EML
Mutual since 1910

FINANCIAL STATEMENTS

ANNUAL REPORT

30 JUNE 2020

ABN: 67 000 006 486

Contents

Directors' Annual Report to the Members

For the year ended 30 June 2020

The Directors present their consolidated financial report of the Group, being Employers Mutual Limited (EML) and its controlled entities, for the year ended 30 June 2020 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 (Chairman)

Mr O'Reilly was appointed as a Director of EML in December 2010 and then subsequently re-elected in 2018, and as Chairman in November 2011. Mr O'Reilly also currently serves as a Director of Hospitality Employers Mutual Limited, one of EML's subsidiary companies. Mr O'Reilly has an extensive record of experience within a number of professional and mutual organisations. In addition to being a qualified general dental practitioner he has been admitted as a barrister of the Supreme Court of New South Wales, Mr O'Reilly was previously a Director of Manchester Unity Australia for five years and its independent elected Chairman for four years. In the 2016 Australia Day Honours List, Mr O'Reilly was made a Member of the Order of Australia (AM). Mr O'Reilly was a Director of BUPA Dental Corporation, President and Professional Officer of the Dental Council of NSW, and has assisted the Motor Accident Authority of New South Wales in relation to dental injuries from motor accidents. He was a Member of the National Australia Bank's nabhealth National Advisory Council, Member of the Medical Advisory Panel for BUPA MBF Australia, and a Director of the Motor Neurone Disease Association of Australia as well as a Non-Executive Director on a number of other Boards.

Patrick J. Gurr GAID

Mr Gurr was appointed as a Director on 28 May 2019 and was elected at the AGM in October 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 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, support regional Tertiary education and 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, 2017 and 2019. Ms King has extensive experience in government, community and stakeholder relations, communications, risk management and strategy development. Ms King managed a public relations and communications business for 15 years and now provides strategic advice to organisations operating in a regulated environment. Ms King is also a Director of the Don Dunstan Foundation. She has previously been a Director of Adelaide Fringe Inc, Adelaide Venue Management Corporation, Homestart Finance, SAFECOM 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 over 30 years and has been Managing Director of Meridian Lawyers since 2004, a law firm which he established and has grown to more than 145 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.

Ms Gobbo resigned 20 December 2019.

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

Matthew Wilson was appointed as a Director on 20 December 2019 and has held the position of Chief Risk Officer since joining EML in November 2006. Matthew is a corporate lawyer and professional adviser in the fields of risk management, regulatory compliance and corporate governance practice in the Australian financial services sector.

Company secretaries

Anthony Fleetwood	Appointed 15 April 2003
Matthew Wilson	Appointed 30 September 2010
Justine Brindley	Appointed 27 November 2018

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	12	11	7	7	3	3	5	5	5	5
Catherine A. King	12	12	7	7	0	0	5	5	5	5
Paul R. Baker	12	11	7	7	3	3	0	0	0	0
Patrick Gurr	12	12	7	7	2	2	5	5	5	5
Flavia Gobbo^	5	3	4	3	2	2	2	2	2	2
Matthew Wilson^	7	7	0	0	0	0	0	0	0	0

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

^ Ms Gobbo resigned on 20 December 2019. Mr Wilson was appointed on 20 December 2019

Strategy and objectives

The Group provides workers compensation claims management services to icare (Insurance and Care NSW), Insurance for NSW, Return to Work South Australia, WorkSafe Victoria and the ACT Government along with large self-insured employers. It also provides personal injury claim management services to other clients in other insurance lines including sickness & accident and life & disability insurance. In addition, the Group operates a specialised insurer solution in NSW for the hotels and clubs industries through Hospitality Employers Mutual Limited (HEM).

EML's long-term objective is to be the number one performer in personal injury claims management. The Group seeks to provide the highest quality insurance service to its mutual policyholders 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.

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 or service provider to:
  - 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 (HEM)
- 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 for other non-workers' compensation insurance lines
- 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 $16.2m (2019: profit after tax was $15.9m).

Factors influencing the Consolidated 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) of $23.3m (2019: $18.8m). The Partnership undertakes the contractual and statutory obligations of the Group in respect of workers compensation insurance claims management and underwritten insurance activities. The Partnership results reflect continued strong performance in all State schemes that the Group participates in apart from South Australia, where performance was impacted by higher than expected claims frequencies. Reflecting the Partnership's diversified growth strategy, the results also arise from continued profitable growth in the provision of workers' compensation claims management services to the self-insurance sector and in other personal injury lines.
- HEM achieved a $9.3m profit after tax (2019: $12.2m) despite being severely impacted by business disruption in the hospitality and tourism sectors caused by COVID-19 and the subsequent economic slowdown that has ensued. Premium income has significantly reduced due to the impact on policyholders' wage rolls as a result of the initial lockdown and ongoing social distancing measures imposed by the government, whilst investment income has also fallen considerably due to the impact on investment markets and a decision to reduce the Group's equity exposure due to the volatile investment conditions. Notwithstanding the impact of COVID-19 on the end of year valuation, the company's financial performance was boosted by net actuarial releases totalling $7.7m (2019: $2.9m) that arose from modelling and assumption changes made by the Appointed Actuary based on internal and external factors and claims experience during the year.
- Investment revenue of $3.6m (2019: $12.2m) reflects the downturn in investment markets due to the impact of COVID-19 and the effect of portfolio adjustments designed to immunise the Group against heightened volatility of investment markets.

Directors' Annual Report to the Members (continued)

Results and review of operations (continued)

- Continued expenditure on member benefits totalled $10.0m (2019: $15.8m), which is used in support of initiatives in consultation with regulators and industry experts to provide a positive impact on performance in the various Schemes through knowledge sharing across jurisdictions, improved claims management outcomes and reduced premiums for members. The investment of member benefits assists in supporting contract renewals (and new contracts) in order to ensure the availability of member benefits funding into the future.
- Overall the Group has not been significantly affected by COVID-19, with the impact mainly limited to the its underwritten operations segment that operates in the hospitality sector. Notwithstanding this, the full impact of COVID-19 in the future remains uncertain.

Events subsequent to balance date

The ongoing development of COVID-19 and the associated economic impacts remain uncertain. The Directors, on the date of approving these financial statements, are of the view that there are a range of possible impacts from COVID-19 and note that the situation is continuing to evolve. Modelling undertaken by the Appointed Actuary indicates that the Group's's capital position remains within the Target Operating Range under a range of scenarios, however the Group continues to closely monitor developments with a focus on the potential impact on premiums, claims and investments. Further information is contained in Note 31 as to the potential impacts on the Group. Other than the above, no matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect:

- The Group's operations in future financial years;
- The results of those operations in future financial years; and
- The Group's state of affairs in future financial years.

Membership

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

Statutory information

State of affairs

The business has seen continued growth throughout 2020, including incremental growth in personal injury market segments as part of the Group's diversified growth strategy. Apart from this, there here have been no significant changes in the state of affairs of the Consolidated Group during the financial year, nor has any other matter arisen since 30 June 2020 which will significantly affect the operations of the Consolidated Group or the results of those operations or the state of affairs of the Consolidated Group in the next financial year.

In the opinion of the directors the widespread outbreak of COVID-19 in Australia presented a material impact to the normal course of operations within the Group during the financial year. The Group deployed its Pandemic Plan in conjunction with the Business Continuity Management Framework when COVID-19 was declared pandemic status in March 2020. This has allowed the Group to support critical business processes and maintain business continuity whilst abiding by the Coronavirus measures enforced by the Australian Federal and State Governments.

