is currently a Director on a number of Boards in Australia. She is the Chairperson of WorkCover QLD, which is the main provider of workers compensation insurance in Queensland. She is currently a Board member of ESTA, the Emergency Service Telecommunications Authority in Victoria, as well as SecondBite, a not for profit national food rescue organisation, and is the Deputy Chair of Rowing Australia.

Matthew Wilson LLB, Grad Dip Legal Practice, Snr Assoc ANZIIF(CIP)

Matthew Wilson was appointed as a Director on 19 April 2018 and has held the position of Chief Risk Officer since joining EML in November 2006. Matthew is a corporate lawyer and professional adviser in the fields of risk management, regulatory compliance and corporate governance practice in the Australian financial services sector.

Company secretaries

Anthony Fleetwood	Appointed 15 April 2003
Matthew Wilson	Appointed 30 September 2010
Adrian Diggelmann	Appointed 30 November 2016, resigned 25 July 2017
Narelle Wooden	Appointed 25 July 2017

Directors' Annual Report to the Members (continued)

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
William J. A. O'Reilly	9	8	7	6	2	2	2	2	4	2
Robert G. Cleland**	4	4	0	0	1	1	0	0	2	2
Andrew J. Grant***	7	5	6	5	0	0	2	1	4	3
Catherine A. King	9	8	7	7	0	0	2	2	4	4
Paul R. Baker	9	8	7	6	2	2	2	2	0	0
Flavia Gobbo	9	8	7	6	1	1	1	1	4	4
Matthew Wilson	2	2	0	0	0	0	0	0	0	0

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

** Mr Cleland retired during the November 2017 Board Meeting

*** Mr Grant resigned 19 April 2018

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 by achieving faster, 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 management services to icare (Insurance and Care NSW) Workers Insurance, Insurance for NSW, Return to Work South Australia and WorkSafe Victoria. 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 and life insurers.

In order to meet its goals, EML has set the following short-term objectives for the 2018 financial year and beyond:

- Continue to manage a significantly larger claims portfolio with icare, as a result of EML becoming the sole service provider for all new claims, management services commencing 1 January 2018
- Continue to grow the Victorian business and deliver successful return to work outcomes across new, and existing, portfolios
- Continue to challenge processes and technology in order to maximise outcomes in the most efficient and 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.

Directors' Annual Report to the Members (continued)

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
  - Insurance for NSW
  - Return to Work SA
  - WorkSafe Victoria
- 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
- Acting as outsourced provider of personal injury claims management services on behalf of third parties
- Run-off of the pre-1987 underwritten workers compensation insurance portfolio
- Life insurance claims management
- 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 profit after tax was $17.1m (2017: profit after tax was $11.3m).

Factors influencing the Group result include:

- Continued strong profits from the Partnership business; with a positive result of $16.5m (2017: $12.6m). The Partnership business undertakes the contractual and statutory obligations of EML in respect of workers compensation insurance and management and underwritten insurance activities. The 2018 financial year has seen excellent performance from the icare workers compensation and self-insurance portfolios. The ReturnToWork SA portfolio has continued to deliver solid results, whilst results for the WorkSafe Victoria business unit reflect the developing nature of that portfolio. Claims management activities on behalf of self-insured workers compensation schemes continue to perform well and contribute to the profitable result.

- Positive underwriting results, predominantly derived from the Hospitality Employers Mutual (Hospitality) business. Hospitality experienced an excellent result in 2018, achieving a profit of $13.3m after tax (2017: $10.4m). The profit is largely driven by a further actuarial release of $9.9m, attributable in the main to ongoing better than expected claims experience.

- Investment revenue of $6.3m (2017: $2.3m) is more in line with 2016 ($5.2m) investment income with 2017 being abnormally low. This was partially due to having a larger investment portfolio for 2018 compared to 2017.

- Continued expenditure on member benefits at $11.5m (2017: $9.4m), following a prior year 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 through knowledge sharing across jurisdictions, improved claims management outcomes and reduced premiums for members. The investment of member benefits will also assist in supporting contract renewals (and new contracts) in order to ensure the availability of member benefits funding into the future.

Directors' Annual Report to the Members (continued)

Events subsequent to balance date

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

EML commenced its operations as the sole provider of new claims, management services for icare, in NSW, on 1 January 2018. As a result, the scale of NSW continues to grow beyond 30 June 2018. 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 2018 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.

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 2018. 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.

Directors' Annual Report to the Members (continued)

Statutory information (continued)

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, 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 $49,001 (2017: $35,563) (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 9 and forms part of the Directors’ Report for the year ended 30 June 2018.

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

William J.A. O’Reilly	**Catherine A. King**
Director	**Director**

Signed in Sydney on 31 August 2018

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 of Employers Mutual Limited for the financial year ended 30 June 2018 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

Leann Yuen

Leann Yuen
Partner

Sydney
31 August 2018

Statements of Comprehensive Income

For the year ended 30 June 2018

		2018		2017	
	Note	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Premium revenue	5(a)	-	71,384	-	60,488
Outwards reinsurance expense		-	(19,442)	71	(16,475)
		-	51,942	71	44,013
Claims expense	20	711	(24,276)	1,027	(19,284)
Reinsurance and other recoveries	20	(13)	7,543	(29)	5,635
Net claims expense	20	698	(16,733)	998	(13,649)
Other underwriting expenses	5(b)	-	(12,094)	-	(10,636)
Underwriting surplus		**698**	**23,115**	**1,069**	**19,728**
Investment revenue	5(c)	7,187	6,279	1,512	2,312
Management fees received	5(d)	216,977	216,977	186,372	186,372
Other revenue	5(e)	17,945	17,635	13,626	13,626
General and administration expenses		(1,481)	(9,747)	(1,844)	(8,119)
Member benefit expense		(11,510)	(11,510)	(9,354)	(9,354)
Management fees paid	5(f)	(218,950)	(218,950)	(188,284)	(188,284)
Profit before related income tax expense		**10,868**	**23,799**	**3,097**	**16,281**
Income tax expense attributable to operating profit	6(a)	1,355	6,723	650	4,947
Profit for the year		**9,511**	**17,076**	**2,447**	**11,334**
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		**9,511**	**17,076**	**2,447**	**11,334**
Profit attributable to:					
Equity holders of the parent		9,511	13,088	2,447	8,228
Non-controlling interest		-	3,988	-	3,106
Profit for the year		**9,511**	**17,076**	**2,447**	**11,334**
Total comprehensive income attributable to:					
Equity holders of the parent		9,511	13,088	2,447	8,228
Non-controlling interest		-	3,988	-	3,106
Total comprehensive income for the year		**9,511**	**17,076**	**2,447**	**11,334**

