Mutual since 1910

FINANCIAL STATEMENTS

30 JUNE 2019

ABN: 67 000 006 486

Contents

Directors' Annual Report to the Members

For the year ended 30 June 2019

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 2019 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 in December 2010, and as Chairman in November 2011. Mr O'Reilly also currently serves as a Director of Hospitality Employers Mutual Limited and is the current Chairman of Employers Mutual NSW Limited, both 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 and being 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). 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 NAB Health National Advisory Council, Member of the Medical Advisory Panel for BUPA MBF Australia, and is a Director of the Motor Neurone Disease Association of Australia as well as a Non-Executive Director on a number of other Boards.

Patrick J Gurr GAID

Mr Gurr was appointed as a Director on 28 May 2019. Mr Gurr is a career publican having extensive experience in the hospitality industry over 40 years. As an active member of the Australian Hotels Association, Mr Gurr brings a wealth of experience in dealing with Government at three levels, involvement in numerous communities throughout New South Wales and Queensland and managing the expectations of members when negotiating with external stakeholders. Mr Gurr served as an Executive Member and as Vice President of AHA (NSW). In these roles, Mr Gurr was involved in Constitutional review, Strategy implementation and dispute resolution. Mr Gurr's achievements were recognised with Life Membership of AHA (NSW) in 2012. Mr Gurr has worked tirelessly in regional towns like Toowoomba, Wagga Wagga and Armidale to improve the quality of life in these communities, to support regional Tertiary education and to promote regional Tourism through innovation and awareness.

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 and SAFECOM. . She has previously been a Director of Adelaide Fringe Inc, Eastside Skillshare and the SA Ambulance Service and a Board Member of Common Ground Adelaide, Riverland Wine Advisory Panel and ResourceCo Pty Ltd.

Directors' Annual Report to the Members (continued)

Directors (continued)

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 and subsequently re-elected in 2018. 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 also the Chair of of ESTA, the Emergency Service Telecommunications Authority in Victoria, as well as the Deputy Chair of 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)

Mr 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. Mr Wilson 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.
Resigned and appointed as an alternate director on 28 May 2019

Company secretaries

Anthony Fleetwood	Appointed 15 April 2003
Matthew Wilson	Appointed 30 September 2010
Narelle Wooden	Appointed 25 July 2017, resigned 12 November 2018
Justine Brindley	Appointed 27 November 2018

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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	8	8	7	7	2	2	2	2	5	5
Catherine A. King	8	8	7	7	0	0	2	2	5	5
Paul R. Baker	8	8	7	7	2	2	2	2	0	0
Flavia Gobbo	8	8	7	7	2	2	2	2	5	5
Matthew Wilson	7	7	0	0	0	0	0	0	0	0
Patrick Gurr	1	1	0	0	0	0	0	0	0	0

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

Strategy and objectives

EML's long-term objective is to be the number one performer in personal injury claims management. The EML Group seeks to provide the highest quality insurance service to its mutual policyholders and to its insurer clients. It does so by achieving faster, more durable return to work outcomes in workers' compensation insurance assisting employers to reduce their insurance costs. EML applies its core expertise in portfolio and claims management to drive better outcomes for all stakeholders in insurance claims management supported by a high standard of service to clients and customers. For employers, 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 grow and diversify the personal injury claims management business for workers' compensation insurance across government schemes and the employer self-insurers utilising this expertise in the provision of claims management services into other insurance lines including sickness & accident and life & disability insurance.

EML (or through one of its subsidiaries) provides claims management services to icare (Insurance and Care NSW) Insurance for NSW, Return to Work South Australia and WorkSafe Victoria and the ACT Government along with large self-insured employers.

The Group operates a specialised insurer solution in NSW for the hotels and clubs industries through Hospitality Employers Mutual Limited.

In order to meet its goals, EML has set the following objectives in its strategic plan covering the current financial year and the 2019-20 financial year:

- Continue to manage and grow its presence in its existing workers insurance schemes nationally
- Continue to deliver successful return to work outcomes across new and existing claims portfolios across industries
- Continue to challenge processes and technology in order to maximise outcomes in the most efficient and effective way to enable EML case managers to focus on clients and customer outcomes rather than process
- Continue to pursue 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 the ACT Government and 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

Certain persons and corporations may be eligible for membership as per the EML Constitution. Admittance to membership of EML is at the EML Board's sole discretion.

Results and review of operations

The consolidated profit after tax was $15.9m (2018: profit after tax was $17.1m).

Factors influencing the Group result include:

- Continued strong profits from the Partnership business (Partnership of Employers Mutual Limited & ASWIG Management Pty Ltd as trustee for ASWIG Management Trust); with a positive result of $18.8m (2018: $16.5m). The Partnership business undertakes the contractual and statutory obligations of EML in respect of workers compensation insurance and management and underwritten insurance activities. The 2019 financial year has seen excellent performance from the RTWSS workers compensation and HEM portfolios, along with a strong result in IfNSW. WINSW has performed in line with budget and with RTWSS still make up the majority of revenues. The ReturnToWork SA portfolio has encountered some setbacks to their performance measures that have resulted in lower than expected profits, whilst results for the WorkSafe Victoria business unit have improved significantly upon last year's result but it is still performed below budgetary expectations.
- Claims management activities on behalf of self-insured workers compensation schemes continues to expand with opportunities for further profitable growth.
- HEM has achieved continued to provide positive results of $12.2m profit after tax (2018: $13.3m). The strong result was largely driven by a significant actuarial release of $2.9M (2018: $7.9m) as well as growth in insurance premiums due to better than expected claims performance in prior years
- Investment revenue of $12.2m (2018: $6.3m). This is due to having a larger investment portfolio for 2019 compared to 2018.
- Continued expenditure on member benefits at $15.8m (2018: $11.5m), following a prior year Board commitment to allocate a greater level of profits to the program. 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. The scale of NSW operations grew over 2019 and continues to grow beyond 30 June 2019 as the new scheme matures to full scale. EML also commenced a new contract for the provision of workers' compensation claim management services to the ACT Government during 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 2019 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

The Company has entered into officer protection deeds providing access, indemnity and insurance for Directors, Officers and Company Secretaries in respect of the Company and its subsidiaries. Those deeds, which are subject to certain conditions and limitations, provide an indemnity to the full extent permitted by law for liabilities incurred by that person as an officer, including reasonable legal costs incurred in respect of certain legal proceedings and an entitlement to Directors' and Officers' liability insurance. The deeds containing access rights provide access to company records following the cessation of the officer's position with the relevant company.

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.

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 $48,000 (2018: $49,001) (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 2019.