Directors’ Annual Report to the Members (continued)

Statutory information (continued)

State of affairs (continued)

In addition to the operational impacts to the Group from COVID-19, the associated macroeconomic impacts have increased the estimation uncertainty in the preparation of these Financial Statements.

The Group has not been significantly impacted by COVID-19, with the effect limited to a reduced contribution to Group profit from the Hospitality segment of operations through reduced premium income and investment returns and, to a lesser extent, deteriorated Scheme performance in Victoria and South Australia. This impact is partially offset by reduced operating costs in the last quarter of 2020 due to the lockdown and social distancing policies implemented by Federal and State governments and a business strategy to closely manage discretionary expenditure during the current period of economic uncertainty. Based on the results in 2020 and budgetary expectations for the next financial year, the Company is satisfied that there are no going concern risks as a result of COVID-19.

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 Group 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 Group'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 Group, acting as an advocate for the Group or jointly sharing risks and rewards. The level of fees for total non-audit services amounts to approximately $153,763 (2019: $48,000) (refer to Note 21 to the financial statements for further details of costs incurred on individual non audit assignments).

Directors' Annual Report to the Members (continued)

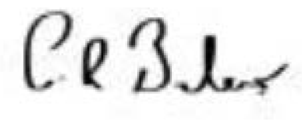
Lead auditor's independence declaration under section 307c of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 10 and forms part of the Directors' Report for the year ended 30 June 2020.

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

William J.A. O'Reilly

Director



Paul R. Baker

Director

Signed in Sydney on 28 August 2020

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 2020 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

28 August 2020

Statement of Comprehensive Income

For the year ended 30 June 2020

	Note	2020 $000	2019 $000
Premium revenue	5(a)	65,931	79,281
Outwards reinsurance expense		(17,890)	(21,362)
		48,041	57,919
Claims (expense)	20	(26,462)	(38,074)
Reinsurance and other recoveries	20	8,983	10,630
Net claims (expense) / benefit	20	(17,479)	(27,444)
Other underwriting expenses	5(b)	(12,235)	(13,192)
Underwriting surplus		**18,327**	**17,283**
Investment revenue	5(c)	3,578	12,178
Management fees received	5(d)	319,154	264,787
Other revenue	5(e)	24,961	20,019
General and administration expenses		(8,766)	(11,225)
Member benefit expense		(10,015)	(15,870)
Management fees paid	5(f)	(321,151)	(266,760)
Profit before related income tax expense		**26,088**	**20,412**
Income tax (benefit) / expense attributable to operating profit	6(a)	9,850	4,486
Profit for the year		**16,238**	**15,926**
Other comprehensive income		-	-
Total comprehensive income for the year		**16,238**	**15,926**
Profit attributable to:			
Equity holders of the parent		13,446	12,274
Non-controlling interest		2,792	3,652
Profit for the year		**16,238**	**15,926**
Total comprehensive income attributable to:			
Equity holders of the parent		13,446	12,274
Non-controlling interest		2,792	3,652
Total comprehensive income for the year		**16,238**	**15,926**

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

Mutual since 1910

Statement of Financial Position

As at 30 June 2020

	Note	2020 $000	2019 $000
Current assets			
Cash and cash equivalents	25	56,638	19,231
Trade and other receivables	7	101,751	119,686
Reinsurance and other recoverables receivable	8	8.829	9.549
Financial assets at fair value	12	52,978	41,890
Deferred reinsurance expense	9	13,261	15,799
Other assets	11	79,064	51,180
Total current assets		**311,021**	**257,335**
Non-current assets			
Trade and other receivables	7	8,010	7,592
Reinsurance and other recoverables receivable	8	25,867	24,543
Deferred tax assets	6(c)	3,292	2,637
Financial assets at fair value	12	135,984	124,033
Other assets	11	4,118	5,794
Total non-current assets		**177,270**	**164,599**
TOTAL ASSETS		**488,291**	**421,934**
Current liabilities			
Trade and other payables	14	95,163	64,962
Unearned premium liability	15	44,697	52,726
Outstanding claims liability	16(a)	24,861	30,108
Current tax liabilities	6(b)	7,585	5,210
Provisions	17	2,707	4,538
Contract Liability / Unearned income	18	41,982	10,145
Total current liabilities		**216,994**	**167,689**
Non-current liabilities			
Outstanding claims liability	16(a)	107,723	104,170
Total non-current liabilities		**107,723**	**104,170**
TOTAL LIABILITIES		**324,717**	**271,859**
NET ASSETS		**163,574**	**150,075**
Equity			
Reserves	19	25,307	25,307
Retained earnings		120,199	106,753
Total equity attributable to equity holders of the Company		**145,506**	**132,060**
Non-controlling interest		18,068	18,015
Total Equity		**163,574**	**150,075**

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

Statement of Changes in Equity

For the year ended 30 June 2020

	Note	General Reserves $000	Retained Earnings $000	Non-controlling interest $000	Total $000
Balance at 1 July 2018		**25,307**	**94,479**	**17,354**	**137,140**
Total comprehensive income for the year					
Profit for the year		-	12,274	3,652	15,926
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		**-**	**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**	**106,753**	**18,015**	**150,075**
Balance at 1 July 2019		**25,307**	**106,753**	**18,015**	**150,075**
Total comprehensive income for the year					
Profit for the year		-	13,446	2,792	16,238
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		**-**	**13,446**	**2,792**	**16,238**
Transactions with owners in their capacity as owners:					
Change in ownership interests		**-**	-	-	-
Dividend paid	30	**-**	**-**	**(2,739)**	**(2,739)**
Total transactions with owners		**-**	**-**	**(2,739)**	**(2,739)**
Balance at 30 June 2020		**25,307**	**120,199**	**18,068**	**163,574**

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

EML Mutual since 1910

Statement of Cash Flows

For the year ended 30 June 2020

	Note	2020 $000	2019 $000
Cash flows from operating activities			
Premium revenue received		66,548	74,943
Reinsurance and other recoveries received		15,821	14,526
Reinsurance paid		(22,437)	(22,711)
Management fees received		365,336	248,720
Dividends received		942	1,787
Interest received		4,473	5,048
Trust distributions received		6	213
Other revenue received		23,200	24,749
Claims paid		(28,705)	(25,192)
Acquisition costs paid		(820)	(852)
Member benefits paid		(11,847)	(12,650)
General expenses and management fees paid		(355,594)	(272,106)
Income taxes paid		(8,125)	(5,263)
Net cash provided by/ (used in) operating activities	25 (b)	**48,799**	**31,212**
Cash flows from investing activities			
Proceeds from disposal of investments		386,118	323,911
Payments for investments		(404,019)	(348,245)
(Payments for)/proceeds from acquisition of Debtors from the Partnership		9,109	(7,565)
Acquisition of a subsidiary, net of cash acquired		-	-
Loans repaid		-	10,000
Loan repayments received		138	868
Net cash (used in) / provided by investing activities		**(8,653)**	**(21,031)**
Cash flows from financing activities			
Dividends paid to non-controlling interest		(2,739)	(2,991)
Net cash provided by financing activities		**(2,739)**	**(2,991)**
Net (decrease)/ increase in cash and cash equivalents		**37,407**	**7,190**
Cash and cash equivalents at the start of the financial year		**19,231**	**12,041**
Cash and cash equivalents at the end of the financial year	25 (a)	**56,638**	**19,231**

The Statement 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 2020

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 2020 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 28 August 2020.

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 Group 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 January 2023. 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 by the Group.

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 Group'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.

This report is prepared on an accruals basis and is based on historic costs and does not take into account changing money values or, except where specifically stated, current valuations of non-current assets. This includes all investments in the Group, which are deemed to back insurance liabilities and are stated at their fair value.