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 2018

	Note	2018 The Company $000	2018 Consolidated $000	2017 The Company $000	2017 Consolidated $000
Current assets					
Cash and cash equivalents	25	2,156	12,041	2,080	23,809
Trade and other receivables	7	53,362	106,156	44,934	99,209
Reinsurance and other recoverables receivable	8	58	6.911	67	6.969
Financial assets at fair value	12	12,969	23,949	6,702	17,192
Deferred reinsurance expense	9	-	13,925	-	12,833
Current tax assets	6(b)	-	-	192	-
Other assets	11	892	69,670	1,237	39,953
Total current assets		**69,437**	**232,652**	**55,212**	**199,965**
Non-current assets					
Trade and other receivables	7	11,051	10,917	11,219	11,085
Reinsurance and other recoverables receivable	8	947	23,368	965	22,831
Deferred tax assets	6(c)	-	1,529	1,116	2,539
Financial assets at fair value	12	44,544	114,844	44,122	101,200
Other assets	11	3	5,165	1,061	8,467
Total non-current assets		**56,545**	**155,823**	**58,483**	**146,122**
TOTAL ASSETS		**125,982**	**388,475**	**113,695**	**346,087**
Current liabilities					
Trade and other payables	14	10,621	47,367	6,949	53,204
Unearned premium liability	15	-	46,320	-	41,856
Outstanding claims liability	16(a)	605	22,460	761	22,320
Current tax liabilities	6(b)	75	4,884	-	4,722
Provisions	17	1,319	1,319	1,369	1,369
Unearned income	18	3	30,373	106	4,380
Total current liabilities		**12,623**	**152,723**	**9,185**	**127,851**
Non-current liabilities					
Outstanding claims liability	16(a)	11,533	98,612	12,359	95,842
Deferred tax liability	6(d)	164	-	-	-
Total non-current liabilities		**11,697**	**98,612**	**12,359**	**95,842**
TOTAL LIABILITIES		**24,320**	**251,335**	**21,544**	**223,693**
NET ASSETS		**101,622**	**137,140**	**92,151**	**122,394**
Equity					
Reserves	19	25,307	25,307	25,307	25,307
Retained earnings		76,355	94,479	66,844	81,391
Total equity attributable to equity holders of the Company		**101,662**	**119,786**	**92,151**	**106,698**
Non-controlling interest		-	17,354	-	15,696
Total Equity		**101,662**	**137,140**	**92,151**	**122,394**

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 2018

	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 2016	**25,307**	**64,397**	**89,704**	**25,307**	**72,653**	**13,172**	**111,132**
Total comprehensive income for the year							
Profit for the year	-	2,447	2,447	-	8,228	3,106	11,334
Total comprehensive income for the year	**-**	**2,447**	**2,447**	**-**	**8,228**	**3,106**	**11,334**
Transactions with owners in their capacity as owners	-	-	-	-	510	(582)	(72)
Balance at 30 June 2017	**25,307**	**66,844**	**92,151**	**25,307**	**81,391**	**15,696**	**122,394**
Balance at 1 July 2017	**25,307**	**66,844**	**92,151**	**25,307**	**81,391**	**15,696**	**122,394**
Total comprehensive income for the year							
Profit for the year	-	9,511	9,511	-	13,088	3,988	17,076
Other comprehensive income for the year	-	-	-	-	-	-	-
Total comprehensive income for the year	**-**	**9,511**	**9,511**	**-**	**13,088**	**3,988**	**17,076**
Transactions with owners in their capacity as owners:							
Change in ownership interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Dividend paid	-	-	-	-	-	(2,330)	(2,330)
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**(2,330)**	**(2,330)**
Balance at 30 June 2018	**25,307**	**76,355**	**101,662**	**25,307**	**94,479**	**17,354**	**137,140**

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 2018

	Note	2018 The Company $000	2018 Consolidated $000	2017 The Company $000	2017 Consolidated $000
Cash flows from operating activities					
Premium revenue received		-	72,294	-	59,548
Reinsurance and other recoveries received		14	13,945	103	9,908
Reinsurance paid		-	(21,429)	-	(18,230)
Management fees received		92,628	216,112	103,683	171,319
Dividends received		5,746	745	1,641	682
Interest received		771	4,403	809	4,404
Trust distributions received		1	20	-	4
Other revenue received		16,315	16,315	13,529	13,529
Claims paid		(256)	(21,485)	(61)	(17,095)
Acquisition costs paid		-	(922)	-	(593)
Member benefits paid		(11,560)	(11,560)	(12,349)	(12,349)
General expenses and management fees paid		(93,183)	(253,768)	(107,427)	(193,157)
Income taxes paid		183	(5,562)	134	(697)
Net cash provided by/ (used in) operating activities	25 (b)	**10,659**	**9,108**	**62**	**17,273**
Cash flows from investing activities					
Proceeds from disposal of investments		66,352	188,054	54,033	164,937
Payments for investments		(72.745)	(207,509)	(48,597)	(169,874)
(Payments for)/proceeds from acquisition of debtors		(5,433)	(196)	(9,791)	(1,064)
Acquisition of a subsidiary, net of cash acquired		-	-	-	510
Loans advanced		-	-	363	-
Loan repayments received		1,243	1,105	1,095	1095
Net cash (used in) / provided by investing activities		**(10,583)**	**(18,546)**	**(2,897)**	**(4,396)**
Cash flows from financing activities					
Dividends paid to non-controlling interest		-	(2.330)	-	(582)
Net cash provided by financing activities		-	**(2,330)**	**-**	**(582)**
Net (decrease)/ increase in cash and cash equivalents		**76**	**(11,768)**	**(2,835)**	**12,295**
Cash and cash equivalents at the start of the financial year		**2,080**	**23,809**	**4,915**	**11,514**
Cash and cash equivalents at the end of the financial year	25 (a)	**2,156**	**12,041**	**2,080**	**23,809**

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

Notes to the Financial Statements

For the year ended 30 June 2018

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 2018 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. 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 31 August 2018.

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. IFRS 17 was published on 18th May 2017 effective from 1st Jan 2021. Until the adoption 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.

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 the company and 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.

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

Basis of Preparation (continued)

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

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

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

Parent entity financial statements have been included in the consolidated financial statements for the year ended 30 June 2018. 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.

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

Significant Accounting Policies (continued)

(b) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST).

(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. Estimated are calculated based on a mix of internal and external monitoring of performance measures.

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. Actual amounts received may differ from estimations calculated.

(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.

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

Significant Accounting Policies (continued)

(c) Workers compensation statutory funds

The Company has been 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.

(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.

(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%.

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

Significant Accounting Policies (continued)

(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.

(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 an asset 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.

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

Significant Accounting Policies (continued)

(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.

(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.

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

Significant Accounting Policies (continued)

(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.

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.

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

Significant Accounting Policies (continued)

(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.