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

William J.A. O'Reilly	**Paul R. Baker**
Director	**Director**

Signed in Sydney on 30 August 2019

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 2019 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
30 August 2019

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

Statements of Comprehensive Income

For the year ended 30 June 2019

	Note	2019 The Company $000	2019 Consolidated $000	2018 The Company $000	2018 Consolidated $000
Premium revenue	5(a)	-	79,281	-	71,384
Outwards reinsurance expense		(10)	(21,362)	-	(19,442)
		(10)	57,919	-	51,942
Claims (expense)/ recovery	20	(583)	(38,074)	711	(24,276)
Reinsurance and other recoveries	20	(42)	10,630	(13)	7,543
Net claims (expense) / benefit	20	(625)	(27,444)	698	(16,733)
Other underwriting expenses	5(b)	-	(13,192)	-	(12,094)
Underwriting surplus		**(635)**	**17,283**	**698**	**23,115**
Investment revenue	5(c)	10,838	12,178	7,187	6,279
Management fees received	5(d)	264,787	264,787	216,977	216,977
Other revenue	5(e)	20,126	20,019	17,945	17,635
General and administration expenses		(1,940)	(11,225)	(1,481)	(9,747)
Member benefit expense		(15,870)	(15,870)	(11,510)	(11,510)
Management fees paid	5(f)	(266,760)	(266,760)	(218,950)	(218,950)
Profit before related income tax expense		**10,546**	**20,412**	**10,866**	**23,799**
Income tax (benefit) / expense attributable to operating profit	6(a)	(355)	4,486	1,355	6,723
Profit for the year		**10,901**	**15,926**	**9,511**	**17,076**
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		**10,901**	**15,926**	**9,511**	**17,076**
Profit attributable to:					
Equity holders of the parent		10,901	12,274	9,511	13,088
Non-controlling interest		-	3,652	-	3,988
Profit for the year		**10,901**	**15,926**	**9,511**	**17,076**
Total comprehensive income attributable to:					
Equity holders of the parent		10,901	12,274	9,511	13,088
Non-controlling interest		-	3,652	-	3,988
Total comprehensive income for the year		**10,901**	**15,926**	**9,511**	**17,076**

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 2019

	Note	2019		2018	
		The Company $000	Consolidated $000	The Company $000	Consolidated $000
Current assets					
Cash and cash equivalents	25	2,085	19,231	2,156	12,041
Trade and other receivables	7	63,657	119,686	53,362	106,156
Reinsurance and other recoverables receivable	8	38	9,549	58	6,911
Financial assets at fair value	12	25,935	41,890	12,969	23,949
Deferred reinsurance expense	9	-	15,799	-	13,925
Other assets	11	365	51,180	892	69,670
Total current assets		**92,080**	**257,335**	**69,437**	**232,652**
Non-current assets					
Trade and other receivables	7	7,727	7,592	11,051	10,917
Reinsurance and other recoverables receivable	8	917	24,543	947	23,368
Deferred tax assets	6(c)	1,605	2,637	-	1,529
Financial assets at fair value	12	53,721	124,033	44,544	114,844
Other assets	11	-	5,794	3	5,165
Total non-current assets		**63,970**	**164,599**	**56,545**	**155,823**
TOTAL ASSETS		**156,050**	**421,934**	**125,982**	**388,475**
Current liabilities					
Trade and other payables	14	24,675	64,962	10,621	47,367
Unearned premium liability	15	-	52,726	-	46,320
Outstanding claims liability	16(a)	643	30,108	605	22,460
Current tax liabilities	6(b)	1,394	5,210	75	4,884
Provisions	17	4,538	4,538	1,319	1,319
Contract Liability / Unearned income	18	231	10,145	3	30,373
Total current liabilities		**31,481**	**167,689**	**12,623**	**152,723**
Non-current liabilities					
Outstanding claims liability	16(a)	12,006	104,170	11,533	98,612
Deferred tax liability	6(c)	-	-	164	-
Total non-current liabilities		**12,006**	**104,170**	**11,697**	**98,612**
TOTAL LIABILITIES		**43,487**	**271,859**	**24,320**	**251,335**
NET ASSETS		**112,563**	**150,075**	**101,622**	**137,140**
Equity					
Reserves	19	25,307	25,307	25,307	25,307
Retained earnings		87,256	106,753	76,355	94,479
Total equity attributable to equity holders of the Company		**112,563**	**132,060**	**101,662**	**119,786**
Non-controlling interest		-	18,015	-	17,354
Total Equity		**112,563**	**150,075**	**101,662**	**137,140**

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

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Statements of Changes in Equity

For the year ended 30 June 2019

	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 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**
Balance at 1 July 2018	**25,307**	**76,355**	**101,662**	**25,307**	**94,479**	**17,354**	**137,140**
Total comprehensive income for the year							
Profit for the year	-	10,901	10,901	-	12,274	3,652	15,926
Other comprehensive income for the year	-	-	-	-	-	-	-
Total comprehensive income for the year	**-**	**10,901**	**10,901**	**-**	**12,274**	**3,652**	**15,926**
Transactions with owners in their capacity as owners:							
Change in ownership interests	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	(2,991)	(2,991)
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**(2,991)**	**(2,991)**
Balance at 30 June 2019	**25,307**	**87,256**	**112,563**	**25,307**	**106,753**	**18,015**	**150,075**

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 2019

		2019		2018	
	Note	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Cash flows from operating activities					
Premium revenue received		-	74,943	-	72,294
Reinsurance and other recoveries received		8	14,526	14	13,945
Reinsurance paid		-	(22,711)	-	(21,429)
Management fees received		107,236	248,720	92,628	216,112
Dividends received		8,485	1,787	5,746	745
Interest received		1,073	5,048	771	4,403
Trust distributions received		11	213	1	20
Other revenue received		24,749	24,749	16,315	16,315
Claims paid		(67)	(25,192)	(256)	(21,485)
Acquisition costs paid		-	(852)	-	(922)
Member benefits paid		(12,650)	(12,650)	(11,560)	(11,560)
General expenses and management fees paid		(98,435)	(272,106)	(93,183)	(253,768)
(Income taxes paid) / received		(91)	(5,263)	183	(5,562)
Net cash provided by/ (used in) operating activities	25 (b)	**30,319**	**31,212**	**10,659**	**9,108**
Cash flows from investing activities					
Proceeds from disposal of investments		182,836	323,911	66,352	188,054
Payments for investments		(203,392)	(348,245)	(72,745)	(207,509)
(Payments for)/proceeds from acquisition of debtors		(20,702)	(7,565)	(5,433)	(196)
Acquisition of a subsidiary, net of cash acquired		-	-	-	-
Loans repaid	7	10,000	10,000	-	-
Loan repayments received		868	868	1,243	1,105
Net cash (used in) / provided by investing activities		**(30,390)**	**(21,031)**	**(10,583)**	**(18,546)**
Cash flows from financing activities					
Dividends paid to non-controlling interest		-	(2,991)	-	(2.330)
Net cash provided by financing activities		-	**(2,991)**	-	**(2,330)**
Net (decrease)/ increase in cash and cash equivalents		**(71)**	**7,190**	**76**	**(11,768)**
Cash and cash equivalents at the start of the financial year		**2,156**	**12,041**	**2,080**	**23,809**
Cash and cash equivalents at the end of the financial year	25 (a)	**2,085**	**19,231**	**2,156**	**12,041**

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 2019

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 2019 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. Certain persons and corporations may be eligible for membership as per the EML Constitution. Admittance to membership of EML is at the EML Board's sole discretion.