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.

The Company is of a type 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. The Company exercised this option in previous years, however the Directors resolved not to utilise the Class Order 10/654 as at 28 August 2020 based on management's recommendation following a re-assessment of the criteria and, specifically, consideration of the needs of the users of the financial statements. Parent entity financial information has been included in the financial statements for the year ended 30 June 2020 in Note 29.

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). Exchanges of goods or services of the same nature and value without any cash consideration are not recognised as revenues.

(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 expected credit loss based on objective evidence and having regard to past default experience. Premium receivable is presented on the balance sheet net of any provision for expected credit loss.

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. Entities in the Group recognise revenue when they transfer control over a service to the customer.

The Group 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 Group performs;

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

(c) The Group's performance does not create an asset with an alternative use and the Group 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 right to consideration is conditional on something other than the passage of time. A contract asset is subject to impairment in accordance with Note 1(h).

Contract Liability

A contract liability is stated at cost and represents the obligation of the Group 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 ASWIG Management Pty Ltd as Trustee for ASWIG Management Trust. The Partnership income is recognised as it accrues.

(c) Workers compensation statutory funds

The Group 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 Group 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 Group 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 at an individual company level. 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

Recognition and initial measurement

A financial asset is recognised in the statement of financial position when, and only when, the Group 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.

Financial liabilities are recognised initially on the date at which the Group becomes a party to the contractual provisions of the instrument. The Group 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 Group 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.

Subsequent Measurement

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 Group 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.

Derecognition

The Group 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 Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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

Significant Accounting Policies (continued)

(h) Financial instruments (continued)

Derecognition (continued)

The Group generally derecognises a financial liability or part of it when, and only when, its contractual obligations are discharged or cancelled, or expires. The Group 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.

Impairment of financial assets

The Group recognises allowance for impairment for expected credit loss (“ECL”) on financial assets and contract assets measured at amortised cost. The Group 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 Group 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.

i) Investments

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

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

The accounting policies applying to assets held to back general insurance activities are that the Group values financial assets and any assets backing insurance activities at fair value through profit and loss, with any resultant unrealised profits and losses recognised in the statement of comprehensive income.

The valuation methodology of the assets valued at fair value is summarised below:

- cash assets and bank overdrafts are carried at face value of the amounts deposited or drawn,
- 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.

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

Significant Accounting Policies (continued)

(j) 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.

(k) 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 parent entity disclosures at Note 29, less any impairment losses.

(ii) Transactions eliminated on consolidation

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

(l) 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.

(m) 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.

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

Significant Accounting Policies (continued)

(n) Provision for member benefits

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

(o) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are presented in the Statement of Cash Flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

The effect of GST on the ultimate settlement of claims has been included in the reported claims provision

(p) 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.

(q) Managed funds

As explained in Note 1(c), the Group 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 Group.

(r) Joint arrangements

A joint venture is an arrangement in which the Company has joint control, whereby the Company 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 Company’s share of the profit or loss and other comprehensive income of equity accounted investees, until the date on which significant influence or joint control ceases.

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

Significant Accounting Policies (continued)

(s) Contingent liabilities

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

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

(t) New standards and interpretations not yet adopted

(i) Australian Accounting Standards issued but not yet effective

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

Standard	Description	Operative Date	Note
AASB 17	Insurance Contracts	1 January 2023	A
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: First time adoption of these standards may have a financial impact, but the potential effects are currently being assessed.

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

AASB 17 Insurance contracts, which becomes mandatory for the company's 30 June 2024 financial statements, establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. The company expects that it will be able to apply the Premium Allocation approach when adopting AASB 17. All of the company's contracts are for one year. This therefore satisfies the coverage period requirement of AASB 17 which states that the coverage period of contracts should be one year or less. The Group is still in the process of assessing the impact of IFRS 17.

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

Significant Accounting Policies (continued)

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

(ii) Australian Accounting Standards issued and effective

Adoption of the new and amended accounting standards listed below has no material financial impact on the Group.

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

(v) New standards implemented

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 July 2019. All of the new standards do not apply to the Group for the year ended 30 June 2020.

Note 2 Accounting estimates and judgements

(a) Accounting estimates and judgments

In preparing these financial statements, the Directors rely on management whom have made judgements and estimates that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Management evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and performance outcomes based on current trends and economic data, obtained both externally and within the Group.

(b) Key sources of estimation uncertainty

The key areas of estimation uncertainty for the Group 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 and incentive 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 have been approved by the Board. This pool of committed funds 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 2 Accounting estimates and judgements (continued)

(b) Key sources of estimation uncertainty (continued)

(iv) Coronavirus (COVID-19) pandemic

The full impact of the COVID-19 pandemic on the Group in future periods remains uncertain. The actuarial valuation of insurance liabilities relating to Hospitality Employers Mutual LImited considered both direct impacts and indirect impacts:

Direct Impacts

- Employees who contract COVID-19 and can prove the link to work;
- Secondary psychological issues associated with employees who contract COVID-19 in the workplace;
- Primary psychological claims that are brought on by COVID-19 pressures;
- Reduction in policyholders' wage rolls as a result of the initial lockdown and ongoing social distancing measures imposed by the government.

Indirect Impacts

- Any change in claim numbers from changes to hours worked, work location (i.e. the shift to working from home) or propensity to claim;
- Changes to claim durations due to changes to return to work opportunities, changes in medical services availability and the claims management team working from home.

At this stage, based on the (albeit limited) post-COVID-19 claims experience, the following allowances have been made for indirect COVID-19 impacts:

- Adopting a lower frequency assumption for Accommodation;
- Reflecting a higher number of active claims at June 2020;
- Allowance for JobKeeper impacts;
- Additional risk margin allowance for COVID-19 specific uncertainty.

No allowance for direct COVID-19 claims has been made as no material impact has been observed as at 30 June 2020 and hence cannot be accurately estimated.

The estimated impact of allowances relating to the impact of COVID-19 on the net outstanding claims provision at 30 June 2020 is $1.6 million.

COVID-19 does not impact the run-off portfolio.

The impact on the Group's workers compensation management fee revenue is subject to the effect on claims frequencies, changes to claim durations due to changes to return to work opportunities, changes in medical services availability and the claims management team working from home.

Refer to Notes 16 and 32 for further commentary on the impact of COVID-19.

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 (EML) – 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 (HEM) - 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, Recoveries and Legal, Investigation and Other benefit types. The common law utilisation model uses projections of common law claim lodgements, finalisation and average settlement sizes.

(b) Actuarial assumptions

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

	2020			2019		
	Underwritten Workers Compensation	Workers Compensation Run-off	Combined	Underwritten Workers Compensation	Workers Compensation Run-off	Combined
Average term to settlement years*	6.51	9.21	6.20	6.27	9.88	6.17
Average claim sizes $	18,266	58,272	18,471	16,951	61,421	17,236
Expense rate	6.07%	5.40%	6.0%	8.17%	5.40%	7.95%
Discount rate	1.15%	1.14%	1.18%	1.60%	1.54%	1.59%

** 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 2020/2021, 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.

In relation to HEM, the future loss costs have been estimated based on assumed average claim sizes, claim frequencies and assumed payment development patterns. Separate projections are carried out for the weekly, medical, lump sum, common law, recoveries, legal, investigation and other benefit types. These assumptions have been based on analysis of the HEM's claims experience.

(d) Average term to settlement – underwritten workers compensation

A payment pattern has been selected based on the Group's historical experience. 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. HEM's claims handling expense rates were based on the schedule of expenses agreed between the HEM and Employers Mutual Management Pty Ltd, its outsourced service provider.