(t) New standards and interpretations not yet adopted

(t)(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 have been early adopted and applied in the current reporting period.

Standard	Description	Operative Date	Note
AASB 16	Leases	1 January 2019	A
AASB Interpretation 23	Uncertainty over Income Tax Treatment	1 January 2019	A
AASB 17	Insurance Contracts	1 January 2021	B
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred indefinitely	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.

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)

(t)(ii) Changes in accounting policies

Standard	Description
AASB 9	Amendments to Australian Accounting Standards arising from AASB 132 - Offsetting Financial Assets and Financial Liabilities
AASB 15	Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting
AASB 2014-10	Amendments to Australian Accounting Standards: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
AASB 2016-2	Amendments to Australian Accounting Standards: Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts
AASB 2016-5	Amendments to Australian Accounting Standards: Classification and Measurement of Share-based Payment Transactions
AASB 2017-2	Amendments to Australian Accounting Standards: Transfer of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments
AASB Interpretation 22	Foreign Currency Transactions and Advance Consideration

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 2018 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 and the Board 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.

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 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:

	2018			2017		
	Underwritten Workers Compensation	Workers Compensation Run-off	Combined	Underwritten Workers Compensation	Workers Compensation Run-off	Combined
Average term to settlement years*	6.45	9.83	6.38	6.30	9.63	6.06
Average claim sizes $	19,410	61,968	19,757	19,716	98,888	20,369
Expense rate	7.90%	5.40%	7.70%	7.50%	5.40%	7.30%
Discount rate	2.85%	2.79%	2.80%	2.95%	2.90%	2.95%

** 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 2017/2018, 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 claim 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 2018.

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%	72 / (72)
Normal inflation rate	+1% / -1%	898 / (898)
Discount rate	+1% / -1%	(952) / 952
All classes HEM		
Expense rate	+1% / -1%	635 / (635)
Discount rate	+1% / -1%	(3,820) / 4,532
Average claim size	+10% / -10%	7,075 / (7,075)
Average term to settlement	+10% / -10%	(1,138) / 1,193
Workers Compensation Run-off		
Gross average claim size	+10% / -10%	762 / (762)
Number of future claims reported	+10% / -10%	755 / (755)

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.

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 of 15% p.a. before tax over rolling 3 years and return on expenses (for other businesses) of more than 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.

Note 4 Risk management (continued)

(d) Insurance risk

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

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

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

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

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

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

(e) Reinsurance strategy

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

Note 4 Risk management (continued)

(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 is also subject to other regulatory requirements including corporate law, taxation law, privacy law, workplace health and safety laws and state records laws.

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

(h) Asset risks

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

(i) Liquidity risk

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

(j) Credit risk

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

(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.

Note 4 Risk management (continued)

(l) Strategic and reputation risks

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

(m) People and capability risks

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

(n) Governance risks

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

Note 5 Operating profit

	2018		2017	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
(a) Premium revenue				
Premium revenue – direct	-	64,891	-	55,285
Profit commission and other recoveries from reinsurance	-	6,493	-	5,203
	-	**71,384**	**-**	**60,488**
(b) Other underwriting expenses				
Acquisition costs	-	(813)	-	(702)
Management fees paid	-	(8,401)	-	(7,466)
Workers Compensation Operational Fund levy	-	(2,873)	-	(2,465)
Other fees	-	(7)	-	(3)
	-	**(12,094)**	-	**(10,636)**
(c) Investment revenue				
Dividends from external parties	220	670	241	662
Dividends from related parties	5,906	471	1,403	29
Interest revenue	761	4,374	804	4,471
Trust distributions	1	20	-	4
Profit/(loss) on sale of investments	(3)	1	(5)	260
Unrealised investment gains/(losses)	302	743	(931)	(3,114)
	7,187	**6,279**	**1,512**	**2,312**
(d) Management fees revenue				
Statutory Agent fee revenue	196,050	196,050	168,923	168,923
Other	20,927	20,927	17,449	17,449
	216,977	**216,977**	**186,372**	**186,372**
(e) Other revenue				
Share of profits of joint venture	16,499	16,189	12,588	12,588
Other income	1,446	1,446	1,038	1,038
	17,945	**17,635**	**13,626**	**13,626**
(f) Management fees paid				
Statutory Agent fee expense	(196,050)	(196,050)	(168,923)	(168,923)
Other	(22,900)	(22,900)	(19,361)	(19,361)
	(218,950)	**(218,950)**	**(188,284)**	**(188,284)**

Mutual since 1910

Note 6 Taxation

	2018 The Company $000	2018 Consolidated $000	2017 The Company $000	2017 Consolidated $000
(a) Income tax expense				
Prima facie income tax expense/(benefit) calculated at 30% on operating profit/(loss)	3,260	7,139	929	4,884
Increase/(decrease) in income tax expense due to:				
Imputation gross-up on dividends received	781	107	194	40
Franking credits on dividends received	(2,602)	(357)	(645)	(132)
Permanent differences	(57)	(57)	172	172
Income tax expense/(benefit) attributable to profit	1,382	6,832	650	4,964
Under provision for tax expense in previous years	(27)	(109)	-	(17)
Tax expense/(benefit) attributable to operating profit	**1,355**	**6,723**	**650**	**4,947**
Income Tax Expense is made up of				
Current tax	75	5,719	-	5,047
Under provision in prior year	(27)	(109)	-	(17)
Deferred tax	1,307	1,113	650	(83)
	1,355	**6,723**	**650**	**4,947**
(b) Net Current tax assets/(liabilities)				
Current tax assets	-	-	192	-
Provision for income tax payable	(75)	(4,884)	-	(4,722)
Net Current tax assets/(liabilities)	**(75)**	**(4,884)**	**192**	**(4,722)**
(c) Net deferred tax assets/(liabilities)				
Deferred tax assets				
(i) Amounts recognised in profit				
Claims handling expenses	133	2,294	144	2,128
Member benefit provision	396	396	411	411
Prior years accumulated tax losses	-	40	-	(40)
Current year accumulated/(utilisation of) tax losses	-	372	2,925	3,083
Deferred tax on management fee expenses	2,937	4,785	-	4,177
Other	80	167	40	135
(ii) Amounts set off against deferred tax liabilities	(3,546)	(6,444)	(2,404)	(7,355)
	-	**1,529**	**1,116**	**2,539**
Deferred tax liabilities				
(i) Amounts recognised in profit				
Deferred tax on management fee revenue	(3,434)	(5,281)	(2,215)	(6,432)
Accrued investment income	(39)	(51)	(42)	(54)
Unrealised gain on investments	(237)	(984)	(147)	(763)
Other	-	(128)	-	(106)
(ii) Amounts set off against deferred tax assets	3,546	6,444	2,404	7,355
	164	-	-	-