The financial report was authorised for issue by the Directors on 30 August 2019.

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 2019. 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 that permits the disclosure of parent entity financial statements alongside consolidated financial statements in the financial report.

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

Revenue is measured based on the consideration specified in a contract with a customer in exchange for providing services to a customer, excluding amounts collected on behalf of third parties. The Company recognises revenue when it transfers control over a service to customer.

The Company provides service at a point in time unless one of the following over time criteria is met:

(a) The customer simultaneously receives and consumes the benefits provided as the Company performs;

(b) The Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and

(c) The Company's performance does not create an asset with an alternative use and the Company has an enforceable right to payment for performance completed to date.

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

Significant Accounting Policies (continued)

(b) Revenue recognition (continued)

(iii) Workers compensation management fees (continued)

Contract Asset

A contract asset is recognised when the Group's or the Company's right to consideration is conditional on something other than the passage of time. A contract asset is subject to impairment in accordance with AASB15 *Revenue from Contracts with Customers*.

Contract Liability

A contract liability is stated at cost and represents the obligation of the Group or the Company to transfer goods or services to a customer for which consideration has been received (or the amount is due) from the customers.

(iv) Other income – revenue from partnership

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

(c) Workers compensation statutory funds

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.

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

Significant Accounting Policies (continued)

(f) Claims

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

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

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

(g) Liability adequacy test

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

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

Significant Accounting Policies (continued)

(h) Financial instruments

(i) Non-derivative financial assets

Recognition and initial measurement

A financial asset is recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument. A financial asset is initially measured at fair value plus or minus, for a financial asset not measured at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue.

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income ("FVOCI") or FVTPL. Financial assets are not reclassified subsequent to their initial recognition, unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Fair value through profit or loss

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

Significant Accounting Policies (continued)

(h) Financial instruments (continued)

(i) Non-derivative financial assets (continued)

Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way that the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

For the purpose of the assessment as to whether contractual cash flows are solely payments of principal and interest, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and

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

Significant Accounting Policies (continued)

(h) Financial instruments (continued)

- terms that limit the Company's claim to cash flows from specified assets- (e.g.non-recourse features). A prepayment feature is consistent with the 'solely payments of principal and interest' criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Derecognition

The Company derecognises a financial asset or part of it when, and only when, the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of ownership of the transferred assets are not derecognised. In these cases, the transferred assets are not derecognised. On derecognition of a financial asset, the difference between the carrying amount of the financial asset and the sum of consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

Impairment of financial assets/contract assets

The Company recognises allowance for impairment for expected credit loss ("ECL") on financial assets and contract assets measured at amortised cost. The Company measures allowance for impairment at an amount equal to lifetime ECL, except for cash and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Allowance for impairment for receivables and contract assets are always measured at an amount equal to lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information, where available.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

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

Significant Accounting Policies (continued)

(h) Financial instruments (continued)

(ii) Non-derivative financial assets (continued)

Impairment of financial assets/contract assets (continued)

At each reporting date, the Company assesses whether financial assets and contract assets carried at amortised cost are credit-impaired. A financial asset and contract asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset and contract asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past-due event;
- the restructuring of an amount due to the Company on terms that the Company would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

(iii) Non-derivative financial liabilities

Financial liabilities are recognised initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expired. Financial assets and liabilities are offset and the net amount presented in the Statement of Financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: loans and borrowings and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Derecognition

The Company generally derecognises a financial liability or part of it when, and only when, its contractual obligations are discharged or cancelled, or expires. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

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

Significant Accounting Policies (continued)

h) Investments

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

The Company has determined that all assets are held to support insurance liabilities. The Company'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 Company 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.

(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.

(i) Transactions eliminated on consolidation

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

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

Significant Accounting Policies (continued)

(k) Taxation

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

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

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

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

(l) Payables

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

(m) Provision for member benefits

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

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

Significant Accounting Policies (continued)

(n) Cash and cash equivalents

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

(o) 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.

(p) 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)

(r) 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.

(s) New standards and interpretations not yet adopted

(i) Australian Accounting Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 July 2019, and have not been applied in preparing these financial statements. The Company does not plan to adopt these standards early.

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

Table Notes:

A: In terms of AASB 16, there is no impact since the company does not control and does not have the ability to direct the use of any assets leased within the Group.

B: These changes are not expected to have a significant, if any, financial and disclosure impact

C: 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)

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

(ii) Changes in accounting policies

Standard	Description
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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 July 2018. With the exception of AASB 15 Revenue from Contracts with Customers and AASB 9 Financial Instruments, all of the other new standards do not apply to the Company for the year ended 30 June 2019. There are no material impacts in the adoption of AASB 15 Revenue from Contracts with Customers as the Company currently has a revenue recognition policy which recognises revenue when performance obligations are satisfied with probability of revenue recognition continuing to meet the highly probable requirements. Furthermore, there is no material impact arising from the adoption of AASB 9 as the counterparties of the Company have strong credit worthiness. The Company has adopted the accounting policy arising from these accounting standards.

Note 2 Accounting estimates and judgements

(a) Accounting estimates and judgments

Management has discussed with the Board 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 recognised in the current financial year, to the extent that is probable. 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:

	2019			2018		
	Underwritten Workers Compensation	Workers Compensation Run-off	Combined	Underwritten Workers Compensation	Workers Compensation Run-off	Combined
Average term to settlement years*	6.27	9.88	6.17	6.45	9.83	6.38
Average claim sizes $	16,951	61,421	17,236	19,410	61,968	19,757
Expense rate	8.17%	5.40%	7.95%	7.90%	5.40%	7.70%
Discount rate	1.60%	1.54%	1.59%	2.85%	2.79%	2.80%

** 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 2018/2019, 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 2019.

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.

2019 Key actuarial assumptions	Changes	Impact on central estimate of outstanding claims liabilities $000
All classes EML		
Expense rate	+1% / -1%	76 / (76)
Normal inflation rate	+1% / -1%	980 / (980)
Discount rate	+1% / -1%	(1,047) / 1,047
All classes HEM		
Expense rate	+1% / -1%	709 / (709)
Discount rate	+1% / -1%	(4,194) / 5,036
Average claim size	+10% / -10%	7,915 / (7,915)
Average term to settlement	+10% / -10%	(711) / 732
Workers Compensation Run-off		
Gross average claim size	+10% / -10%	792 / (792)
Number of future claims reported	+10% / -10%	784 / (784)

2018 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.