Note 3 Actuarial assumptions and method (continued)

(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 2020.

(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.

2020 Key actuarial assumptions	Changes	Impact on central estimate of outstanding claims liabilities $000
All classes EML		
Expense rate	+1% / -1%	67 / (67)
Normal inflation rate	+1% / -1%	837 / (837)
Discount rate	+1% / -1%	(872) / 872
Gross average claim size	+10% / -10%	674 / (674)
Number of future claims reported	+10% / -10%	667 / (667)
All classes HEM		
Expense rate	+1% / -1%	713 / (713)
Discount rate	+1% / -1%	(4,360) / 5,231
Average claim size	+10% / -10%	7,756 / (7,756)
Average term to settlement	+10% / -10%	(551) / 563

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
Gross average claim size	+10% / -10%	792 / (792)
Number of future claims reported	+10% / -10%	784 / (784)
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

Note 4 Risk management

(a) Risk appetite

The Board has adopted a Risk Appetite Statement (RAS) that articulates the level of risk the Group 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 EML Level 2 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

Note 4 Risk management (continued)

of growth and transition. The Group closely monitors the performance of its businesses to ensure they are meeting earnings targets.

(d) Insurance risk

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

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

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

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

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

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

(e) Reinsurance strategy

The Group adopts a conservative approach towards its reinsurance risk management. The Board has determined the level of risk which is appropriate for the Group having regard to its financial resources, premium volume and the usual concepts of prudence and regulatory constraint. It uses reinsurance products to mitigate capital and financial risk.

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

(f) Concentration of insurance risk

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

Note 4 Risk management (continued)

(g) Regulatory and compliance risks

The Group is subject to regulatory supervision by APRA. It is also subject to supervision by State workers compensation regulators: State Insurance Regulatory Authority (SIRA), Return to Work SA, 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 Group 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 Group’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 Group monitors the credit quality and financial conditions of its reinsurers on an ongoing basis and review its reinsurance arrangements periodically. The Group 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 Group considers their relative financial security. The security of the reinsurer is assessed based on public rating information and annual reports.

The Group’s credit risk exposure to insurance receivables arises from business with its policyholders. The Group 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 Group also has guidelines to evaluate intermediaries before their appointment as well as setting credit terms to these appointees. The Group 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. Regulated entities in the Group establish business plans for their operations which articulate business strategy and incorporate three year budgets, with non-regulated entities having detailed annual budgets that feed into the three year business plans as appropriate. The Group aims to grow its business and is considering opportunities in both underwritten and non-underwritten business. Business cases are to be established and approved for any material business opportunity in accordance with the business appraisal requirements of the risk management framework. Business cases are required to demonstrate how they meet our strategic objectives and fit within our risk appetite including, but not limited to, target returns and capital adequacy levels.

(m) People and capability risks

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

(n) Governance risks

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

Note 5 Operating profit

	2020 $000	2019 $000
(a) Premium revenue		
Premium revenue – direct	60,695	72,211
Profit commission and other recoveries from reinsurance	5,236	7,070
	65,931	**79,281**
(b) Other underwriting expenses		
Acquisition costs	(684)	(749)
Management fees paid	(8,867)	(9,247)
Workers Compensation Operational Fund levy	(2,683)	(3,196)
Other fees	-	-
	(12,235)	**(13,192)**
(c) Investment revenue		
Dividends from external parties	413	483
Dividends from related parties	-	900
Interest revenue	4,507	5,094
Trust distributions	6	213
Profit on sale of investments	2,050	281
Sale of share in AS White Global	-	1,841
Unrealised investment gains/(losses)	(3,398)	3,366
	3,578	**12,178**
(d) Management fees revenue		
Statutory Agent service provider fee revenue	294,098	241,655
Other	25,056	23,132
	319,154	**264,787**
(e) Other revenue		
Share of profits of joint venture	23,878	18,670
Other income	1,083	1,349
	24,961	**20,019**
(f) Management fees paid		
Statutory Agent service provider fee expense	(294,098)	(241,655)
Other	(27,053)	(25,105)
	(321,151)	**(266,760)**

EML Mutual since 1910

Note 6 Taxation

	2020 $000	2019 $000
(a) Income tax expense		
Prima facie income tax expense calculated at 30% on operating profit	7,826	6,124
Increase/(decrease) in income tax expense due to:		
Imputation gross-up on dividends received	40	163
Franking credits on dividends received	(133)	(543)
Permanent differences	1	(1,136)
Income tax expense/(benefit) attributable to profit	7,734	4,608
Under provision for tax expense in previous years	2,116	(122)
Tax expense/(benefit) attributable to operating profit	**9,850**	**4,486**
Income Tax Expense is made up of:		
Current tax	8,328	5,546
Under provision in prior year	2,116	(122)
Deferred tax	(594)	(938)
	9,850	**4,486**
(b) Net Current tax assets/(liabilities)		
Current tax assets	-	-
Provision for income tax payable	(7,585)	(5,210)
Net Current tax assets/(liabilities)	**(7,585)**	**(5,210)**
(c) Net deferred tax assets/(liabilities)		
Deferred tax assets		
(i) Amounts recognised in profit		
Claims handling expenses	2,802	2,624
Member benefit provision	15	1,361
Prior years accumulated tax losses	(40)	(40)
Current year accumulated tax losses	384	444
Deferred tax on management fee expenses	5,752	7,118
Other	5,130	169
(ii) Amounts set off against deferred tax liabilities	(10,751)	(9,039)
	3,292	**2,637**
Deferred tax liabilities		
(i) Amounts recognised in profit		
Deferred tax on management fee revenue	(9,436)	(6,526)
Accrued investment income	(2)	(68)
Unrealised gain on investments	(1,261)	(2,350)
Other	(52)	(95)
(ii) Amounts set off against deferred tax assets	10,751	9,039
	-	-

Note 6 Taxation (continued)

	2020 $000	2019 $000
(d) Net deferred tax		
Reconciliation of Deferred Tax Asset		
Balance at 1 July	2,637	1,529
Prior year over / (under) provision	60	170
Utilisation of tax losses	-	-
Debited/(Credited) to Statement of Comprehensive Income	594	938
Balance at 30 June	**3,292**	**2,637**
Franking Account		
Class C 30% franking credits	72,017	63,495

- 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

	2020 $000	2019 $000
Current		
Trade debtors	13,302	3,519
Other Debtors	2,341	-
Quota share commission	8,349	10,478
Amount due from related entities	(2,837)	(696)
Unbilled Revenue	4,933	9,937
Contract Asset - Accrued income	30,127	44,011
GST receivable	714	291
Premium receivable	45,040	52,362
Provision for impairment	(218)	(216)
	101,751	**119,686**
Non-current		
Amount due from Partnership and other related entities	8,010	7,592
	8,010	**7,592**

Premium Receivables

Premium Receivables relate entirely to Hospitality Employers Mutual Limited (HEM). The State and Federal government imposed lockdown and social distancing measures in response to COVID-19 significantly impacted the hospitality sector and significantly reduced the underlying wages paid by policy holders, thus resulting in a reduction to their premiums. HEM has assumed that pubs and clubs will return to full capacity in June 2021 and accommodation will return to full capacity in December 2021. A gradual increase in capacity has been assumed from when these sectors reopened in May 2020. This assumption has been applied to the underlying wages on which the Premium is calculated and has therefore resulted in a reduction in the premium receivable balances.

