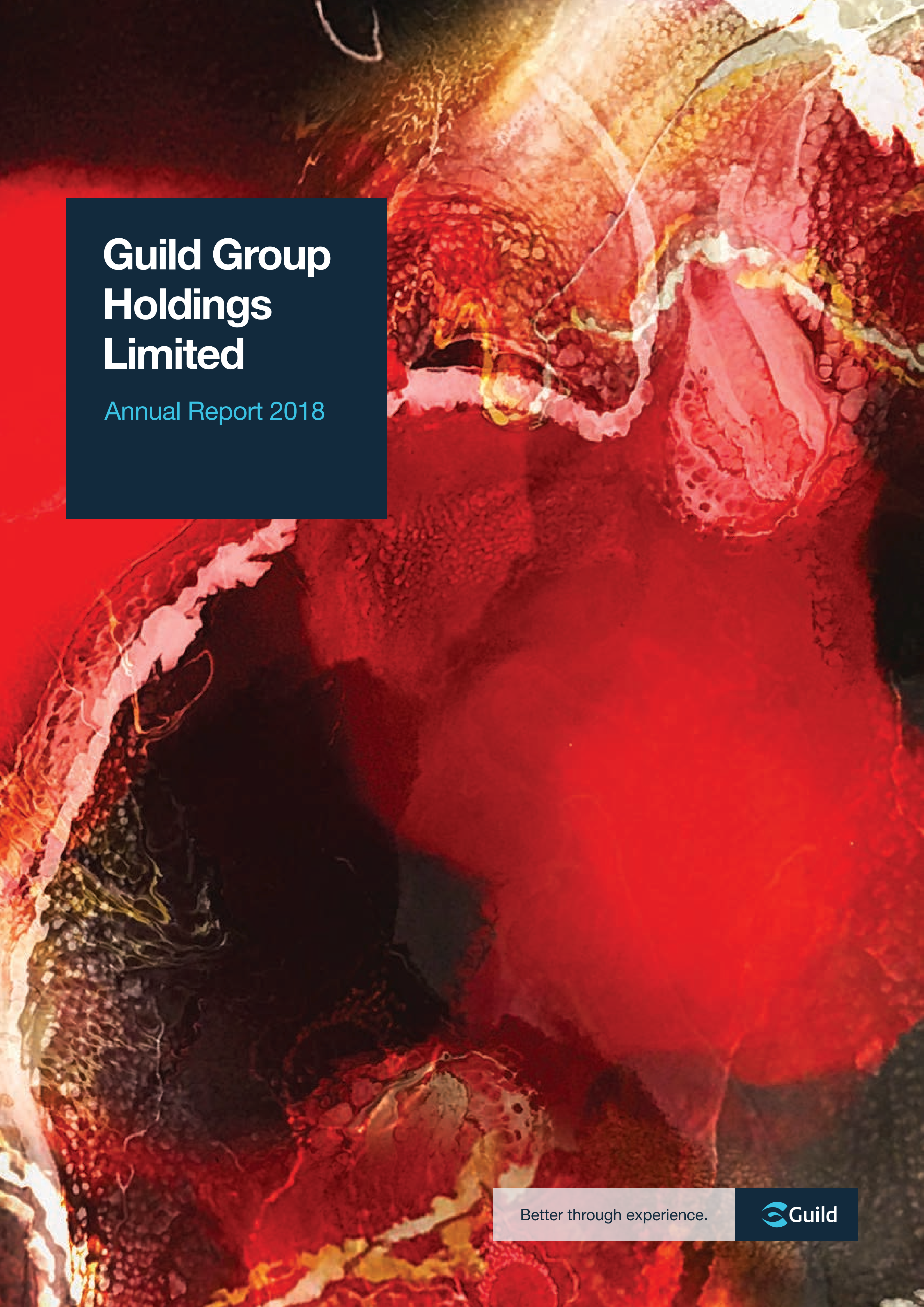
Guild Group Holdings Limited

Annual Report 2018



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Guild

Contents

Report of Directors

1. DIRECTORS

Your Directors present their report on the consolidated Group consisting of Guild Group Holdings Limited and the entities it controlled for the year ended 30 June 2018.

The names and details of the company's directors in office during the financial year and up to the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

The following directors left the Guild Group during the financial year:

> Timothy Logan (7 March 2018); and

> Ian Todd (7 March 2018)

Company Secretary of Guild Group Holdings Limited is Laura Dhana.