(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, WorkSafe Victoria and Comcare. 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

The Company has put in place credit policies and investment guidelines as a part of its overall credit risk management framework which includes the following:

- Evaluation of a debt instrument issuer's credit risk is undertaken by Finance. Monitoring of credit and concentration risk is carried out by Finance and is supported by Risk Management.
- Cash and deposits in Australia are generally placed with banks and financial institutions licensed under APRA

Receivables arising from insurance and reinsurance contracts are monitored by Finance to ensure adherence to the Company's credit policy. As part of the overall risk management strategy, the Company cedes insurance risk through proportional and non-proportional treaties and facultative arrangements. The Company monitors the credit quality and financial conditions of its reinsurers on an ongoing basis and review its reinsurance arrangements periodically. The Company typically cedes business to reinsurers that have a good credit rating and concentration of risk is avoided by adhering to policy guidelines in respect of counterparties' limits that are set each year by the Board of Directors. When selecting its reinsurers, the Company considers their relative financial security. The security of the reinsurer is assessed based on public rating information and annual reports.

The Company's credit risk exposure to insurance receivables arises from business with its policyholders. The Company has policies to monitor credit risk from these receivables with a focus on day to day monitoring of the outstanding position by the credit control staff.

The Company also has guidelines to evaluate intermediaries before their appointment as well as setting credit terms to these appointees. The Company uses the ratings assigned by external rating agencies to assess the credit risk of debt securities, fixed and call deposits and reinsurance receivables.

Note 4 Risk management (continued)

(k) Operational risks

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

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

(l) Strategic and reputation risks

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

(m) People and capability risks

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

(n) Governance risks

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

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Note 5 Operating profit

	2019		2018	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
(a) Premium revenue				
Premium revenue – direct	-	72,211	-	64,891
Profit commission and other recoveries from reinsurance	-	7,070	-	6,493
	-	**79,281**	**-**	**71,384**
(b) Other underwriting expenses				
Acquisition costs	-	(749)	-	(813)
Management fees paid	-	(9,247)	-	(8,401)
Workers Compensation Operational Fund levy	-	(3,196)	-	(2,873)
Other fees	-	-	-	(7)
	-	**(13,192)**	**-**	**(12,094)**
(c) Investment revenue				
Dividends from external parties	227	483	220	670
Dividends from related parties	7,879	900	5,906	471
Interest revenue	1,138	5,094	761	4,374
Trust distributions	11	213	1	20
Profit/(loss) on sale of investments	155	281	(3)	1
Sale of share in AS White Global	1,841	1,841	-	-
Unrealised investment gains/(losses)	(413)	3,366	302	743
	10,838	**12,178**	**7,187**	**6,279**
(d) Management fees revenue				
Statutory Agent service provider fee revenue	241,655	241,655	196,050	196,050
Other	23,132	23,132	20,927	20,927
	264,787	**264,787**	**216,977**	**216,977**
(e) Other revenue				
Share of profits of joint venture	18,777	18,670	16,499	16,189
Other income	1,349	1,349	1,446	1,446
	20,126	**20,019**	**17,945**	**17,635**
(f) Management fees paid				
Statutory Agent service provider fee expense	(241,655)	(241,655)	(196,050)	(196,050)
Other	(25,105)	(25,105)	(22,900)	(22,900)
	(266,760)	**(266,760)**	**(218,950)**	**(218,950)**

Note 6 Taxation

	2019		2018	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
(a) Income tax expense				
Prima facie income tax expense/(benefit) calculated at 30% on operating profit/(loss)	3,164	6,124	3,260	7,139
Increase/(decrease) in income tax expense due to:				
Imputation gross-up on dividends received	1,030	163	781	107
Franking credits on dividends received	(3,434)	(543)	(2,602)	(357)
Permanent differences	(1,136)	(1,136)	(57)	(57)
Income tax expense/(benefit) attributable to profit	(376)	4,608	1,382	6,832
Under provision for tax expense in previous years	21	(122)	(27)	(109)
Tax expense/(benefit) attributable to operating profit	**(355)**	**4,486**	**1,355**	**6,723**
Income Tax Expense is made up of				
Current tax	1,405	5,546	75	5,719
Under provision in prior year	21	(122)	(27)	(109)
Deferred tax	(1,781)	(938)	1,307	1,113
	(355)	**4,486**	**1,355**	**6,723**
(b) Net Current tax assets/(liabilities)				
Current tax assets	-	-	-	-
Provision for income tax payable	(1,394)	(5,210)	(75)	(4,884)
Net Current tax assets/(liabilities)	**(1,394)**	**(5,210)**	**(75)**	**(4,884)**
(c) Net deferred tax assets/(liabilities)				
Deferred tax assets				
(i) Amounts recognised in profit				
Claims handling expenses	139	2,624	133	2,294
Member benefit provision	1,361	1,361	396	396
Prior years accumulated tax losses	-	(40)	-	(40)
Current year accumulated/(utilisation of) tax losses	-	444	-	372
Deferred tax on management fee expenses	3,530	7,118	2,937	4,785
Other	43	169	80	166
(ii) Amounts set off against deferred tax liabilities	(3,468)	(9,039)	(3,546)	(6,444)
	1,605	**2,637**	-	**1,529**
Deferred tax liabilities				
(i) Amounts recognised in profit				
Deferred tax on management fee revenue	(2,939)	(6,526)	(3,434)	(5,281)
Accrued investment income	(59)	(68)	(39)	(51)
Unrealised gain on investments	(470)	(2,350)	(237)	(984)
Other	-	(95)	-	(128)
(ii) Amounts set off against deferred tax assets	3,468	9,039	3,546	6,444
	-	-	164	-

Note 6 Taxation (continued)

	2019		2018	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
(d) Net deferred tax				
Reconciliation of Deferred Tax Asset				
Balance at 1 July	(164)	1,529	1,116	2,539
Prior year over / (under) provision	(12)	170	27	109
Utilisation of tax losses	-	-	-	(6)
Debited/(Credited) to Statement of Comprehensive Income	1,781	938	(1,307)	(1,113)
Balance at 30 June	**1,605**	**2,637**	**(164)**	**1,529**
Franking Account				
Class C 30% franking credits	50,863	63,495	45,334	57,965