Expected Credit Loss Provision

The Group assessed the expected credit losses for Premium Receivables in light of the impact of trading difficulties for policyholders caused by COVID-19. The Group has no significant concentrations of credit risk, with the Premium Receivables balance spread across a large number of different customers. The underwriting team completed a detailed review of Premium Receivables both at year end and also post year end and arrived at a specific provision of $128k. This is in excess of the calculated economic credit loss provision of $121k. Management increased the ECL amount to the higher amount.

Note 8 Reinsurance and other recoveries receivable

	2020 $000	2019 $000
Reinsurance and other recoveries – current	8,829	9,549
Reinsurance and other recoveries - non-current	25,867	24,543
Total reinsurance and other recoveries	**34,695**	**34,092**
Reinsurance and other recoveries on claims paid	2,136	2,008
Expected future reinsurance and other recoveries on outstanding claims liability	32,559	32,084
Total reinsurance and other recoveries receivable	**34,695**	**34,092**

Note 9 Deferred reinsurance expense

	2020 $000	2019 $000
Deferred reinsurance expense	13,261	15,799
Reconciliation of changes in deferred reinsurance expense:		
Balance at 1 July	15,799	13,925
Deferral of reinsurance premiums on current year contracts	13,261	15,799
Earning of reinsurance premiums previously deferred	(15,799)	(13,925)
Balance at 30 June	**13,261**	**15,799**

Note 10 Deferred acquisition costs

	2020 $000	2019 $000
Reconciliation of changes in deferred acquisition costs:		
Balance at 1 July	-	-
Acquisition costs incurred in year	684	749
Amortisation charged to income	(684)	(749)
Balance at 30 June	-	-

Note 11 Other assets

	2020 $000	2019 $000
Current		
Prepayments	50,912	18,029
Specialised Insurer Security Deposit	28,151	33,151
	79,064	**51,180**
Non-current		
Prepayments	4,118	5,794
	4,118	**5,794**

Note 12 Financial assets

	Note	2020 $000	2019 $000
Current			
Bank accepted bills of exchange		52,978	41,890
Government and other public securities		-	-
		52,978	**41,890**
Non-current			
Investment in controlled entity at cost	13	-	-
Other non-current financial assets			
Shares in listed companies and unit trusts		3,004	16,117
Floating rate notes		14,001	14,803
Government and other public securities		118,979	93,113
Total other financial assets		134,484	124,033
Total non-current financial assets		**135,984**	**124,033**
Total financial assets		**188,962**	**165,923**

In response to the volatility in the financial markets as a result of COVID-19 the Group disposed of a large proportion of its equity investments. The proceeds from the disposal of these investments have been reinvested in Bank bills, Floating rate notes and Government and other public securities. There have been no significant movements in the fair value of these investments post year end.

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

Note 13 Investment in controlled entities

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

	Reporting date	Principal place of business	Principal activity	Consolidated Ownership Interest 2020 %	Consolidated Ownership Interest 2019 %
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 Employers Mutual Limited.

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

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 Employers Mutual Limited's share.

Note 13 Investment in controlled entities (continued)

2020	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	208,554	47,979	38,832	-	-	-
Profit / (loss) after tax	1	9,306	-	(1)	-	-
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	2	9,306	-	(1)	-	-
Summarised balance sheet						
Total assets	116,360	264,400	11,421	508	-	-
Total liabilities	115,838	204,172	11,421	2	-	-
Net assets as at reporting date	**523**	**60,227**	**-**	**506**	**-**	**-**

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**	**-**	**-**

Note 14 Trade and other payables

	2020 $000	2019 $000
Trade creditors	52,954	2,383
Amount due to related entity	-	-
Levies payable	2,574	3,081
Reinsurance payable	16,094	21,139
Other creditors	23,541	38,359
Total trade and other payables	**95,163**	**64,962**

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

	2020 $000	2019 $000
Unearned premium liability – current	44,697	52,726
Reconciliation of changes in unearned premium liability		
Balance 1 July	52,726	46,320
Premiums written during the year	52,667	78,617
Premiums earned during the year	(60,695)	(72,211)
Balance at 30 June	**44,697**	**52,726**

The Actuarial assumptions used in the calculation of the premium liability have changed as a result of COVID-19. Refer to Note 16.

Note 16 Outstanding claims

		2020 $000	2019 $000
(a)	**Outstanding claims liability**		
	Outstanding claims liability – current	24,861	30,108
	Outstanding claims liability – non-current	107,723	104,170
	Total outstanding claims liability	**132,583**	**134,278**
	Central estimate	120,193	123,929
	Prudential margin	16,969	17,174
	Claims handling allowance	6,840	9,143
	Discount to present value	(11,419)	(15,968)
	Gross outstanding claims liability	**132,583**	**134,278**

COVID-19 has had an impact on the insurance liabilities for the Group. The primary effect has been on Hospitality Employers Mutual Limited (HEM), with no impact on Employers Mutual Limited's run-off portfolio. COVID-19 considerations and allowances have been applied across the following areas for HEM:

- Wage exposure – The NSW government mandated restrictions to various activities resulted in the closure of hotels and clubs as well as the restriction of non-essential travel which dramatically reduced the use of hotel accommodation. The lockdowns have started to ease since the start of June 2020 which has seen wage exposure increase but not to pre COVID-19 levels. HEM has assumed that hotels and clubs will return to full capacity in June 2021 and accommodation will return to full capacity in December 2021. A gradual increase in capacity has been assumed from when these sectors reopened in May 2020 and is reflected the outstanding claims valuation at 30 June 2020.
- Reported claims frequency – The number of claims reported during the COVID-19 affected period from March to June have decreased more than the degree that exposure is lower. However, HEM expects that there will be a higher than usual level of late reporting of claims, given the lockdowns in the June 2020 quarter and the flow of payments under the JobKeeper program.
- Jobkeeper Allowance -The Jobkeeper scheme came into effect on 30 March 2020 however the first payments were not made until the first week of May 2020. There were additional delays in employees receiving the JobKeeper payments and therefore Hospitality continued to make weekly payment to employees covered by JobKeeper. As a result, while HEM had expected to see a reduction in weekly payments in the June quarter, HEM has been unable to identify such a feature in the experience. Nevertheless, the Jobkeeper delays have worked their way through Hospitality's data post year end and therefore a reduction in claims payments in Q1 FY21 is expected. A reduction in payments has only been allowed for in the calculation of the liabilities up to the original end date of the scheme at 30 September 2020 whereas the scheme has been extended to 28 March 2021.
- COVID-19 Risk Margin – In the current environment, HEM's liability estimates face a greater degree of uncertainty. For the outstanding claims this uncertainty mainly relates to prospective return to work outcomes on existing claims while for the premium liability there is also additional uncertainty around future claims volumes. The outstanding claims liability risk margin has been increased by 1.1% and the premium liability risk margin has been increased by 1.3%.
- COVID-19 direct claims impact – HEM has assumed the costs related to COVID-19 direct claims will emerge over 24 months from March 2020 when infections first began to rise. HEM expects half of the cost to emerge on accidents occurring in the year from 30 June 2020. HEM therefore expects 50% of this cost to emerge over the next year which is the time period covered by the premium liability. HEM has allowed for an extra $0.7 million of uninflated undiscounted cost in the premium liability to account for direct COVID-19 claims, based on modelling of estimated workforce, infection rate and average claim size elements. Based on claims costs reported prior to 30 June 2020, the outstanding claims liability for direct COVID-19 claims is estimated to be nil.