George Venardos

B.Com, FCA, FGIA, FAICD (Non-Executive Director & Chairman)

George is a non-executive director with broad listed company experience across a range of different industries. He has more than 30 years experience in the Insurance and Financial Services sector and was formerly Group Chief Financial Officer of Insurance Australia Group Limited, Chief Financial Officer, Legal and General Australia Limited and Chairman of the Insurance Council of Australia Finance and Accounting Committee.

George is a Non-Executive Director of IOOF Holdings Ltd (IFL.ASX). Former Director of BluGlass Ltd (BLG.ASX) and Ardent Leisure Ltd (AAD.ASX).

Andrew Bloore

(Non-Executive Director)

Andrew has been described as a serial entrepreneur. Being involved in the establishment, design, funding, commercialisation and ultimate sale (both trade sale and IPO) of a number of businesses in a diverse range of industries. Andrew has stood as a CEO for over 20 years.

Andrew has sat on a wide range of ATO and Treasury committees, including Simple Super Legislation committee, Regulations review for ATO and a range of Senate select committees.

Andrew holds board and advisory positions in Sydney Institute of Marine Science, The Certainty Principle, NoahFace, Landcare NSW – Commercialisation Committee and Lead Mentor for Stone and Chalk. Andrew is the chairman of Guild Link Pty Ltd.

John Dowling

B.Pharm, CPA, FAICD, FACP (Non-Executive Director)

Pharmacist and Certified Practising Accountant. Fellow of the Australian Institute of Company Directors and the Australian College of Pharmacy. Owner of Coventry's Pharmacy, Latrobe, Tasmania. Tasmanian State President and a National Vice-President (Finance) of the Pharmacy Guild of Australia (PGA). Chair of the Guild's Governance and Corporate Services Committee and a member of the Pharmacy Viability Committee.

Linda Jenkinson

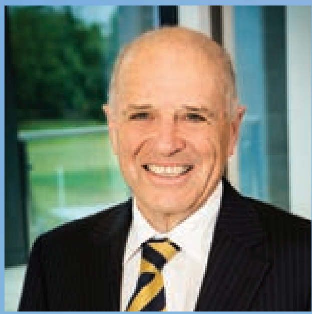
MBA, ACA,
B.B.S.
(Non-Executive Director)

Linda is a Global Entrepreneur who has founded numerous businesses, including John Paul, a global travel concierge provider to the world's largest brands. She is the founder of several start-ups, running companies as Chief Executive Officer and taking on public, private and non-profit director roles. Linda was the first New Zealand woman to take a company public on the NASDAQ and has received multiple awards for her entrepreneurial efforts in the United States and New Zealand. She received a Master Entrepreneur of the Year (NZ) by Ernst & Young and was the first woman to be awarded The Sir Geoffrey Peren Award for most Distinguished Alumni from Massey University, New Zealand. Linda is a Director of Air New Zealand (ASX) and Eclipx (ECX) and was a former Partner at A.T Kearney. Linda was appointed as a director on 1 September 2016.

Nick Panayiaris

BSc, BPharm,
MAICD
(Non-Executive Director)

Nick is a practising pharmacist with over 20 years' experience and is an owner of community pharmacies in South Australia. Nick is the current State SA President of the Pharmacy Guild and has been a National Councillor for 7 years. He is the current Chair of the Guild's Pharmacy Transformation Committee and a member of the Pharmacy Viability Committee which negotiated the 6th Community Pharmacy Agreement. Nick's other roles include – member of the Priceline Brand Advisory Committee and Steering Group Committee member of the Guilds CP2025 project. Nick was appointed as a director on 8 March 2018.



Stephen Somogyi

MSc (Melb), SM(MIT),
FIAA, FAICD, FFin
(Non-Executive Director)

Principal Advisor, Strategic Projects at Monash University and Executive Advisor to the Vice Chancellor at Victoria University. Extensive experience in the financial services and health care industries, including 27 years with National Mutual and as Executive Member of the Australian Prudential Regulation Authority for 3 years from 2003 to 2006. He served as Chief Operating Officer at RMIT University for 10 years from 2006 to 2016.

Steve holds a Master of Science in Physics from the University of Melbourne and a Master of Science in Management from the Massachusetts Institute of Technology. He is a Fellow of the Institute of Actuaries of Australia, the Australian Institute of Company Directors and the Financial Services Institute of Australia. Steve is a Commissioner on the Safety, Rehabilitation and Compensation Commission, a Chair of Higher Education Services, Director of UniSuper and the Financial Adviser Standards and Ethics Authority.