- 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

	2019		2018	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Current				
Trade debtors	415	3,519	3,419	5,579
Quota share commission	-	10,478	-	9,911
Amount due from related entities	123	(696)	9,229	8,651
Unbilled Revenue	14,710	9,937	7,505	8,211
Contract Asset - Accrued income	48,281	44,011	32,980	31,510
GST receivable	216	291	233	243
Premium receivable	-	52,362	-	42,099
Provision for impairment	(88)	(216)	(4)	(48)
	63,657	**119,686**	**53,362**	**106,156**
Non-current				
Amount due from Partnership and other related entities	7,727	7,592	1,051	917
Loan to Partnership	-	-	10,000	10,000
	7,727	**7,592**	**11,051**	**10,917**

Note 8 Reinsurance and other recoveries receivable

	2019		2018	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Reinsurance and other recoveries – current	38	9,549	58	6,911
Reinsurance and other recoveries - non-current	917	24,543	947	23,368
Total reinsurance and other recoveries	**955**	**34,092**	**1,005**	**30,279**

Reinsurance and other recoveries on claims paid	7	2,008	17	1,270
Expected future reinsurance and other recoveries on outstanding claims liability	948	32,084	988	29,009
Total reinsurance and other recoveries receivable	**955**	**34,092**	**1,005**	**30,279**

Note 9 Deferred reinsurance expense

	2019		2018	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Deferred reinsurance expense	-	15,799	-	13,925
Reconciliation of changes in deferred reinsurance expense:				
Balance at 1 July	-	13,925	-	12,833
Deferral of reinsurance premiums on current year contracts	-	15,799	-	13,925
Earning of reinsurance premiums previously deferred	-	(13,925)	-	(12,833)
Balance at 30 June	-	**15,799**	-	**13,925**

Note 10 Deferred acquisition costs

	2019		2018	
	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	-	749	-	813
Amortisation charged to income	-	(749)	-	(813)
Balance at 30 June	-	-	-	-

Note 11 Other assets

	2019		2018	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Current				
Prepayments	365	18,029	165	37,492
Specialised Insurer Security Deposit	-	33,151	-	31,451
Loan to Clubs NSW	-	-	727	727
	365	**51,180**	**892**	**69,670**
Non-current				
Prepayments	-	5,794	-	5,162
Loan to Clubs NSW	-	-	3	3
	-	**5,794**	**3**	**5,165**

Terms and conditions

The loan to Clubs NSW is an interest bearing loan. This has been repaid during the 2018/19 year

Note 12 Financial assets

		2019		2018	
	Note	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Current					
Bank accepted bills of exchange		25,935	41,890	1,997	3,994
Government and other public securities		-	-	10,972	19,955
		25,935	**41,890**	**12,969**	**23,949**
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		6,400	16,117	4,906	15,515
Shares in unlisted companies and unit trusts*		-	-	1,189	1,189
Floating rate notes		4,513	14,803	3,020	16,834
Government and other public securities		19,908	93,113	12,529	81,306
Total other financial assets		30,821	124,033	21,644	114,844
Total non-current financial assets		**53,721**	**124,033**	**44,544**	**114,844**
Total financial assets		**79,656**	**165,923**	**57,513**	**138,793**

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

* The value of the investment in unlisted shares has been written down to its recoverable amount of nil by way of an impairment provision as a result of a value in use valuation assessment performed by management.

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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 2019 %	Consolidated Ownership Interest 2018 %
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
Employers Mutual SA Pty Ltd	30 June	Australia	Workers compensation claims administration	100	100
EMNational 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 132 *Financial Instruments: Presentation*, 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 Australian Accounting Standards (AASBs) 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.

Note 13 Investment in controlled entities (continued)

2019	Employers Mutual NSW Limited $000	Hospitality Employers Mutual Limited $000	EML Vic Pty Limited $000	EML Foundation $000	Employers Mutual SA Pty Ltd $000	EM National $000
Summarised statement of comprehensive income						
Revenue	140,862	57,929	35,392	-	-	-
Profit / (loss) after tax	3	12,172	-	(2)	-	-
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	3	12,172	-	(2)	-	-
Summarised balance sheet						
Total assets	46,292	282,521	7,677	509	-	-
Total liabilities	45,771	222,470	7,677	2	-	-
Net assets as at reporting date	**521**	**60,051**	**-**	**507**	**-**	**-**

2018	Employers Mutual NSW Limited $000	Hospitality Employers Mutual Limited $000	Employers Mutual Vic Limited $000	EML Foundation $000	Employers Mutual SA Pty Ltd $000	EM National $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 14 Trade and other payables

	2019		2018	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Trade creditors	1,382	2,383	5,330	8,176
Amount due to related entity	500	-	518	18
Levies payable	-	3,081	-	2,584
Reinsurance payable	445	21,139	435	18,550
Other creditors	22,348	38,359	4,338	18,039
Total trade and other payables	**24,675**	**64,962**	**10,621**	**47,367**

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

	2019		2018	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Unearned premium liability – current	-	52,726	-	46,320
Reconciliation of changes in unearned premium liability				
Balance 1 July	-	46,320	-	41,856
Premiums written during the year	-	78,617	-	69,355
Premiums earned during the year	-	(72,211)	-	(64,891)
Balance at 30 June	-	**52,726**	-	**46,320**

Note 16 Outstanding claims

	2019 The Company $000	2019 Consolidated $000	2018 The Company $000	2018 Consolidated $000
(a) Outstanding claims liability				
Outstanding claims liability – current	643	30,108	605	22,460
Outstanding claims liability – non-current	12,006	104,170	11,533	98,612
Total outstanding claims liability	**12,649**	**134,278**	**12,138**	**121,072**
Central estimate	10,051	123,929	11,065	124,224
Prudential margin	4,514	17,174	5,020	17,587
Claims handling allowance	543	9,143	598	8,286
Discount to present value	(2,459)	(15,968)	(4,545)	(29,025)
Gross outstanding claims liability	**12,649**	**134,278**	**12,138**	**121,072**

(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:

	2019 EML	2019 Hospitality Employers Mutual	2018 EML	2018 Hospitality Employers Mutual
For the succeeding and subsequent years:				
AWE inflation rate	3.00%	3.00%	3.25%	3.25%
CPI inflation rate	n/a	2.25%	n/a	2.25%
Superimposed inflation rate	1.72%	2.00%	1.73%	2.00%
Discount rate	1.54%	1.60%	2.79%	2.85%

(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 2019	Combined 2018
EML Consolidated	6.17	6.38
Hospitality Employers Mutual	6.30	6.50

(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:

	2019	2018
Workers compensation: Hospitality Employers Mutual	14%	14%
Workers compensation Run-Off	44.9%	45.4%