Note 16 Outstanding claims (continued)

(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:

	2020 EML	2020 Hospitality Employers Mutual	2019 EML	2019 Hospitality Employers Mutual
For the succeeding and subsequent years:				
AWE inflation rate	2.25%	2.00%	3.00%	3.00%
CPI inflation rate	n/a	1.50%	n/a	2.25%
Superimposed inflation rate	1.70%	2.00%	1.72%	2.00%
Discount rate	1.14%	1.15%	1.54%	1.60%

(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 2020	Combined 2019
Employers Mutual	9.21	9.88
Hospitality Employers Mutual	6.51	6.30
Consolidated	6.20	6.17

(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 of each company after considering the uncertainty in the portfolio, industry trends and each company's risk appetite.

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

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

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

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

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

Refer Note 16(a) for the impact of COVID-19 on risk margin.

	2020	2019
Workers compensation: Hospitality Employers Mutual	16%	14%
Workers compensation Run-Off	44.6%	44.9%

Note 16 Outstanding claims (continued)

(e) Reconciliation of Changes in Discounted Net Outstanding Claims

Consolidated	2020 Gross $000	2020 Reinsurance $000	2020 Net $000	2019 Gross $000	2019 Reinsurance $000	2019 Net $000
Balance at 1 July	134,277	32,084	102,193	121,072	29,009	92,063
Current claims incurred	39,490	10,076	29,414	44,578	11,838	32,740
Change in previous years' claims	(13,028)	(1,162)	(11,866)	(6,504)	(1,205)	(5,299)
Current year claims paid/reinsurance recovered	(8,315)	(2,498)	(5,817)	(8,206)	(2,580)	(5,626)
Previous year claims paid/reinsurance recovered	(19,841)	(5,941)	(13,900)	(16,663)	(4,979)	(11,684)
Discounted outstanding claims	**132,583**	**32,559**	**100,025**	**134,277**	**32,083**	**102,194**

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 2011*	2011**	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Estimate of ultimate claims cost												
At the end of accident year	40,506	8,825	9,373	19,251	19,150	19,090	22,283	21,441	24,112	24,694	19,172	
One year later	44,595	11,977	13,054	20,259	22,914	23,868	24,758	21,825	27,233	31,791		
Two years later	42,053	11,621	13,398	19,306	21,011	22,282	22,269	19,644	26,255			
Three years later	41,331	10,930	10,484	17,281	19,807	19,697	20,128	17,717				
Four years later	40,001	11,613	9,782	16,570	17,270	17,127	20,048					
Five years later	38,651	12,751	8,414	15,668	16,715	16,549						
Six years later	38,153	10,881	8,113	15,928	14,749							
Seven years later	36,012	11,031	7,687	14,847								
Eight years later	35,908	10,460	7,251									
Nine years later	33,269	9,782										
Ten years later	31,061											
Current estimate of ultimate claims cost	38,264	9,782	7,251	14,847	14,749	16,549	20,048	17,717	26,255	31,791	19,172	216,424
Cumulative payments	30,082	9,264	6,307	12,424	11,772	12,505	12,917	9,117	11,548	11,143	4,472	131,552
Outstanding claims – undiscounted	8,182	517	943	2,423	2,977	4,044	7,130	8,600	14,707	20,648	14,700	84,872
Discount	831	57	95	214	231	318	623	697	1,155	1,601	1,033	6,854
Outstanding claims	7,352	460	848	2,210	2,746	3,726	6,507	7,903	13,553	19,047	13,667	78,018
Claims handling expense	403	-	-	-	-	-	41	359	995	2,142	2,694	6,633
Risk margin	3,279	79	145	378	470	638	1,114	1,352	2,319	3,260	2,339	15,373
Total net outstanding claims liabilities	11,034	539	993	2,588	3,216	4,364	7,662	9,614	16,867	24,449	18,700	100,025
Reinsurance and other recoveries on outstanding claims liabilities	1,073	202	372	959	1,192	1,782	3,436	3,434	5,888	8,280	5,941	32,559
Total Gross Outstanding Claims	**12,107**	**741**	**1,365**	**3,547**	**4,408**	**6,146**	**11,097**	**13,048**	**22,755**	**32,729**	**24,641**	**132,583**

* *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*

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 $3.4m (2019: $6.5m).

For the purposes of the LAT, the present value of expected future cash flows for future claims (including the risk margin) of $28.1m (2019: $30.4m) comprises the discounted central estimate (including allowances for claims handling and policy administration expenses) of $24.3m (2019: $26.2m), and a risk margin of $3.8m (2019: $4.3m).

The risk margin used as a percentage of the central estimate is 16% (2019: 16%). The probability of sufficiency represented by the LAT is 75%. (2019: 75%).

Note 17 Provisions

	2020 $000	2019 $000
Current		
Member benefits	2,707	4,538
	2,707	**4,538**
Balance at 1 July	4,539	1,319
Amount incurred	10,015	15,869
Amount utilised	(11,847)	(12,650)
Balance at 30 June	**2,707**	**4,538**

Note 18 Contract Liability - Unearned income

	2020 $000	2019 $000
Contract Lability - Unearned income – current	**41,982**	**10,145**

The amount recognised as Contract Liability in 2019 was fully recognized in the Statement of Comprehensive Income in 2020. Further to this, no reversals of the said amounts were made.

Note 19 Reserves

	2020 $000	2019 $000
General reserve (accumulated funds)	**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

Consolidated	2020 Current Year $000	2020 Prior Years $000	2020 Total $000	2019 Total $000
Gross claims and related expenses – undiscounted	41,711	(19,727)	21,984	25,093
Less: discount	(2,221)	6,699	4,478	12,981
Gross claims and related expenses – discounted	39,490	(13,028)	26,462	38,074
Reinsurance and other recoveries – undiscounted	10,655	(2,701)	7,955	7,471
Less: discount	(579)	1,608	1,029	3,159
Reinsurance and other recoveries - discounted	10,076	(1,093)	8,983	10,630
Net Claims expense	**29,414**	**(11,935)**	**17,479**	**27,444**

There has been an actuarial release in the Employers Mutual Limited runoff portfolio attributable to better than expected claims experience as there have been lower than expected cost of dust disease claims and lower average claims sizes than expected, coupled with a reduction in wage inflation. The consolidated net claims incurred for the year is primarily driven by Hospitality Employers Mutual Limited, also having an actuarial release which arose from modelling and assumption changes made by the Appointed Actuary based on internal and external factors. COVID-19 has also played a part in reducing net claims expense through a reduction in claims frequency.

Note 21 Remuneration of auditor

	2020 $	2019 $
Audit and review services		
Statutory and Regulatory Audits and Reviews	215,892	166,566
Total audit and review services	**215,892**	**166,566**
Other services		
Non-audit	153,763	48,000
Total other services	**153,763**	**48,000**
Total Auditor Remuneration	**240,411**	**214,566**

Note 22 Key management personnel disclosure

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

Directors

- William J. A. O'Reilly
- Catherine A. King
- Paul R. Baker
- Patrick Gurr
- Flavia Gobbo (Resigned 20 December 2019)
- Matthew Wilson (Appointed 20 December 2019)

Executives

- Anthony Fleetwood* (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:

	2020	2019
	$	$
Short-term employee benefits	822,113	494,877

This compensation represents directors fees only. 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.