Trent Twomey

BPharm, BBus, FACP,
FAICD, FIML
(Non-Executive Director)

Trent is a pharmacist, and owns a small group of pharmacies in Northern Queensland. Trent has been involved with the Pharmacy Guild of Australia for over ten years and was part of the negotiating team for the Sixth Community Pharmacy Agreement. Trent is Chairman of Advance Cairns, the peak economic development and advocacy organisation for Tropical North Queensland and the Chairman of the Northern Australia Alliance. He is an Adjunct Associate Professor at James Cook University, a Council Member of the Queensland Futures Institute, and a trustee for the Committee for Economic Development of Australia. Trent is a Fellow of the Australian College of Pharmacy, the Australian Institute of Company Directors and the Australian Institute of Managers and Leaders. He is a past Chairman of the Northern Queensland Primary Health Network and past National President of the Australian College of Pharmacy. Trent was appointed as a director on 8 March 2018.

2. PRINCIPAL ACTIVITIES

The principal activities during the year within the consolidated Group were:

- general insurance underwriting;
- providing superannuation; and
- providing legal services.

3. CONSOLIDATED RESULTS

	2018 $'000
Profit for the year is attributable to:	
Owners of the parent	8,391
Non-controlling interest	634
Profit	**9,025**

4. DIVIDENDS

Dividends recommended and paid in the 2017/2018 financial year by Guild Group Holdings Limited:

	$'000
- on ordinary shares	$3,000

5. REVIEW OF OPERATIONS

During the 2017/2018 financial year, the Guild Group made significant progress in the execution of its business strategy. The Guild Group achieved solid growth across each of its three main business units. The continued strengthening of the balance sheet, combined with the level of investment made in the business over the past few years has placed Guild Group in a strong position to focus on its growth agenda.

6. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During the 2017/2018 financial year, Guild Group Holdings divested 0.33% of its equity holdings in Meridian Lawyers Limited to the Meridian Employee Share Plan.

7. SIGNIFICANT EVENTS AFTER BALANCE DATE

The Board declared a dividend of $3.5 million on 31 August 2018, payable to the Pharmacy Guild of Australia on 9 October 2018.

Guild Link Pty Ltd (Guild Link) was acquired by Guild Group Holdings Limited on the 1st July 2018. 100% of the equity (1,324,073 fully paid ordinary shares) was acquired for a consideration of $1. Guild Link provides software solutions to the Health Care Industry. Guild Link was previously 100% owned by the Pharmacy Guild of Australia, the parent entity. A capital injection of $2.4m was made on the 2 July 2018; it is anticipated these funds will be sufficient to operate the business to 30 June 2019.

8. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Management are positive about the prospects for the Group and the focus for the year ahead will be centered on three key objectives:

Customers

Commitment to customers remains the cornerstone of the business model. The goal is to continually improve the value the Group provide to existing clients while leveraging the enhanced business development capability and new distribution channels to win new customers.

People

Management seek to develop a working environment of high performance, accountability and continuous positive change, with a sharp focus on retaining and attracting the right talent to underpin the Group's strategy. In 2017/2018 the talent pool was developed further to under pin the Group's focus on growth.

Financial Performance

Management will target strong earnings and growth targets while ensuring the Group retains a conservative well capitalised position.

9. OUTSTANDING CLAIMS PROVISION IN CONTROLLED GROUP (GUILD INSURANCE LIMITED)

The provision for outstanding claims for a controlled Group (Guild Insurance Limited) is determined after consultation with the appointed actuary. The outstanding claims assessment takes into account the statistical analysis of past claims, allowance for claims incurred but not reported, recoveries and future interest and inflation factors. The directors consider that adequate risk margins are required in addition to actuarial central estimates to cover uncertainties such as changes in interest rates and superimposed inflation.

The APRA standards provide that outstanding claims must be set at a level that provides a probability of at least 75%, that the provision for outstanding claims will be adequate to settle claims as they become payable in the future. The directors have satisfied themselves that the Group's outstanding claims provision exceed this requirement.

10. CAPITAL ADEQUACY OF GUILD INSURANCE LIMITED

	2018 $'000	2017 $'000
I. Common Equity Tier 1 capital		
Ordinary shares	**3,575**	3,575
Retained earnings	**108,440**	103,928
Excess technical provisions (net of tax)	**17,653**	19,389
Less: Deductions	**(8,606)**	(7,825)
Common Equity Tier 1 capital (CET1 capital)	**121,062**	119,067
II. Additional Tier 1 capital	**-**	-
Total Tier 1 capital	**121,062**	119,067
III. Tier 2 capital		
Eligible Tier 2 capital instruments	**16,840**	16,840
Total Tier 2 capital	**16,840**	16,840
Total regulatory capital	**137,902**	135,907
IV. Prescribed Capital Amount (PCA)		
Insurance risk charge	**39,056**	38,047
Insurance concentration risk charge	**6,907**	7,387
Asset risk charge	**24,232**	23,192
Asset concentration risk charge	**-**	-
Aggregation benefit	**(14,112)**	(13,639)
Operating risk charge	**6,323**	6,175
Total PCA	**62,406**	61,162
PCA multiple	**2.21**	2.22
CET1 multiple	**1.94**	1.95

11. ENVIRONMENTAL REGULATIONS

The operations of the controlled Group are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

The Directors are not aware of any breaches of significant environmental regulations during the period covered by this report that are likely to result in a material impact on the Group or the environment.