(e) Reconciliation of Changes in Discounted Net Outstanding Claims

The Company	2019			2018		
	Gross $000	Reinsurance $000	Net $000	Gross $000	Reinsurance $000	Net $000
Balance at 1 July	12,138	987	11,151	13,120	1,009	12,111
Current claims incurred	-	-	-	-	-	-
Change in previous years' claims	582	(39)	621	(711)	(19)	(692)
Current year claims paid/reinsurance recovered	-	-	-	-	-	-
Previous year claims paid/reinsurance recovered	(71)	(1)	(70)	(271)	(3)	(268)
Discounted outstanding claims	**12,649**	**947**	**11,702**	**12,138**	**987**	**11,151**

Consolidated	2019			2018		
	Gross $000	Reinsurance $000	Net $000	Gross $000	Reinsurance $000	Net $000
Balance at 1 July	121,072	29,009	92,063	118,162	28,429	89,733
Current claims incurred	44,578	11,838	32,740	41,011	11,464	29,547
Change in previous years' claims	(6,504)	(1,205)	(5,299)	(16,735)	(3,927)	(12,808)
Current year claims paid/reinsurance recovered	(8,206)	(2,580)	(5,626)	(7,616)	(2,910)	(4,706)
Previous year claims paid/reinsurance recovered	(16,663)	(4,979)	(11,684)	(13,749)	(4,046)	(9,703)
Discounted outstanding claims	**134,277**	**32,083**	**102,194**	**121,073**	**29,010**	**92,063**

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.

Consolidated Outstanding claims	Underwriting Year											
	Pre 2010*	2010**	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Estimate of ultimate claims cost												
At the end of accident year	31,491	6,860	8,825	9,373	19,251	19,150	19,090	22,283	21,441	24,112	24,694	
One year later	33,674	7,261	11,977	13,054	20,259	22,914	23,868	24,758	21,825	27,223		
Two years later	34,459	7,728	11,621	13,398	19,306	21,011	22,282	22,269	19,644			
Three years later	32,441	7,357	10,930	10,484	17,281	19,807	19,697	20,128				
Four years later	32,633	6,739	11,613	9,782	16,570	17,270	17,127					
Five years later	31,748	8,180	12,751	8,414	15,668	16,715						
Six years later	32,149	6,255	10,881	8,113	15,928							
Seven years later	29,441	5,918	11,031	7,687								
Eight years later	28,436	6,842	10,460									
Nine years later	29,395	7,166										
Ten years later	26,432											
Current estimate of ultimate claims cost	26,432	7,166	10,460	7,687	15,928	16,715	17,127	20,128	19,644	27,233	24,694	193,214
Cumulative payments	16,987	6,260	8,379	6,287	11,544	10,827	11,385	11,320	8,063	9,460	4,648	105,160
Outstanding claims – undiscounted	9,445	906	2,081	1,400	4,384	5,888	5,742	8,808	11,581	17,773	20,046	88,054
Discount	1,394	39	222	229	450	652	606	862	1,230	1,924	1,965	9,573
Outstanding claims	8,051	867	1,859	1,171	3,934	5,236	5,136	7,946	10,351	15,849	18,081	78,481
Claims handling expense	514	90	221	138	467	613	602	918	1,211	1,863	2,111	8,748
Risk margin	3,697	139	298	187	629	838	822	1,271	1,656	2,535	2,893	14,965
Total net outstanding claims liabilities	12,262	1,096	2,378	1,496	5,030	6,687	6,560	10,135	13,218	20,247	23,085	102,194
Reinsurance and other recoveries on outstanding claims liabilities	1,142	382	1,032	516	1,710	2,286	2,240	3,469	4,517	6,912	7,879	32,085
Total Gross Outstanding Claims	**13,404**	**1,478**	**3,410**	**2,012**	**6,740**	**8,973**	**8,800**	**13,604**	**17,735**	**27,159**	**30,964**	**134,279**

* *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*

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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 $6.5m (2018: $4.8m).

For the purposes of the LAT, the present value of expected future cash flows for future claims (including the risk margin) of $30.4m (2018: $27.5m) comprises the discounted central estimate (including allowances for claims handling and policy administration expenses) of $26.2m (2018: $23.6m), and a risk margin of $4.3m (2018: $3.8m).

The risk margin used as a percentage of the central estimate is 16% (2018: 16%). The probability of sufficiency represented by the LAT is 75%. (2018: 75%).

Note 17 Provisions

	2019		2018	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Current				
Member benefit	4,538	4,538	1,319	1,319
	4,538	**4,538**	**1,319**	**1,319**
Balance at 1 July	1,319	1,319	1,369	1,369
Amount incurred	15,869	15,869	11,510	11,510
Amount utilised	(12,650)	(12,650)	(11,560)	(11,560)
Balance at 30 June	**4,538**	**4,538**	**1,319**	**1,319**

Note 18 Contract Liability - Unearned income

	2019		2018	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Contract Lability - Unearned income – current	**231**	**10,145**	**3**	**30,373**

The amount recognised as Contract Liability in 2018 was fully recognized in the Statement of Comprehensive Income in 2019. Further to this, no reversals of the said amounts were made.

Note 19 Reserves

	2019		2018	
	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	2019			2018
	Current Year $000	Prior Years $000	Total $000	Total $000
Gross claims and related expenses / (benefit) – undiscounted	-	(1,427)	(1,427)	(1,554)
Less: discount	-	2,010	2,010	843
Gross claims and related expenses – discounted	-	583	583	(711)
Reinsurance and other recoveries – undiscounted	-	(218)	(218)	(81)
Less: discount	-	176	176	68
Reinsurance and other recoveries - discounted	-	(42)	(42)	(13)
Net Claims expense /(benefit)	**-**	**625**	**625**	**(698)**

Consolidated	2019			2018
	Current Year $000	Prior Years $000	Total $000	Total $000
Gross claims and related expenses – undiscounted	48,379	(23,286)	25,093	23,481
Less: discount	(3,801)	16,782	12,981	795
Gross claims and related expenses – discounted	44,578	(6,504)	38,074	24,276
Reinsurance and other recoveries – undiscounted	12,851	(5,380)	7,471	7,470
Less: discount	(1,013)	4,172	3,159	73
Reinsurance and other recoveries - discounted	11,838	(1,208)	10,630	7,543
Net Claims expense	**32,740**	**(5,296)**	**27,444**	**16,733**

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.