Note 23 Related party disclosures (continued)

Related Party Transactions

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

	2020 $000	2019 $000
Paid by EML		
Employers Mutual Limited & the Trustee for ASWIG Management Trust Partnership	28,333	26,574
White Funds Management Pty Ltd*	224	140
EMLife Pty Ltd	-	1,069
Paid by Hospitality Employers Mutual Limited		
Employers Mutual Management Pty Ltd	10,991	14,311
Employers Mutual Limited & the Trustee for ASWIG Management Trust Partnership	364	349
White Funds Management Pty Ltd*	562	416
Australian Hotels Association (NSW)	1,019	1,019
The Registered Clubs Association of NSW	732	887
EM Safe Pty Ltd	137	109

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

	2020 $000	2019 $000
Receivable/(Payable) by EML		
Employers Mutual Limited & the Trustee for ASWIG Management Trust Partnership	571	521
Employers Mutual Management Pty Ltd	55	289
White Funds Management Pty Ltd*	19	33
EMLife Pty Ltd	-	-
Receivable/(Payable) by Hospitality Employers Mutual Limited		
Employers Mutual Management Pty Ltd	2,315	(504)
White Funds Management Pty Ltd*	(36)	(72)
Australian Hotels Association (NSW) Holdings Pty Ltd	(33)	(73)
The Registered Clubs Association of NSW	(22)	(72)
Employers Mutual Limited & the Trustee for ASWIG Management Trust Partnership	(60)	(61)
EM Safe Pty Ltd	(38)	(26)

* 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 2020 totalled $8.4m (2019: $8.9m).

The total value of all bank guarantees on issue as at 30 June 2020 was $18.9m (2019: $18.5m).

Note 24 Equity accounted investees

(a) Joint venture

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

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

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

Summary Financial Information of Joint Venture Entity

	2020 $000	2019 $000
Revenue	331,470	284,969
Profit from continuing operations	46,721	37,523
Total comprehensive income	46,721	37,553
Current assets	100,181	59,414
Non-current assets	2,899	3,221
Current liabilities	(100,181)	(59,414)
Non-current liabilities	(2,899)	(3,221)
Net assets	-	-

Note 24 Equity accounted investees (continued)

Movement in carrying amount in investment in joint venture entities

	2020 $000	2019 $000
Group's interest in net assets of investee at the beginning of the year	-	-
Share of total comprehensive income	23,360	18,777
Partnership distribution	(23,360)	(18,777)
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 two unlisted companies. Riverwise Pty Ltd, which exceeds 20% and EMLife Pty Limited, which has 75% of the investee's equity.

Management have assessed both direct and indirect unit holdings in Riverwise Pty Ltd and deem that it has neither control nor significant influence over this entity. While the combined unit holdings of the Partnership and EML exceed 20% in Riverwise Pty Ltd, individual unit holdings are significantly below this threshold. Employers Mutual Limited does not exercise control over the Partnership and has no voting control over its equity interest unit holding. It is considered appropriate and accurate to assess the valuation of the units as two distinct holdings.

The combined holdings of the Partnership and EML is 75% in EMLife Pty Ltd which represents a controlling interest and significant influence.

Equity investments are valued at fair value according to AASB 13 *Fair Value Measurement*. Refer to Note 26(d)(ii)

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:

	2020 $000	2019 $000
Cash and cash equivalents	56,638	19,231

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

	2020 $000	2019 $000
Total comprehensive income for the year	16,238	15,926
Add/(less):		
Profit/(loss) on sale of investments	(2,051)	(2,122)
Increase / (decrease) in market value of investments	3,398	(3,366)
Net cash provided by operating activities before change in assets and liabilities	**17,585**	**10,438**
Changes in assets and liabilities:		
Decrease / (increase) in debtors and accrued income	24,353	(45,213)
Decrease / (increase) in prepayments	(31,199)	18,827
Decrease / (increase) in reinsurance & other recoveries	(603)	(3,813)
Decrease / (increase) in deferred reinsurance expense	2,538	(1,874)
Increase in income tax payable	1,690	326
Decrease in deferred tax balances	31	(1,108)
Increase in payables	14,123	51,248
Increase in provision for member benefit	(1,832)	3,220
Increase / (decrease) / increase in other liabilities	31,836	(20,450)
Increase / (decrease) in provision for claims	(1,694)	13,205
(Decrease) / increase in unearned premium	(8,028)	6,406
	31,214	**20,774**
Net cash provided by operating activities	**48,799**	**31,212**

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 2020: 7% (2019: 17%) of the Group's financial assets and cash were held in listed equity and debt securities. The potential impact of movements in the market value of securities on the Group's Statement of Comprehensive Income and Statement of Financial Position is shown in Note 26 (a) (iii).

(ii) Cash flow and fair value interest rate risk

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

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

Note 26 Financial instruments (continued)

(a) Market risk (continued)

(iii) Summarised sensitivity analysis

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

	Carrying amount $000	Interest rate risk		Other price risk	
		-1%	+1%	-10%	+10%
	AUD	Profit $000	Profit $000	Profit $000	Profit $000
2020					
Cash and Cash Equivalents	56,638	1	(1)	-	-
Bank Accepted Bills of Exchange	52,978	64	(64)	(6)	6
Government and Other Public Securities	118,979	6,189	(6,189)	(619)	619
Shares in Listed Securities and Unit Trusts	3,004	-	-	(300)	300
Floating Rate Notes	14,001	11	(11)	-	-
	244,100	**6,265**	**(6,265)**	**(925)**	**925**
2019					
Cash and Cash Equivalents	19,231	2	(2)	-	-
Bank Accepted Bills of Exchange	41,890	33	(33)	(3)	3
Government and Other Public Securities	93,113	5,682	(5,682)	(568)	568
Shares in Listed Securities and Unit Trusts	16,117	-	-	(1,612)	1,612
Floating Rate Notes	14,804	9	(9)	-	-
	185,155	**5,726**	**(5,726)**	**(2,183)**	**2,183**

(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.

Note 26 Financial instruments (continued)

(b) Credit risk exposures (continued)

	Trade and other receivables $'000	Reinsurance and other recoverable receivable $'000
2020 Consolidation		
Neither past due nor impaired	123,455	34,092
Past due 0-30 days	1,423	-
Past due 31-120 days	2,045	-
More than 120 days	355	-

	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	-

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

	2020 $000	2019 $000
Balance at 1 July	216	48
Impairment loss/(write back) recognised	158	270
Amounts written off	(156)	(102)
Balance at 30 June	218	216

Note 26 Financial instruments (continued)

(b) Credit risk exposures (continued)

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

	AAA $000	AA $000	A $000	BBB $000	Not rated $000	Total $000
2020						
Cash and Cash Equivalents	-	54,075	2,563	-	-	56,638
Financial Assets – Interest Bearing	144,515	11,477	17,973	10,493	-	184,458
Trade and Other Receivables	-	-	-	-	126,678	126,678
Reinsurance and Other Recoveries Receivable	-	32,860	1,390	-	445	34,695
Other Assets	28,151	-	-	-	55,322	83,473
	172,667	**98,412**	**21,926**	**10,493**	**182,445**	**485,943**
2019						
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
Other Assets	33,151	-	-	-	23,821	56,972
	137,207	**59,268**	**20,311**	**18,942**	**151,651**	**387,380**

(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.

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
2020					
Trade and Other Payables	95,163	-	-	-	95,163
Outstanding Claims Liability	24,86	18,674	38,225	50,824	132,583
	120,024	**18,674**	**38,225**	**50,824**	**227,746**
2019					
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**

(d) Net fair values

The Groups'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.