Report of Directors cont.

12. MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Group's directors (including meetings of committees of directors) held during the year ended 30 June 2018, and the numbers of meetings attended by each director.

	Full Meeting of Directors (GGHL & GSSL)	**Full Meeting of Directors** (GIL)	**Full Meeting of Directors** (GTS)	**Audit Committee** (GGHL, GIL & GTS)	**Risk Management & Compliance Committee** (GGHL, GIL & GTS)	**Remuneration & Nominations Committee** (GGHL)	**Capital Committee**	**Digital & Customer Committee** (DCC)
Number of Meetings Held	6	6	6	5	4	1	5	6
Number of Meetings Attended by:								
G. Venardos	6	6	6	5	4	1	5	6
S. Somogyi	5	6	6	5	4	–	4	–
R. Bloore	6	6	6	–	–	1	4	5
L. Jenkinson	5	5	6	5	4	–	–	6
J. Dowling	6	6	6	–	–	–	5	–
T. Twomey (Director & Committee member from 8 March 2018)	2	2	2	–	–	–	2	1
N. Panayiaris (Director & Committee member from 8 March 2018)	2	2	2	1	1	–	–	–
M. Pirone (as Director of GSSL & GTS))	6	–	6	–	–	–	–	–
T. Logan (Director & Committee member up to until 7 March 2018)	4	4	4	3*	–	1	–	–
I. Todd (Director & Committee member up to until 7 March 2018)	4	4	4	4	3	–	3	5

* Committee Member from 7 September 2017 to 7 March 2018

13. DIRECTORS' BENEFITS

No Director of the Group has received or become entitled to receive a benefit because of a contract made by the Group or a related body corporate with the Director or a firm of which they are a member, or with a Group in which they have a substantial financial interest.

14. COMMITTEE MEMBERSHIP

As at the date of this report, the Group had a Capital, Remuneration & Nominations, Audit, Risk Management & Compliance and a Reinsurance Committee of the Board of Directors.

Members acting on the committees of the board during the year were:

Audit Committee (GGHL, GSS, GIL & GTS)	**Risk Management & Compliance Committee** (GGHL, GSS, GIL & GTS)	**Remuneration & Nominations Committee** (GGHL)	**Capital** (GIL)	**Digital & Customer** (GIL & GTS)
S. Somogyi (Chairman)	S. Somogyi (Chairman)	A. Bloore (Chairman)	G. Venardos (Chairman)	L. Jenkinson (Chairman) (appointed 01.01.17)
G. Venardos	G. Venardos	G. Venardos	S. Somogyi	A. Bloore
I. Todd (resigned 07.03.18)	I. Todd (resigned 07.03.18)	T. Logan (resigned 07.03.18)	I. Todd (resigned 07.03.18)	G. Venardos
L. Jenkinson	L. Jenkinson	J. Dowling (appointed 08.03.18)	J. Dowling	I. Todd (resigned 07.03.18)
N. Panayiaris (appointed 08.03.18)	N. Panayiaris (appointed 08.03.18)		A. Bloore	T. Twomey (appointed 08.03.18)
T. Logan (appointed 07.09.17 & resigned 07.03.18)			T. Twomey (appointed 08.03.18)	

15. INSURANCE OF OFFICERS

During the financial year, Guild Group Holdings Limited paid a premium in respect of a contract insuring the directors, company secretary and officers of the Group against a liability incurred as a director, secretary or officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Group has not otherwise, during or since the financial year, indemnified or agreed to indemnify a director, a company secretary, an officer or auditor of the company or any related body corporate against a liability incurred as such a director, company secretary, officer or auditor.

16. NUMBER OF EMPLOYEES

The workforce of the Group stands at 388 full time equivalent employees at 30 June 2018 (358 – 30 June 2017). The consolidated Group staff numbers are expected to remain stable over the next twelve months to ensure that there are adequate staffing resources to manage the anticipated revenue growth.