Note 21 Remuneration of auditor

	2019		2018	
	The Company $	Consolidated $	The Company $	Consolidated $
Audit and review services				
Statutory and Regulatory Audits and Reviews	64,218	166,566	62,955	163,295
Total audit and review services	**64,218**	**166,566**	**62,955**	**163,295**
Other services				
Other Professional fees	44,000	48,000	27,220	49,001
Total other services	**44,000**	**48,000**	**27,220**	**49,001**
Total Auditor Remuneration	**108,218**	**214,566**	**90,175**	**212,296**

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
- Catherine A. King
- Paul R. Baker
- Flavia Gobbo
- Matthew Wilson (Resigned 28/5/19)
- Patrick Gurr (Appointed 28/5/19)

Executives

- Mark Coyne* (Chief Executive Officer)
- Tracey Harris* (Chief Operating Officer)
- Matthew Wilson (Company Secretary and Chief Risk Officer)
- Justine Brindley* (Company Secretary and Head of Legal)
- George Srdic* (Chief Financial Officer)

** Employed by a related party*

Transactions with key management personnel

The key management personnel compensation is:

	2019		2018	
	The Company $	Consolidated $	The Company $	Consolidated $
Short-term employee benefits	**253,755**	**494,877**	**299,538**	**540,549**

This compensation represents directors fees. Executives are employed and paid by the related entity 'Employers Mutual Management'

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:

	2019 $000	2018 $000
Paid by EML		
Employers Mutual Limited & the Trustee for ASWIG Management Trust Partnership	26,574	24,494
White Funds Management Pty Ltd*	140	21
EMLife Pty Ltd	1,069	1,984
Paid by Hospitality Employers Mutual Limited		
Employers Mutual Management Pty Ltd	14,311	12,839
Employers Mutual Limited & the Trustee for ASWIG Management Trust Partnership	349	327
White Funds Management Pty Ltd*	416	421
Australian Hotels Association (NSW)	1,019	954
The Registered Clubs Association of NSW	887	811
EM Safe Pty Ltd	109	122

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

	2019 $000	2018 $000
Receivable/(Payable) by EML		
Employers Mutual Limited & the Trustee for ASWIG Management Trust Partnership	521	3,900
Employers Mutual Management Pty Ltd	289	-
White Funds Management Pty Ltd*	33	8
EMLife Pty Ltd	-	22
Receivable/(Payable) by Hospitality Employers Mutual Limited		
Employers Mutual Management Pty Ltd	(504)	(201)
White Funds Management Pty Ltd*	(72)	(28)
Australian Hotels Association (NSW) Holdings Pty Ltd	(73)	(62)
The Registered Clubs Association of NSW	(72)	(63)
Employers Mutual Limited & the Trustee for ASWIG Management Trust Partnership	(61)	(59)
EM Safe Pty Ltd	(26)	(34)

* 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 2019 totalled $8.9m (2018: $7.4m)

The total value of all bank guarantees on issue as at 30 June 2019 was $18.5m (2018: $17.0m).

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(p). 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 2019 $000	Consolidated 2018 $000
Revenue	284,969	232,536
Profit from continuing operations	37,523	32,999
Total comprehensive income	37,553	32,999
Current assets	59,414	85,056
Non-current assets	3,221	8,209
Current liabilities	(59,414)	(85,056)
Non-current liabilities	(3,221)	(8,209)
Net assets	-	-

In February 2019, EML sold its 50% share of AS White Global Pty Ltd. EML had jointly held AS White Global with ASWIG Management Pty Ltd. EML received a gain of $1.841 million for the sale.

Note 24 Equity accounted investees (continued)

Movement in carrying amount in investment in joint venture entities

	Consolidated 2019 $000	Consolidated 2018 $000
Group's interest in net assets of investee at the beginning of the year	-	-
Share of total comprehensive income	18,777	16,499
Partnership distribution	(18,777)	(16,499)
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, Riverwise Pty Ltd, 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 *Fair Value Measurement**.

*Refer to Note 26(d)(iii)

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:

	2019		2018	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Cash and cash equivalents	2,085	19,231	2,156	12,041

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

	2019		2018	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Total comprehensive income for the year	10,901	15,926	9,511	17,076
Add/(less):				
Profit/(loss) on sale of investments	(1,996)	(2,122)	3	(1)
Increase / (decrease) in market value of investments	413	(3,366)	(302)	(743)
Net cash provided by operating activities before change in assets and liabilities	**9,318**	**10,438**	**9,212**	**16,332**
Changes in assets and liabilities:				
Decrease / (increase) in debtors and accrued income	3,731	(45,213)	(2,962)	(15,209)
Decrease / (increase) in prepayments	(199)	18,827	298	(26,714)
Decrease / (increase) in reinsurance & other recoveries	50	(3,813)	27	(480)
Decrease / (increase) in deferred reinsurance expense	-	(1,874)	-	(1,092)
Increase in income tax payable	1,319	326	267	162
Decrease in deferred tax balances	(1,769)	(1,108)	1,280	1,010
Increase in payables	14,138	51,248	3,569	1,685
Increase in provision for member benefit	3,220	3,220	(50)	(50)
Increase / (decrease) / increase in other liabilities	-	(20,450)	-	26,090
Increase / (decrease) in provision for claims	511	13,205	(982)	2,910
(Decrease) / increase in unearned premium	-	6,406	-	4,464
	21,001	**20,774**	**1,447**	**(7,224)**
Net cash provided by operating activities	**30,319**	**31,212**	**10,659**	**9,108**

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 2019: 17% (2018: 22%) 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.

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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
2019 Company					
Cash and Cash Equivalents	2,085	1	(1)	-	-
Bank Accepted Bills of Exchange	25,935	18	(18)	-	-
Government and Other Public Securities	19,908	1,311	(1,311)	-	-
Shares in Listed Securities and Unit Trusts	6,400	-	-	(640)	640
Shares in Unlisted Companies and Unit Trusts	-	-	-	-	-
Floating Rate Notes	4,513	4	(4)	-	-
	58,841	**1,334**	**(1,334)**	**(640)**	**640**
2019 Consolidated					
Cash and Cash Equivalents	19,231	2	(2)	-	-
Bank Accepted Bills of Exchange	41,890	33	(33)	-	-
Government and Other Public Securities	93,113	5,682	(5,682)	-	-
Shares in Listed Securities and Unit Trusts	16,117	-	-	(1,612)	1,612
Shares in Unlisted Companies and Unit Trusts	-	-	-	-	-
Floating Rate Notes	14,804	9	(9)	-	-
	185,155	**5,726**	**(5,726)**	**(1,612)**	**1,612**

Note 26 Financial instruments (continued)

(a) Market risk (continued)

(iii) Summarised sensitivity analysis (continued)

	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)

(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, premium receivable from underwriting 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
2019 Company		
Neither past due nor impaired	70,968	955
Past due 0-30 days	115	-
Past due 31-120 days	274	-
More than 120 days	28	-

	Trade and other receivables $'000	Reinsurance and other recoverable receivable $'000
2019 Consolidation		
Neither past due nor impaired	121,845	34,092
Past due 0-30 days	3,266	-
Past due 31-120 days	474	-
More than 120 days	1,693	-

Note 26 Financial instruments (continued)

(b) Credit risk exposures (continued)

	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	-

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

	2019		2018	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Balance at 1 July	4	48	115	167
Impairment loss/(write back) recognised	84	270	(111)	(92)
Amounts written off	-	(102)	-	(27)
Balance at 30 June	88	216	4	48