Note 6 Taxation (continued)

	2018		2017	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
(d) Net deferred tax				
Reconciliation of Deferred Tax Asset				
Balance at 1 July	1,116	2,539	1,766	2,456
Prior year over / (under) provision	27	109	-	-
Utilisation of tax losses	-	(6)	-	-
Credited to Statement of Comprehensive Income	(1.307)	(1,113)	(650)	83
Balance at 30 June	**(164)**	**1,529**	**1,116**	**2,539**
Franking Account				
Class C 30% franking credits	45,334	57,965	42,788	54,589

- 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

	2018		2017	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Current				
Trade debtors	3,419	5,579	2,211	2,312
Quota share commission	-	9,911	-	9,165
Amount due from related entities	9,229	8,651	7,992	7,715
Accrued income	40,485	39,720	34,680	40,566
GST receivable	233	243	166	1,224
Premium receivable	-	42,099	-	38,394
Provision for impairment	(4)	(48)	(115)	(167)
	53,362	**106,156**	**44,934**	**99,209**
Non-current				
Amount due from Partnership and other related entities	1,051	917	1,219	1,085
Loan to Partnership	10,000	10,000	10,000	10,000
	11,051	**10,917**	**11,219**	**11,085**

Note 8 Reinsurance and other recoveries receivable

	2018		2017	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Reinsurance and other recoveries – current	58	6,911	67	6,969
Reinsurance and other recoveries - non-current	947	23,368	965	22,831
Total reinsurance and other recoveries	**1,005**	**30,279**	**1,032**	**29,800**
Reinsurance and other recoveries on claims paid	17	1,270	23	1,372
Expected future reinsurance and other recoveries on outstanding claims liability	988	29,009	1,009	28,428
Total reinsurance and other recoveries receivable	**1,005**	**30,279**	**1,032**	**29,800**

Note 9 Deferred reinsurance expense

	2018		2017	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Deferred reinsurance expense	-	13,925	-	12,833
Reconciliation of changes in deferred reinsurance expense:				
Balance at 1 July	-	12,833	-	11,590
Deferral of reinsurance premiums on current year contracts	-	13,925	-	12,833
Earning of reinsurance premiums previously deferred	-	(12,833)	-	(11,590)
Balance at 30 June	-	**13,925**	-	**12,833**

Note 10 Deferred acquisition costs

	2018		2017	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Reconciliation of changes in deferred acquisition costs:				
Balance at 1 July	-	-	-	-
Acquisition costs incurred in year	-	813	-	702
Amortisation charged to income	-	(813)	-	(702)
Balance at 30 June	-	-	-	-

Note 11 Other assets

	2018		2017	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Current				
Prepayments	165	37,492	463	8,528
Specialised Insurer Security Deposit	-	31,451	-	30,651
Loan to Clubs NSW	727	727	774	774
	892	**69,670**	**1,237**	**39,953**
Non-current				
Prepayments	-	5,162	-	7,406
Loan to Clubs NSW	3	3	1,061	1,061
	3	**5,165**	**1,061**	**8,467**

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

		2018		2017	
	Note	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Current					
Bank accepted bills of exchange		1,997	3,994	2,990	5,977
Government and other public securities		10,972	19,955	3,712	11,215
		12,969	**23,949**	6,702	17,192
Non-current					
Investment in controlled entity at cost	13	22,900	-	22,900	-
Other non-current financial assets					
Shares in listed companies and unit trusts		4,906	15,515	4,425	13,471
Shares in unlisted companies and unit trusts	24(c)	1,189	1,189	1,189	1,189
Floating rate notes		3,020	16,834	3,530	13,313
Government and other public securities		12,529	81,306	12,078	73,227
Total other financial assets		21,644	114,844	21,222	101,200
Total non-current financial assets		44,544	114,844	44,122	101,200
Total financial assets		**57,513**	**138,793**	**50,824**	**118,392**

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 Ownership Interest 2018 %	Consolidated Ownership Interest 2017 %
Employers Mutual NSW Limited*	30 June	Australia	Workers compensation claims administration	100	100
Hospitality Employers Mutual Limited* 1, 2	30 June	Australia	Insurance underwriting	50	50
EML Foundation	30 June	Australia	Charity foundation	100	100
EML Vic Pty Ltd	30 June	Australia	Workers compensation claims administration	100	100

* 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.

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.

2018	Employers Mutual NSW Limited $000	Hospitality Employers Mutual Limited $000	EML Vic Pty Limited $000	EML Foundation $000
Summarised statement of comprehensive income				
Revenue	95,819	51,941	30,878	2
Profit / (loss) after tax	18	13,294	-	(6)
Other comprehensive income	-	-	-	-
Total comprehensive income	18	13,294	-	(6)
Summarised balance sheet				
Total assets	37,151	257,502	4,364	512
Total liabilities	36,632	199,653	4,364	(4)
Net assets as at reporting date	**519**	**57,849**	**-**	**508**

Note 13 Investment in controlled entities (continued)

	2017			
	Employers Mutual NSW Limited $000	Hospitality Employers Mutual Limited $000	Employers Mutual Vic Limited $000	EML Foundation $000
Summarised statement of comprehensive income				
Revenue	55,428	43,942	31,113	7
Profit / (loss) after tax	-	10,354	-	4
Other comprehensive income	-	-	-	-
Total comprehensive income	-	10,354	-	4
Summarised balance sheet				
Total assets	24,145	237,712	6,735	653
Total liabilities	23,645	185,392	6,735	139
Net assets as at reporting date	**500**	**52,320**	**-**	**514**

Note 14 Trade and other payables

	2018		2017	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Trade creditors	5,330	8,176	3,009	13,958
Amount due to related entity	518	18	500	11
Levies payable	-	2,584	-	2,371
Reinsurance payable	435	18,550	434	17,496
Other creditors	4,338	18,039	3,006	19,368
Total trade and other payables	**10,621**	**47,367**	**6,949**	**53,204**

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

	2018		2017	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Unearned premium liability – current	-	46,320	-	41,856
Reconciliation of changes in unearned premium liability				
Balance 1 July	-	41,856	-	37,991
Premiums written during the year	-	69,355	-	59,150
Premiums earned during the year	-	(64,891)	-	(55,285)
Balance at 30 June	-	**46,320**	**-**	**41,856**

Note 16 Outstanding claims

	2018		2017	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
(a) Outstanding claims liability				
Outstanding claims liability – current	605	22,460	761	22,320
Outstanding claims liability – non-current	11,533	98,612	12,359	95,842
Total outstanding claims liability	**12,138**	**121,072**	**13,120**	**118,162**
Central estimate	11,065	124,225	12,356	122,813
Prudential margin	5,020	17,587	5,460	17,402
Claims handling allowance	598	8,286	667	7,742
Discount to present value	(4,545)	(29,025)	(5,363)	(29,795)
Gross outstanding claims liability	**12,138**	**121,072**	**13,120**	**118,162**

(b) Inflation and discount rates used

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:

	2018 EML	2018 Hospitality Employers Mutual	2017 EML	2017 Hospitality Employers Mutual
For the succeeding and subsequent years:				
AWE inflation rate	3.25%	3.25%	3.25%	3.25%
CPI inflation rate	n/a	2.25%	n/a	2.25%
Superimposed inflation rate	1.73%	2.00%	1.67%	2.00%
Discount rate	2.79%	2.85%	2.90%	2.95%

(c) Weighted average term to settlement

The weighted average expected term to settlement of the outstanding claims from balance date is as follows.