17. ROUNDING OF AMOUNTS TO NEAREST THOUSAND DOLLARS

The amounts contained in this report and in the financial report have been rounded to the nearest thousand dollars ($'000) (where rounding is applicable) under the option available to the Company under ASIC Corporations Instrument 2016/191. The Group is a company to which the Class Order applies.

18. DECLARATION FROM AUDITORS

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 14.

G. Venardos
Chairman

Melbourne
31 August 2018

S. Somogyi
Non-Executive Director

Melbourne
31 August 2018

Directors' Declaration

In accordance with a resolution of the directors of Guild Group Holdings Limited, we state that:

In the opinion of the directors:

a. the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:

   i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the year ended on that date; and

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

b. the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2.

c. there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

On behalf of the Board

G. Venardos
Chairman

Melbourne
31 August 2018

S. Somogyi
Non-Executive Director

Melbourne
31 August 2018

Building a better working world

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Independent Auditor's Report to the Members of Guild Group Holdings Limited

Opinion

We have audited the financial report of Guild Group Holdings Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2018 , the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the Corporations Act 2001 , including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the year ended on that date; and

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. 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 in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board’s APES 11 0 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Information Other than the Financial Report and Auditor’s Report Thereon

The directors are responsible for the other information. The other information is the directors’ report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are 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 the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent Auditor's Report

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young

Ernst & Young

T M Dring
Partner
Melbourne
31 August 2018

Auditor's Independence Declaration

Ernst & Young
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Auditor's Independence Declaration to the Directors of Guild Group Holdings Limited

As lead auditor for the audit of Guild Group Holdings Limited for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

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

This declaration is in respect of Guild Group Holdings Limited and the entities it controlled during the financial year.

Ernst & Young

Ernst & Young

T M Dring
Partner
Melbourne
31 August 2018

Statement of Financial Position

Year ended 30 June 2018

	Notes	2018 $'000	2017 $'000
Assets			
Cash and cash equivalents	8	**13,910**	12,346
Trade and other receivables	9	**103,419**	96,722
Reinsurance and other recoveries receivable	10	**37,968**	39,535
Financial assets	11	**306,359**	306,776
Investment in an Associate	12(a)	**504**	500
Prepayments and work in progress	13	**9,876**	6,676
Deferred acquisition costs	14(b)	**16,536**	16,634
Deferred outwards reinsurance premium expense	14(d)	**12,275**	12,068
Property, plant and equipment	15	**2,630**	3,402
Deferred tax assets	6	**11,511**	10,070
Intangible assets and goodwill	16	**6,455**	5,630
Total Assets		**521,443**	510,359
Liabilities			
Trade and other payables	17	**25,442**	23,603
Income tax payable	6	**82**	2,506
Premium liabilities	18	**120,626**	118,145
Interest-bearing loans and borrowings	19	**16,840**	16,840
Provisions	20	**18,948**	17,473
Deferred tax liabilities	6	**3,751**	2,541
Claims liabilities	21	**212,622**	211,797
Total Liabilities		**398,311**	392,905
Net Assets		**123,132**	117,454
Equity			
Contributed equity	22	**5,585**	5,585
Retained earnings	22	**115,529**	110,119
Non-controlling interest	23	**2,018**	1,750
Total Equity		**123,132**	117,454

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Comprehensive Income

Year ended 30 June 2018

	Notes	2018 $'000	2017 $'000
Premium revenue	5 (a)	**182,804**	187,979
Outwards reinsurance premium expense		**(34,249)**	(35,352)
Net premium revenue		**148,555**	152,627
Claims expense	5 (e)	**(86,696)**	(99,189)
Reinsurance and other recoveries revenue	5 (f)	**20,395**	33,935
Net claims expense		**(66,301)**	(65,254)
Acquisition costs	5 (h)	**(32,090)**	(31,336)
Underwriting expenses	5 (i)	**(41,033)**	(42,124)
Underwriting result		**9,131**	13,913
Investment revenue on assets backing policyholder funds	5 (b)	**5,175**	3,501
Insurance trading result		**14,306**	17,414
Investment revenue on assets backing shareholder funds	5 (c)	**5,760**	4,681
Fee and other income	5 (d)	**38,856**	32,959
Other operating expenses		**(45,571)**	(42,760)
Finance costs	5 (j)	**(936)**	(964)
Profit before income tax		**12,415**	11,330
Income tax expense	6	**(3,390)**	(3,283)
Net profit for the year		**9,025**	8,047
Profit for the year is attributable to:			
Owners of the parent		**8,391**	7,504
Non-controlling interest		**634**	543
		9,025	8,047
Total comprehensive income for the year is attributable to:			
Owners of the parent		**8,391**	7,504
Non-controlling interest		**634**	543
		9,025	8,047