(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:

Note 26 Financial instruments (continued)

(d) Net fair values (continued)

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
2020				
Bank Accepted Bills of Exchange	-	52,978	-	52,978
Government and Other Public Securities	117,479	-	-	117,479
Shares in Listed Securities and Unit Trusts	3,004	-	-	3,004
Floating Rate Notes	14,001	-	-	14,001
	134,484	**52,978**	**-**	**187,462**

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
2019				
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
Floating Rate Notes	14,804	-	-	14,804
	124,034	**41,890**	**-**	**165,924**

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

	2020 $000	2019 $000
Balance at 1 July	-	1,189
Shares acquired	-	-
Transfers in to level 3	-	-
Total gains and losses recognised in:		
- profit and loss	-	(1,189)
- other comprehensive income	-	-
Balance at 30 June	**-**	**-**

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

(ii) Valuation of Riverwise Pty Limited

Riverwise is an investment of unlisted shares that was impaired to $Nil in 2019. The investment in Riverwise is an area of accounting judgement as the shares are unlisted.

The impairment was based on a value in use impairment review performed by management that assessed future cashflows and forecast for the 4 years from FY17 – FY20 that showed an overall trading loss of $1.2m. The position has not been revisited in the current year due to the pervasive economic uncertainty caused by COVID-19.

Note 27 Other information

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

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Note 28 Capital Management

(a) Capital management strategy

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

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

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

(i) Regulatory capital

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

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

Note 28 Capital Management (continued)

(a) Capital management strategy (continued)

(ii) Economic capital

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

(b) Capital composition

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

(c) Regulatory capital compliance

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

- The risk that the provision for outstanding claims is not sufficient to meet the obligations to the policyholders arising from losses incurred up to the reporting date (outstanding claims insurance risk);
- The risk that the unearned premium amount is insufficient to meet the obligations to policyholders arising from losses incurred after the reporting date on existing policies (premium liabilities insurance risk);
- The risk of a catastrophe giving rise to major claims losses up to the retention amount under existing reinsurance arrangements (insurance concentration risk)
- The risk that the value of assets is diminished (asset risk)
- The risk of concentrations in exposures to a particular asset, counterparty or group of related counterparties resulting in adverse movements in the capital base (asset concentration risk)
- Asset concentration risk charge definition here
- The risk of loss resulting from failed internal processes, people and systems or from external events (operational risk); and
- The allowance for diversification between asset and insurance risks (aggregation benefit)

Note 28 Capital Management (continued)

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 – 2020	2020 Company $000	2020 Consolidated $000
Common Equity Tier 1 (CET1) capital		
General reserves	25,307	25,307
Retained earnings	100,287	120,199
Excess technical provisions	-	4,139
Non-controlling interest	-	7,943
Common equity Tier 1 capital deductions		
Regulatory capital requirement of investment in subsidiaries	(17,858)	-
Net deferred tax asset	(1,584)	(3,292)
Other common equity Tier 1 capital adjustments	-	-
Total regulatory capital	106,152	154,296
Outstanding claims insurance risk charge	1,436	13,725
Premium liabilities insurance risk charge	-	5,778
Insurance concentration risk charge	2,000	1,000
Diversified asset risk charge	5,947	16,432
Operational risk charge	213	3,574
Aggregation benefit	(1,943)	(8,210)
Prescribed capital amount (PCA)	7,653	32,299
Surplus	98,499	121,997
PCA Multiple	13.87	4.77

Note 28 Capital Management (continued)

(c) Regulatory capital compliance (continued)

Regulatory capital requirements – 2019	2019 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

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

Note 29 Parent entity financial information

	2020 $000	2019 $000
Income statement information for the financial year		
Profit after tax for the year	13,031	10,901
Total comprehensive income	13,031	10,901
Balance sheet information as at the end of the financial year		
Current assets	86,609	92,080
Non-current assets	65,469	63,970
Current liabilities	16,086	31,481
Non-current liabilities	10,398	12,006
Equity		
Reserves	25,307	25,307

	2020 $000	2019 $000
Retained earnings	100,287	87,256
Total Equity	**125,594**	**112,563**

Note 30 Dividends Paid

Declared and Paid during 2020

Share Class	Dividend	Franking	Amount per share $	Shares Issued	Dividend Paid	Payment Date
Ordinary A	Final	Fully Franked	0.2357	12,000,000	2,827,900	24/09/2019
Ordinary B	Final	Fully Franked	0.2208	12,000,000	2,649,400	24/09/2019
				Total Ordinary	**5,477,300***	
Subordinated Debt	Final	Fully Franked	-	-	3,651,533	24/09/2019
				Total Paid	**9,128,833**	

*50% Dividend Paid to EML $2,738,650

Declared and Paid during 2019

Share Class	Dividend	Franking	Amount per share $	Shares Issued	Dividend Paid	Payment Date
Ordinary A	Final	Fully Franked	0.3011	12,000,000	3,613,400	28/09/2018
Ordinary B	Final	Fully Franked	0.1974	12,000,000	2,368,800	28/09/2018
				Total Ordinary	**5,982,200**	
Subordinated Debt	Final	Fully Franked	-	-	3,988,133	28/09/2018
				Total Paid	**9,970,333**	

Note 31 Subsequent events

The ongoing development of COVID-19 and the associated economic impacts remain uncertain. The Directors, on the date of approving these financial statements, are of the view that there are a range of possible impacts from COVID-19 and note that the situation is continuing to evolve. Modelling undertaken by the Appointed Actuary indicates that the Group's capital position remains within the Target Operating Range under a range of scenarios, however the Group continues to closely monitor developments with a focus on the potential impact on premiums, claims and investments. Further information is contained in Note 28 as to the potential impacts on the Group. Other than the above, no matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect:

- The Group's operations in future financial years;
- The results of those operations in future financial years; and
- The Group's state of affairs in future financial years.

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 2020.

Note 32 Coronavirus (COVID-19) pandemic

There continues to have been significant global and domestic developments in light of novel coronavirus and associated infectious disease known as COVID-19. The spread of this virus across the globe has been rapid, and Australia has responded with a range of measures which, whilst successful in limiting the spread of infection, have caused significant social and commercial disruption with impact on business and economic activity. The full impact of the COVID -19 pandemic on the Group remains very unclear. The impact of COVID-19 has been evidenced in the following financial statement line items in the current year:

- Premium Income – Premium income has reduced due to the reduction in policyholders' wage rolls as a result of the initial lockdown and ongoing social distancing measures imposed by the NSW State government.
- Investment Income - Investment income has also fallen considerably due to the impact on investment markets and a decision to reduce the company's equity exposure and other higher yielding (and therefore higher risk) investments due to the volatile investment conditions
- Insurance Liabilities – The actuarial assumptions used in the calculation of the insurance liabilities have considered the impact of COVID-19. No allowance for direct COVID-19 claims has been made as no material impact has been observed as at 30 June 2020 and cannot be estimated reliably. The estimated impact of allowances for the Group relating to the impact of COVID-19 on the net outstanding claims provision at 30 June 2020 is $1.6m. Refer to Note 16(a) for further information on this.

Management has continued to preserve liquidity in the short term by introducing an expense management policy that is focused on reducing non critical discretionary spending in areas such as travel and entertainment whilst the pandemic is ongoing. Management will continue to monitor the situation and adjust the expense management policy as required in order to respond to the uncertain and fluid nature of the pandemic.

Directors' Declaration

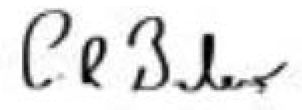
1. In the opinion of the Directors of Employers Mutual Limited (EML) ('the Company'):
   a. the consolidated financial statements and notes set out on pages 11 to 66, are in accordance with the Corporations Act 2001, including:
      i. giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and
      ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and
   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 28 August 2020

William J. A. O'Reilly

Chair



Paul R. Baker

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 2020 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 2020;
- 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; and
- Directors' Declaration.

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

Basis for opinion

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

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

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

Other Information

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

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not 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

KPMG

Leann Yuen

Leann Yuen
Partner

Sydney
28 August 2020

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