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
2019 Company						
Cash and Cash Equivalents	-	1,798	287	-	-	2,085
Financial Assets – Interest Bearing	24,884	4,023	12,480	8,969	-	50,356
Trade and Other Receivables	-	-	-	-	71,383	71,383
Reinsurance and Other Recoveries Receivable	-	-	955	-	-	955
Loan to Clubs (NSW)	-	-	-	-	-	-
Other Assets	-	-	-	-	365	365
	24,884	**5,821**	**13,722**	**8,969**	**71,748**	**125,144**
2019 Consolidated						
Cash and Cash Equivalents	-	17,517	1,714	-	-	19,231
Financial Assets – Interest Bearing	104,056	9,314	17,495	18,942	-	149,807
Trade and Other Receivables	-	-	-	-	127,278	127,278
Reinsurance and Other Recoveries Receivable	-	32,437	1,102	-	553	34,092
Loan to Clubs (NSW)	-	-	-	-	-	-
Other Assets	33,151	-	-	-	23,821	56,972
	137,207	**59,268**	**20,311**	**18,942**	**151,651**	**387,380**

Note 26 Financial instruments (continued)

(b) Credit risk exposures (continued)

	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**

(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 respective Investment Mandates.

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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
2019 Company					
Trade and Other Payables	24,675	-	-	-	24,675
Outstanding Claims Liability	643	793	2,526	8,687	12,649
	25,318	793	2,526	8,687	37,324
2019 Consolidated					
Trade and Other Payables	64,962	-	-	-	64,962
Outstanding Claims Liability	30,108	17,212	36,836	50,122	134,278
	95,070	17,212	36,836	50,122	199,240

	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

(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
2019 Company				
Bank Accepted Bills of Exchange	-	25,935	-	25,935
Government and Other Public Securities	19,908	-	-	19,908
Shares in Listed Securities and Unit Trusts	6,400	-	-	6,400
Shares in Unlisted Companies and Unit Trusts	-	-	-	-
Floating Rate Notes	4,513	-	-	4,513
	30,821	**25,935**	**-**	**56,756**

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
2019 Consolidated				
Bank Accepted Bills of Exchange	-	41,890	-	41,890
Government and Other Public Securities	93,113	-	-	93,113
Shares in Listed Securities and Unit Trusts	16,117	-	-	16,117
Shares in Unlisted Companies and Unit Trusts	-	-	-	-
Floating Rate Notes	14,804	-	-	14,804
	124,034	**41,890**	**-**	**165,924**

Note 26 Financial instruments (continued)

(d) Net fair values (continued)

	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	-	101,260
Shares in Listed Securities and Unit Trusts	15,515	-	-	15,515
Shares in Unlisted Companies and Unit Trusts	-	-	1,189	1,189
Floating Rate Notes	16,834	-	-	16,834
	113,654	**23,949**	**1,189**	**138,792**

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

	2019		2018	
	The Company $000	Consolidated $000	The Company $000	Consolidated $000
Balance at 1 July	1,189	1,189	1,189	1,189
Shares acquired	-	-	-	-
Transfers in to level 3	-	-	-	-
Total gains and losses recognised in:				
- profit and loss	(1,189)	(1,189)	-	-
- other comprehensive income	-	-	-	-
Balance at 30 June	**-**	**-**	**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 (2017/18: 5.5 to 6.0)
- Small size discount: 5% (2017/18: 5%)
- Lack of marketability discount: 20% (2017/18: 20%)
- Minority discount: 10% (2017/18: 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:

2019 Significant unobservable inputs	Changes	Impact on fair value measurement $000
EBITDA multiple	+10% / -10%	(3,662) / (3,595)
Small size discount	+10% / -10%	(3,626) / (3,631)
Lack of marketability discount	+10% / -10%	(3,620) / (3,643)
Minority discount	+10% / -10%	(3,567) / (3,689)
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

Note 26 Financial instruments (continued)

(iii) Valuation of Riverwise Pty Limited

Riverwise is an investment of unlisted shares that has been impaired to $0m (2018: $1.2m). A provision was made this year to provide for the possibility that this asset will not provide any future economic benefit.

The investment in Riverwise is an area of accounting judgement as the shares are unlisted.

Management have performed a value in use impairment review by assessing future cashflows. The forecast for the 4 years from FY17 – FY20 is an overall trading loss of $1.2m.

Based on the forecasted loss, management have made a provision for the impairment of the remaining value of the investment of $1.2m.

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.

Principal registered office

Level 3

345 George Street

Sydney NSW 2000

Telephone: (02) 8251 9000

Facsimile: (02) 8251 9491

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.

Note 28 Capital Management (continued)

(a) Capital management strategy

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.

(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.

Note 28 Capital Management (continued)

(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.

Regulatory capital requirements – 2019	2019 The Company $000	2019 Consolidated $000
Common Equity Tier 1 (CET1) capital		
General reserves	25,307	25,307
Retained earnings	87,256	106,753
Excess technical provisions	-	6,514
Non-controlling interest	-	7,585
Common equity Tier 1 capital deductions		
Regulatory capital requirement of investment in subsidiaries	(19,139)	-
Net deferred tax asset	(1,605)	(2,637)
Other common equity Tier 1 capital adjustments	-	-
Total regulatory capital	91,819	143,522
Outstanding claims insurance risk charge	1,638	14,004
Premium liabilities insurance risk charge	-	6,255
Insurance concentration risk charge	2,000	1,000
Diversified asset risk charge	6,515	16,100
Operational risk charge	242	3,402
Aggregation benefit	(2,081)	(8,238)
Prescribed capital amount (PCA)	8,314	32,522
Surplus	83,505	110,999
PCA Multiple	11.04	4.41

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

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 2019.

Mutual since 1910

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 69, 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 2019 and of their performance, for the financial year ended on that date; and
        ii. complying with Australian Accounting Standards and the Corporations Regulations 2001;
    b. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The Directors draw attention to note 1 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

Dated at Sydney this day of 30 August 2019

William J. A. O'Reilly	**Paul R. Baker**
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 2019 and of its 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 2019
- 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.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

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 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 the Financial Report.

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

KPMG

Leann Yuen
Partner

Sydney
30 August 2019

CONTACTS

NEW SOUTH WALES
Level 3, 345 George Street, Sydney NSW 2000
02 8251 9000
1800 469 931 (toll free)
02 8251 9491

SOUTH AUSTRALIA
Level 15, 26 Flinders Street, Adelaide SA 5000
08 8127 1100
1300 365 105 (toll free)
08 8127 1200

VICTORIA
Level 6, 385 Bourke Street, Melbourne VIC 3000
03 7000 0700
1800 365 842 (toll free)

www.eml.com.au

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