	Average Term to Settlement (years)	
	Combined 2018	Combined 2017
EML Consolidated	6.38	6.06
Hospitality Employers Mutual	6.50	6.30

(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

Note 16 Outstanding claims (continued)

(d) Risk Margin (continued)

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:

	2018	2017
Workers compensation: Hospitality Employers Mutual	14%	14%
Workers compensation Run-Off	45.4%	44.2%

(e) Reconciliation of Changes in Discounted Net Outstanding Claims

The Company	2018 Gross $000	2018 Reinsurance $000	2018 Net $000	2017 Gross $000	2017 Reinsurance $000	2017 Net $000
Balance at 1 July	13,120	1,009	12,111	14,211	1,141	13,070
Current claims incurred	-	-	-	-	-	-
Change in previous years' claims	(711)	(19)	(692)	(1,027)	(29)	(998)
Current year claims paid/reinsurance recovered	-	-	-	-	-	-
Previous year claims paid/reinsurance recovered	(271)	(3)	(268)	(65)	(103)	38
Discounted outstanding claims	**12,138**	**987**	**11,151**	**13,119**	**1,009**	**12,110**

Consolidated	2018 Gross $000	2018 Reinsurance $000	2018 Net $000	2017 Gross $000	2017 Reinsurance $000	2017 Net $000
Balance at 1 July	118,162	28,428	89,733	115,515	27,907	87,608
Current claims incurred	41,011	11,464	29,547	36,285	9,629	26,656
Change in previous years' claims	(16,735)	(3,927)	(12,808)	(17,001)	(3,994)	(13,007)
Current year claims paid/reinsurance recovered	(7,616)	(2,910)	(4,706)	(5,605)	(1,721)	(3,884)
Previous year claims paid/reinsurance recovered	(13,749)	(4,046)	(9,703)	(11,032)	(3,393)	(7,639)
Discounted outstanding claims	**121,072**	**29,009**	**92,063**	**118,162**	**28,428**	**89,734**

Note 16 Outstanding claims (continued)

(f) Claims development table

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 2009***	**2009****	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Estimate of ultimate claims cost												
At the end of accident year	26,305	4,897	6,860	8,825	9,373	19,251	19,150	19,090	22,283	21,441	24,112	
One year later	26,595	7,305	10,504	11,977	13,054	20,259	22,914	23,868	24,758	21,825		
Two years later	26,369	7,261	9,980	11,621	13,398	19,306	21,011	22,282	22,269			
Three years later	27,198	7,728	9,101	10,930	10,484	17,281	19,807	19,697				
Four years later	24,713	7,357	8,588	11,613	9,782	16,570	17,270					
Five years later	25,276	6,739	6,834	12,751	8,414	15,668						
Six years later	25,010	8,180	9,041	10,881	8,113							
Seven years later	23,969	6,255	7,905	11,031								
Eight years later	23,186	5,918	6,842									
Nine years later	22,517	7,740										
Ten years later	21,655											
Current estimate of ultimate claims cost	21,655	7,740	6,842	11,031	8,113	15,668	17,270	19,697	22,269	21,825	24,112	176,222
Cumulative payments	11,712	5,192	5,773	8,107	6,248	10,972	9,953	10,013	9,323	6,402	4,261	87,956
Outstanding claims – undiscounted	9,942	2,549	1,069	2,924	1,865	4,696	7,317	9,683	12,946	15,423	19,850	88,266
Discount	2,616	953	226	543	396	912	1,615	1,826	2,342	2,721	3,343	17,495
Outstanding claims	7,326	1,596	843	2,381	1,469	3,784	5,702	7,857	10,604	12,702	16,507	70,771
Claims handling expense	473	219	92	251	160	433	668	895	1,200	1,418	1,838	7,646
Risk margin	3,514	255	135	381	235	605	894	1,257	1,696	2,032	2,641	13,646
Total net outstanding claims liabilities	11,313	2,070	1,070	3,013	1,864	4,822	7,265	10,009	13,500	16,152	20,986	92,063
Reinsurance and other recoveries on outstanding claims liabilities	1,195	709	375	1,058	653	1,657	2,500	3,439	4,638	5,565	7,221	29,009
Total Gross Outstanding Claims	**12,507**	**2,779**	**1,445**	**4,071**	**2,517**	**6,478**	**9,764**	**13,448**	**18,138**	**21,717**	**28,207**	**121,072**

* *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 $4.8m (2017: $4.3m).

For the purposes of the LAT, the present value of expected future cash flows for future claims (including the risk margin) of $27.5m (2017: $24.7m) comprises the discounted central estimate (including allowances for claims handling and policy administration expenses) of $23.6m (2017: $21.2m), and a risk margin of $3.8m (2017: $3.4m).

The risk margin used as a percentage of the central estimate is 16% (2017: 16%). The probability of sufficiency represented by the LAT is 75%. (2017: 75%).

Note 17 Provisions

	2018		2017	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Current				
Member benefit	1,319	1,319	1,369	1,369
	1,319	**1,319**	**1,369**	**1,369**
Balance at 1 July	1,369	1,369	4,364	4,364
Amount incurred	11,510	11,510	9,354	9,354
Amount utilised	(11,560)	(11,560)	(12,349)	(12,349)
Balance at 30 June	**1,319**	**1,319**	**1,369**	**1,369**

Note 18 Unearned income

	2018		2017	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Unearned income – current	**3**	**30,373**	**106**	**4,380**

Note 19 Reserves

	2018		2017	
	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

The Company	2018			2017
	Current Year $000	Prior Years $000	Total $000	Total $000
Gross claims and related expenses – undiscounted	-	(1,554)	(1,554)	(928)
Less: discount	-	843	843	(99)
Gross claims and related expenses – discounted	-	(711)	(711)	(1,027)
Reinsurance and other recoveries – undiscounted	-	(81)	(81)	(62)
Less: discount	-	68	68	33
Reinsurance and other recoveries - discounted	-	(13)	(13)	(29)
Net Claims expense	**-**	**(698)**	**(698)**	**(998)**

Consolidated	2018			2017
	Current Year $000	Prior Years $000	Total $000	Total $000
Gross claims and related expenses – undiscounted	47,534	(24,053)	23,481	21,306
Less: discount	(6,523)	7,318	795	(2,022)
Gross claims and related expenses – discounted	41,011	(16,735)	24,276	19,284
Reinsurance and other recoveries – undiscounted	13,211	(5,741)	7,470	6,112
Less: discount	(1,747)	1,820	73	(477)
Reinsurance and other recoveries - discounted	11,464	(3,921)	7,543	5,635
Net Claims expense	**29,547**	**(12,813)**	**16,733**	**13,649**

There has been an actuarial release in the EML portfolio, attributable to reduction in projected deafness claims, reduced assumptions for the average size of reopened claims and movement in discount rates. The consolidated net claims incurred for the year is primarily driven by Hospitality Employers Mutual which had a significant actuarial release during the year, largely as a result of better than expected claims experience in the HEM portfolio, along with changed valuation assumptions.