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

Year ended 30 June 2018

	Attributable to equity holders			
2018	**Ordinary Shares $'000**	**Retained Earnings $'000**	**Non controlling Interest $'000**	**Total Equity $'000**
At 1 July 2017	**5,585**	**110,119**	**1,750**	**117,454**
Changes in equity during the period				
Net profit	**-**	**8,391**	**634**	**9,025**
Sale of non-controlling interest	**-**	**19**	**-**	**19**
Non-controlling interest	**-**	**-**	**5**	**5**
Total comprehensive income and expense for the period	**5,585**	**118,529**	**2,389**	**126,503**
Dividends provided or paid	**-**	**(3,000)**	**(371)**	**(3,371)**
At 30 June 2018	**5,585**	**115,529**	**2,018**	**123,132**

2017				
At 1 July 2016	5,585	105,600	1,196	112,381
Changes in equity during the period				
Net profit	-	7,504	543	8,047
Sale of non-controlling interest	-	15	-	15
Non-controlling interest	-	-	11	11
Total comprehensive income and expense for the period	5,585	113,119	1,750	120,454
Dividends provided or paid	-	(3,000)	-	(3,000)
At 30 June 2017	5,585	110,119	1,750	117,454

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

Year ended 30 June 2018

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Premiums received		**179,507**	184,074
Outwards reinsurance paid		**(33,397)**	(37,276)
Claims paid		**(93,009)**	(107,945)
Reinsurance and other recoveries received		**21,962**	31,766
Acquisition costs paid		**(31,817)**	(28,329)
Other operating expenses paid		**(96,598)**	(90,335)
Reinsurance commission received		**3,193**	3,163
Fees and other income		**53,045**	47,749
Interest and other costs of finance paid		**(936)**	(963)
Income tax paid		**(6,046)**	(1,667)
Net cash flows from operating activities	8(a)	**(4,096)**	237
Cash flows from investing activities			
Distribution from unit trust received		**1,335**	1,057
Interest received		**10,784**	11,352
Payments for property, plant and equipment		**(537)**	(1,903)
Payments for financial assets		**(6,599)**	(11,471)
Proceeds from financial assets		**5,697**	8,905
Proceeds from sale of business		**64**	(47)
Payment for intangible assets		**(1,713)**	(1,219)
Net cash flows from investing activities		**9,031**	6,674
Cash flows from financing activities			
Dividends paid – Controlling interest	8(b)	**(3,000)**	(3,000)
Dividends paid – Non-controlling interest		**(371)**	-
Net cash flows used in financing activities		**(3,371)**	(3,000)
Net increase in cash and cash equivalents		**1,564**	3,911
Cash and cash equivalents at 1 July		**12,346**	8,435
Cash and cash equivalents at 30 June	8(c)	**13,910**	12,346

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

Year ended 30 June 2018

1. CORPORATE INFORMATION

The financial report for Guild Group Holdings Limited for the year ended 30 June 2018 was authorised for issue in accordance with a resolution of the directors on 31 August 2018.

Guild Group Holdings Limited is a for profit company limited by shares incorporated in Australia. The ultimate parent entity of Guild Group Holdings Limited is The Pharmacy Guild of Australia.

The nature of the operations and principal activities of the Group are general insurance underwriting, superannuation and legal services.

The registered office for this entity is at Level 13, 171 Collins Street Melbourne, Victoria.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation

This general purpose financial report has been prepared in accordance with the requirements of the Corporations Act 2001 including applicable Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report has been prepared on a historical cost basis, except for financial assets that are measured at fair value. The accounting policies adopted are consistent with those of previous years, except where noted below.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($000), unless otherwise stated.

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year. Any such changes have had no effect on the financial position or performance of the entity.

b. Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

c. New accounting standards and interpretations

The following standards and interpretations would have been applied for the first time by Guild Group Holdings Limited for the annual reporting period ending 30 June 2018:

Reference	Title	Application date of standard	Application date for GGHL	Note
AASB 2016-1	Amendments to Australian Accounting Standards Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	1 July 2017	A
AASB 2016-2	Amendments to Australian Accounting Standards Disclosure Initiative: Amendments to AASB 107	1 January 2017	1 July 2017	A
AASB 2017-2	Amendments to Australian Accounting Standards Further Annual Improvements 2015-2016 Cycle	1 January 2017	1 July 2017	A

Table note: A These changes did not have a significant financial impact.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2018, outlined in the table below:

Reference	Title	Application date of standard	Application date for GGHL	Note
AASB 22	Foreign Currency Transactions and Advanced Consideration	1 January 2017	1 July 2018	A
AASB 15	Revenue from Contracts with Customers	1 January 2018	1 July 2018	A
AASB 16	Leases	1 January 2019	1 July 2019	B
ASSB 23	Uncertainty over Income Tax Treatments	1 January 2019	1 July 2019	B
AASB 9	Financial Instruments – AASB replaces AASB 139 Financial Instruments: Recognition & Measurement	1 January 2021	1 July 2021	B
AASB 17	Insurance Contracts	1 January 2021	1 July 2021	B
AASB 2016-6	Amendments to Australian Accounting Standards Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts	1 January 2021	1 July 2021	B
AASB 2014-10	Amendments to Australian Accounting Standards Sale of Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2022	1 July 2022	B

Table note: A These changes are not expected to have a significant, if any, financial impact. **B** At the reporting date management have not yet assessed the impact of implementing this standard.

Guild Group Holdings Limited have undertaken a detailed review of the impact of AASB 15 (Revenue from Contracts with Customers). In assessing the current method of revenue recognition, the review covered the identification of contracts and performance obligations as well as a determination of the transaction price and performance obligations. The outcome of the review was that the current method of revenue recognition is in line with the requirements of AASB 15 and that there is no material impact on the accounting treatment.

Guild Insurance Limited has elected to defer the application of the new financial instruments standard until the application of AASB 17. The new financial instruments standard is not expected to have a significant, if any, financial impact to other entities in the group.

Notes to the Financial Statements cont.

Year ended 30 June 2018

d. Basis of consolidation

The consolidated financial statements comprise the financial statements of Guild Group Holdings Limited (the parent company) and its subsidiaries as at 30 June each year (the Group).

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the Consolidated Financial Statements, all intercompany balances and transactions, income and expenses and profit or losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

Non-controlling interests are allocated their share of net profit after tax in the Statement of Comprehensive Income and are presented within equity in the consolidated Statement of Financial Position, separately from the equity of the owners of the parent.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

e. Current versus non-current classification

The Group presents assets and liabilities in the Statement of Financial Position in order of liquidity.

An asset is current when it is:

- Expected to be realised in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period, or;
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period, or;
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

f. Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Premium revenue

Direct premium comprises amounts charged to the policyholder, including fire service levies, but excluding stamp duties and other amounts collected on behalf of third parties.

Premium is treated as earned from the date of attachment of risk. Where material, premiums on unclosed business are brought to account by reference to the previous year's premium processing delays 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, which closely approximates the pattern of risks underwritten. Unearned premium is determined by apportioning the premiums written in the year, using the 365ths method based on date of attachment of risk. The portion not earned, as determined by the above method, is classified in the Statement of Financial Position as unearned premium.

Professional services revenue

Revenue from legal services is recognised by reference to the stage of completion of the legal case file.

Work in progress

Stage of completion is measured by the labour hours incurred valued at chargeable hourly rates, less allowance for any amounts expected not to be recovered, to date compared to that expected on completion.

Fee revenue

Fees earned and commission income are recognised when the Group's right to receive the payment is established.

Distributions from unit trust revenue

Revenue is recognised when the Group's right to receive payment is established.

Interest income

Interest income is recognised as interest accrues using the effective interest method when the Group has control of the right to receive the interest payment.

g. Fire service levy and other charges

A liability for fire service levy and other charges is recognised on business written to the reporting date. Levies and charges payable are expensed on the same basis as the recognition of premium revenue, with the portion relating to unearned premium being recorded as a prepayment.

h. Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid and IBNRs are recognised as revenue. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries receivable are measured as the present value of the expected future receipts.

i. Outwards reinsurance premium expense

The Group cedes insurance risk in the normal course of business. Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance premium is treated as a prepayment and presented as deferred outwards reinsurance expense on the balance sheet at the reporting date.

j. Deferred acquisition costs

Those direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

k. Liability adequacy test

Liability adequacy testing is performed in order to recognise any deficiencies in the Statement of Comprehensive Income arising from the carrying amount of the unearned premium liability less any related deferred acquisition costs and intangible assets not meeting the estimated future claims under current insurance contracts.

The estimated future claims under current insurance contracts are measured using the present value of the expected cash flows relating to future claims and associated expenses (discounted using a risk free discount rate) plus an additional fair value risk margin to reflect the inherent uncertainty of those estimated cash flows.

Any deficiency arising from the test is recognised in the 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.