Note 21 Remuneration of auditor

	2018 The Company $	2018 Consolidated $	2017 The Company $	2017 Consolidated $
Audit and review services				
Statutory and Regulatory Audits and Reviews	62,955	163,295	62,955	163,295
Total audit and review services	**62,955**	**163,295**	**62,955**	**163,295**
Other services				
Other Professional fees	27,220	49,001	33,000	35,563
Total other services	**27,220**	**49,001**	**33,000**	**35,563**
Total Auditor Remuneration	**90,175**	**212,296**	**95,955**	**198,858**

Note 22 Key management personnel disclosure

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

Directors

- William J. A. O'Reilly
- Robert G. Cleland (Resigned 29/11/17)
- Andrew J. Grant (Resigned 19/4/18)
- Catherine A. King
- Paul R. Baker
- Flavia Gobbo
- Matthew Wilson (Appointed 19/4/18)

Executives

- Mark Coyne* (Chief Executive Officer)
- Tracey Harris* (Chief Operating Officer)
- Matthew Wilson (Company Secretary and Chief Risk Officer)
- Narelle Wooden* (Company Secretary)
- George Srdic* (Chief Financial Officer)

** Employed by a related party*

Transactions with key management personnel

The key management personnel compensation is:

	2018 The Company $	2018 Consolidated $	2017 The Company $	2017 Consolidated $
Short-term employee benefits	299,538	540,549	287,250	556,634

Note 23 Related party disclosures

Ultimate Parent Entity and Controlling Entity

The ultimate parent entity in the consolidated entity is Employers Mutual Limited, a public company limited by guarantee, domiciled in Australia.

Related Party Transactions

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

	2018 $000	2017 $000
Paid by EML		
Employers Mutual Limited & the Trustee for ASWIG Management Trust Partnership	24,494	20,708
White Funds Management*	21	105
EMLife Pty Ltd	1,984	5,692
Paid by Hospitality Employers Mutual Limited		
Employers Mutual Management Pty Ltd	12,839	10,342
Employers Mutual Limited & the Trustee for ASWIG Management Trust Partnership	327	288
White Funds Management*	421	404
Australian Hotels Association (NSW)	954	824
The Registered Clubs Association of NSW	811	674
EM Safe Pty Ltd	122	129

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

	2018 $000	2017 $000
Receivable/(Payable) by EML		
Employers Mutual Limited & the Trustee for ASWIG Management Trust Partnership	3,900	1,551
White Funds Management*	8	8
EMLife Pty Ltd	22	579
Receivable/(Payable) by Hospitality Employers Mutual Limited		
Employers Mutual Management Pty Ltd	(201)	1,771
White Funds Management*	(28)	(59)
Australian Hotels Association (NSW) Holdings Pty Ltd	(62)	(59)
The Registered Clubs Association of NSW	(63)	(56)
Employers Mutual Limited & the Trustee for ASWIG Management Trust Partnership	(59)	(48)
EM Safe Pty Ltd	(34)	(28)

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

Note 23 Related party disclosures (continued)

The company has entered into a banking arrangement with National Australia Bank, which includes provision of various bank guarantees as required under clients' contracts and office leasing contracts. The bank guarantees in relation to clients' contracts are held by the Company and by its 100% owned subsidiaries.

The principal lessee in regards to the office leases is Employer Mutual Management Pty Ltd. The Company's bank guarantees on behalf of Employer Mutual Management Pty Ltd as at 30 June 2018 totalled $7.4m (2017: $7.2m)

The total value of all bank guarantees on issue as at 30 June 2018 was $17m (2017: $16.7m).

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(r). 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 2018 $000	Consolidated 2017 $000
Revenue	232,536	199,135
Profit from continuing operations	32,999	25,176
Other comprehensive income	-	-
Total comprehensive income	32,999	25,176
Current assets	85,056	47,093
Non-current assets	8,209	4,225
Current liabilities	(85,056)	(47,093)
Non-current liabilities	(8,209)	(4,225)
Net assets	-	-

Note 24 Equity accounted investees (continued)

Movement in carrying amount in investment in joint venture entities

	Consolidated 2018 $000	Consolidated 2017 $000
Group's interest in net assets of investee at the beginning of the year	-	-
Share of total comprehensive income	16,499	12,588
Partnership distribution	(16,499)	(12,588)
Carrying amount of interest in investee at end of the year	-	-

(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. Equity investments are valued at fair value according to AASB 13.

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:

	2018		2017	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Cash and cash equivalents	2,156	12,041	2,080	23,809

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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

	2018		2017	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Total comprehensive income for the year	9,511	17,076	2,447	11,334
Add/(less):				
Profit/(loss) on sale of investments	3	(1)	5	(260)
Increase / (decrease) in market value of investments	(302)	(743)	931	3,114
Net cash provided by operating activities before change in assets and liabilities	**9,212**	**16,332**	**3,383**	**14,188**
Changes in assets and liabilities:				
Decrease / (increase) in debtors and accrued income	(2,962)	(15,209)	(1,430)	(23,745)
Decrease / (increase) in prepayments	298	(26,714)	(151)	7,401
Decrease / (increase) in reinsurance & other recoveries	27	(480)	131	(277)
Decrease / (increase) in deferred reinsurance expense	-	(1,092)	-	(1,243)
Increase in income tax payable	267	162	139	3,035
Decrease in deferred tax balances	1,280	1,010	649	1,219
Increase in payables	3,569	1,685	1,427	21,168
Increase in provision for member benefit	(50)	(50)	(2,994)	(2,994)
Increase / (decrease) / increase in other liabilities	-	26,090	-	(7,991)
Increase / (decrease) in provision for claims	(982)	2,910	(1,092)	2,647
(Decrease) / increase in unearned premium	-	4,464	-	3,865
	1,447	**(7,224)**	**(3,321)**	**3,085**
Net cash provided by operating activities	**10,659**	**9,108**	**62**	**17,273**

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 2018: 22% (2017: 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
2018 Company					
Cash and Cash Equivalents	2,156	1	(1)	-	-
Bank Accepted Bills of Exchange	1,997	1	(1)	-	-
Government and Other Public Securities	23,501	715	(715)	-	-
Shares in Listed Securities and Unit Trusts	4,906	-	-	(491)	491
Shares in Unlisted Companies and Unit Trusts	1,189	-	-	(119)	119
Floating Rate Notes	3,020	2	(2)	-	-
	36,769	**719**	**(719)**	**(610)**	**610**
2018 Consolidated					
Cash and Cash Equivalents	12,041	2	(2)	-	-
Bank Accepted Bills of Exchange	3,994	2	(2)	-	-
Government and Other Public Securities	101,261	4,761	(4,761)	-	-
Shares in Listed Securities and Unit Trusts	15,515	-	-	(1,551)	1,551
Shares in Unlisted Companies and Unit Trusts	1,189	-	-	(119)	119
Floating Rate Notes	16,834	15	(15)	-	-
	150,834	**4,780**	**(4,780)**	**(1,670)**	**(1,670)**

Note 26 Financial instruments (continued)

(a) Market risk (continued)

(iii) Summarised sensitivity analysis (continued)

	Carrying amount	Interest rate risk		Other price risk	
	$000	-1%	+1%	-10%	+10%
	AUD	Profit $000	Profit $000	Profit $000	Profit $000
2017 Company					
Cash and Cash Equivalents	2,080	2	(2)	-	-
Bank Accepted Bills of Exchange	2,990	2	(2)	-	-
Government and Other Public Securities	15,790	759	(759)	-	-
Shares in Listed Securities and Unit Trusts	4,425	-	-	(442)	442
Shares in Unlisted Companies and Unit Trusts	1,189	-	-	(119)	119
Floating Rate Notes	3,530	3	(3)	-	-
	30,004	**766**	**(766)**	**(561)**	**561**
2017 Consolidated					
Cash and Cash Equivalents	23,809	4	(4)	-	-
Bank Accepted Bills of Exchange	5,977	7	(7)	-	-
Government and Other Public Securities	84,442	4,496	(4,496)	-	-
Shares in Listed Securities and Unit Trusts	13,471	-	-	(1,347)	1,347
Shares in Unlisted Companies and Unit Trusts	1,189	-	-	(119)	119
Floating Rate Notes	13,313	11	(11)	-	-
	142,201	**4,518**	**(4,518)**	**(1,466)**	**1,466**

Note 26 Financial instruments (continued)

(b) 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.

	Trade and other receivables $'000	Reinsurance and other recoverable receivable $'000
2018 Company		
Neither past due nor impaired	62,678	1,005
Past due 0-30 days	1,679	-
Past due 31-120 days	47	-
More than 120 days	4	-

	Trade and other receivables $'000	Reinsurance and other recoverable receivable $'000
2018 Consolidation		
Neither past due nor impaired	113,807	30,279
Past due 0-30 days	2,554	-
Past due 31-120 days	514	-
More than 120 days	198	-

Note 26 Financial instruments (continued)

(b) Credit risk exposures (continued)

	Trade and other receivables $'000	Reinsurance and other recoverable receivable $'000
2017 Company		
Neither past due nor impaired	56,001	1,032
Past due 0-30 days	-	-
Past due 31-120 days	37	-
More than 120 days	115	-

	Trade and other receivables $'000	Reinsurance and other recoverable receivable $'000
2017 Consolidation		
Neither past due nor impaired	108,554	29,800
Past due 0-30 days	1,021	-
Past due 31-120 days	381	-
More than 120 days	338	-

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

	2018		2017	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Balance at 1 July	115	167	-	78
Impairment loss/(write back) recognised	(111)	(92)	115	167
Amounts written off	-	(27)	-	(78)
Balance at 30 June	4	48	115	167

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Note 26 Financial instruments (continued)

(b) 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
2018 Company						
Cash and Cash Equivalents	-	1,604	552	-	-	2,156
Financial Assets – Interest Bearing	16,505	4,036	3,993	3,984	-	28,518
Trade and Other Receivables	-	-	-	-	64,413	64,413
Reinsurance and Other Recoveries Receivable	-	-	1,005	-	-	1,005
Loan to Clubs (NSW)	-	-	-	-	730	730
Other Assets	-	-	-	-	166	166
	16,505	**5,640**	**5,550**	**3,984**	**65,308**	**96,987**
2018 Consolidated						
Cash and Cash Equivalents	-	9,542	2,499	-	-	12,041
Financial Assets – Interest Bearing	84,693	16,349	13,044	8,003	-	122,089
Trade and Other Receivables	-	-	-	-	126,900	126,900
Reinsurance and Other Recoveries Receivable	-	28,535	1,117	-	627	30,279
Loan to Clubs (NSW)	-	-	-	-	730	730
Other Assets	31,451	-	-	-	42,648	74,099
	116,144	**54,426**	**16,660**	**8,003**	**170,904**	**366,137**

Note 26 Financial instruments (continued)

(b) Credit risk exposures (continued)

	AAA $000	AA $000	A $000	BBB $000	Not rated $000	Total $000
2017 Company						
Cash and Cash Equivalents	-	2,038	42	-	-	2,080
Financial Assets – Interest Bearing	13,762	4,056	1,997	2,495	-	22,310
Trade and Other Receivables	-	-	-	-	56,153	56,153
Reinsurance and Other Recoveries Receivable	-	-	1,032	-	-	1,032
Loan to Clubs (NSW)	-	-	-	-	1,834	1,834
Other Assets	-	-	-	-	463	463
	13,762	6,094	3,071	2,495	58,450	83,872
2017 Consolidated						
Cash and Cash Equivalents	-	20,239	3,570	-	-	23,809
Financial Assets – Interest Bearing	72,769	12,351	6,080	12,532	-	103,732
Trade and Other Receivables	-	-	-	-	114,634	114,634
Reinsurance and Other Recoveries Receivable	-	27,811	1,362	-	627	29,800
Loan to Clubs (NSW)	-	-	-	-	1,834	1,834
Other Assets	30,651	-	-	-	15,935	46,586
	103,420	60,401	11,012	12,532	133,030	320,395

(c) 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.

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Note 26 Financial instruments (continued)

(c) Liquidity risk (continued)

	Less than 1 year $000	1-2 years $000	2-5 years $000	Over 5 years $000	Total $000
2018 Company					
Trade and Other Payables	10,621	-	-	-	10,621
Outstanding Claims Liability	605	760	2,455	8,318	12,138
	11,226	760	2,455	8,318	22,759
2018 Consolidated					
Trade and Other Payables	47,366	-	-	-	47,367
Outstanding Claims Liability	22,460	16,064	34,710	47,838	121,072
	69,826	16,064	34,710	47,838	168,439

	Less than 1 year $000	1-2 years $000	2-5 years $000	Over 5 years $000	Total $000
2017 Company					
Trade and Other Payables	6,949	-	-	-	6,949
Outstanding Claims Liability	761	903	2,775	8,679	13,120
	7,710	903	2,775	8,679	20,069
2017 Consolidated					
Trade and Other Payables	53,204	-	-	-	53,204
Outstanding Claims Liability	22,320	17,564	32,589	45,687	118,160
	75,524	17,564	32,589	45,687	171,364

(d) 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)

(d) 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:

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
2018 Company				
Bank Accepted Bills of Exchange	-	1,997	-	1,997
Government and Other Public Securities	12,529	10,972	-	23,501
Shares in Listed Securities and Unit Trusts	4,906	-	-	4,906
Shares in Unlisted Companies and Unit Trusts	-	-	1,189	1,189
Floating Rate Notes	3,020	-	-	3,020
	20,455	**12,969**	**1,189**	**34,613**

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
2018 Consolidated				
Bank Accepted Bills of Exchange	-	3,994	-	3,994
Government and Other Public Securities	81,305	19,955	-	101,261
Shares in Listed Securities and Unit Trusts	15,515	-	-	15,515
Shares in Unlisted Companies and Unit Trusts	13,814	-	1,189	15,003
Floating Rate Notes	16,834	-	-	16,834
	113,654	**23,949**	**1,189**	**138,793**

Note 26 Financial instruments (continued)

(d) Net fair values (continued)

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
2017 Company				
Bank Accepted Bills of Exchange	-	2,990	-	2,990
Government and Other Public Securities	12,794	2,995	-	15,789
Shares in Listed Securities and Unit Trusts	4,425	-	-	4,425
Shares in Unlisted Companies and Unit Trusts	-	-	1,189	1,189
Floating Rate Notes	3,530	-	-	3,530
	20,749	**5,985**	**1,189**	**27,924**

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
2017 Consolidated				
Bank Accepted Bills of Exchange	-	5,977	-	5,977
Government and Other Public Securities	75,457	8,985	-	84,442
Shares in Listed Securities and Unit Trusts	13,471	-	-	13,471
Shares in Unlisted Companies and Unit Trusts	-	-	1,189	1,189
Floating Rate Notes	13,313	-	-	13,313
	102,241	**14,962**	**1,189**	**118,392**

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

	2018		2017	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Balance at 1 July	1,189	1,189	1,810	1,810
Shares acquired	-	-	-	-
Transfers in to level 3	-	-	-	-
Total gains and losses recognised in:				
- profit and loss	-	-	(621)	(621)
- other comprehensive income	-	-	-	-
Balance at 30 June	**1,189**	**1,189**	**1,189**	**1,189**

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

Note 26 Financial instruments (continued)

(d) Net fair values (continued)

(ii) 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 (2016/17: 5.5 to 6.0)
- Small size discount: 5% (2016/17: 5%)
- Lack of marketability discount: 20% (2016/17: 20%)
- Minority discount: 10% (2016/17: 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:

2018 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) / 89
Minority discount	+10% / -10%	(14) / 13
2017 **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) / 89
Minority discount	+10% / -10%	(14) / 13

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 of at least 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 of a catastrophe giving rise to major claims losses up to the retention amount under existing reinsurance arrangements (insurance concentration risk)
- The risk that the value of assets is diminished (asset risk)
- The risk of concentrations in exposures to a particular asset, counterparty or group of related counterparties resulting in adverse movements in the capital base (asset concentration risk)
- Asset concentration risk charge definition here
- The risk of loss resulting from failed internal processes, people and systems or from external events (operational risk); and
- The allowance for diversification between asset and insurance risks (aggregation benefit)

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.

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Note 28 Capital Management (continued)

(c) Regulatory capital compliance (continued)

Regulatory capital requirements – 2018	2018 The Company $000	2018 Consolidated $000
Common Equity Tier 1 (CET1) capital		
General reserves	25,307	25,307
Retained earnings	76,355	94,479
Excess technical provisions	-	5,255
Non-controlling interest	-	7,717
Common equity Tier 1 capital deductions		
Regulatory capital requirement of investment in subsidiaries	(17,423)	-
Net deferred tax asset	164	(1,529)
Other common equity Tier 1 capital adjustments	(568)	-
Total regulatory capital	83,835	131,229
Outstanding claims insurance risk charge	1,561	12,597
Premium liabilities insurance risk charge	-	5,664
Insurance concentration risk charge	2,000	1,000
Diversified asset risk charge	8,088	19,314
Operational risk charge	230	3,063
Aggregation benefit	(2,182)	(8,695)
Prescribed capital amount (PCA)	9,697	32,943
Surplus	74,138	98,286
PCA Multiple	8.65	3.98

Note 28 Capital Management (continued)

(c) Regulatory capital compliance (continued)

Regulatory capital requirements – 2017	2017 The Company $000	2017 Consolidated $000
Common Equity Tier 1 (CET1) capital		
General reserves	25,307	25,307
Retained earnings	66,844	81,391
Excess Technical Provisions	-	5,124
Non-controlling interest	-	7,526
Common Equity Tier 1 capital Deductions		
Regulatory capital requirement of investment in subsidiaries	(16,291)	-
Net Deferred Tax Asset	(1,116)	(2,539)
Other Common Equity Tier 1 Capital adjustments	(1,592)	-
Total regulatory capital	73,152	116,809
Outstanding claims insurance risk charge	1,695	12,256
Premium liabilities insurance risk charge	-	5,017
Insurance Concentration risk charge	2,000	1,000
Diversified asset risk charge	8,146	15,314
Operational risk charge	251	2,924
Aggregation benefit	(2,247)	(7,503)
Prescribed capital amount (PCA)	9,845	29,008
Surplus	63,307	87,801
PCA Multiple	7.43	4.03

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

Note 29 Subsequent events

There have been no other events subsequent to balance date which would have a material effect on the Group's financial statements at 30 June 2018.

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 10 to 63, 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 2018 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 31 August 2018

William J. A. O'Reilly	**Catherine A. King**
Chair	*Director*

Independent Auditor's Report

To the members of Employers Mutual Limited

Opinion

We have audited the ***Financial Report*** of Employers Mutual Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group*** and Company's financial position as at 30 June 2018 and of their financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Statements of financial position as at 30 June 2018
- Statements of comprehensive income, Statements of changes in equity, and Statements of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

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

Other Information

Other Information is financial and non-financial information in Employers Mutual Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

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

KPMG

Leann Yuen
Partner

Sydney
31 August 2018

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