Liability adequacy testing is performed at the level of a portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

l. Claims liabilities

The outstanding claims liability is measured as the central estimate of the present value of expected future payments relating to claims incurred at the reporting date with an additional risk margin to allow for the inherent uncertainty in the central estimate. The liability is measured based on the valuation performed by the Appointed Actuary. The expected future payments include those in relation to claims reported but not yet paid or not yet paid in full, claims incurred but not enough reported (IBNER), claims incurred but not reported (IBNR) and the anticipated direct and indirect claims handling costs. The liability is discounted to present value using a risk free rate.

Claims expense represents claim payments adjusted for the movement in the outstanding claims liability.

The estimation of the outstanding claims liability involves a number of key assumptions and is the most critical accounting estimate. All reasonable steps are taken to ensure that the information used regarding claims exposure is appropriate. However, given the uncertainty in establishing the liability, it is likely that the final outcome will be different from the original liability established. Changes in claims estimates are recognised in profit or loss in the reporting period in which the estimates are changed.

m. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand available on demand and deposits held at call with financial institutions. Cash and cash equivalents are measured at amortised cost, being the principal amount. For the purposes 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.

n. Trade and other receivables

Trade receivables are recognised initially at amortised cost less any allowance for impairment. Collectability of trade receivables is reviewed on an on-going basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts greater than trade terms are considered objective evidence of impairment.

Notes to the Financial Statements cont.

Year ended 30 June 2018

o. Work in progress

Work in progress on amounts are valued at the lower of cost and net realisable value, as fees are not rendered on matters until either the completion of a particular task or time period.

The valuation of work in progress is subject to an annual attestation process.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. The following methodologies are used in determining the value of work completed.

Time recording

For general and commercial law matters, time spent by a professional is recorded against the matter at an agreed hourly rate.

Estimated fees earned

Work in progress reflects the time recorded against each matter as at a particular date and is used as a guide in determining the professional and other fees that will ultimately be rendered to the relevant client, which is accrued and held as a receivable in the Statement of Financial Position.

p. Financial assets

Financial assets comprise assets held to back insurance liabilities (also referred to as policyholder funds) and assets that represent shareholders funds. Financial assets that back insurance liabilities include fixed interest deposits, investments in unit trusts and amounts receivable in respect of hire purchase arrangements and investment loans. All financial assets are managed and performance evaluated on a fair value basis for both external and internal reporting purposes in accordance with a documented investment policy.

All financial assets are designated as fair value through profit or loss upon initial recognition. They are initially recorded at fair value (being the cost of acquisition excluding transaction costs) and are subsequently remeasured to fair value at each reporting date. Changes in the fair value from the previous reporting date (or cost of acquisition excluding transaction costs if acquired during the financial period) are recognised as realised or unrealised investment gains or losses in profit or loss. Purchases and sales of financial assets are recognised on a trade date basis being the date on which a commitment is made to purchase or sell the asset. Transaction costs for purchases of financial assets are expensed as incurred and presented in the statement of comprehensive income as investment expenses on assets backing policyholder funds and fees based, corporate and other expenses for financial assets that represent shareholder funds. Financial assets are derecognised when the rights to receive future cash flows from the assets have expired or have been transferred and substantially all the risk and rewards of ownership have transferred.

For securities traded in an active market, fair value is determined by reference to published bid price quotations. For unlisted unit trusts this generally means using the redemption price provided by the trustee. For financial assets not traded in active market, the fair value is determined using appropriate valuation techniques based on Guild's proportion of net assets.

Investment revenue, comprising dividends, trust distributions and interest, is brought to account on an accrual basis. Revenue on investment in equity securities and unit trusts is deemed to accrue on the date the dividends/distributions are declared, which for listed equity securities is deemed to be the ex-dividend date. Dividend revenue from Australian equities is received net of any franking credits.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after reporting date, which are classified as non-current. Amortised cost approximates to fair value.

q. Property, plant and equipment

Cost and valuation

Plant and equipment is stated at historical cost, net of accumulated depreciation and/or any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Leasehold improvements

over the terms of the various leases

Fixtures and fittings

2-13 years

The residual values, useful lives, impairment and amortisation methods are reviewed and adjusted if appropriate, at each financial year end.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

r. Goodwill and intangible assets

Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Intangible Asset – System development costs

An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use;
- Its intention to complete and its ability to use the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset;
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

Following the initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit (4 year period for Guidewire Insurance System & 5 year period for Digital and Voice Experience). Amortisation is recorded in operating expenses. During the period of development, the asset is tested for impairment annually.

s. Trade and other payables

Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 to 90 days of recognition.

t. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Liabilities, including non-monetary benefits expected to be settled within 12 months of the reporting date are recognised up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

u. Interest bearing loans and borrowings

All borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest bearing borrowings are subsequently measured at amortised costs using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs are recognised as an expense when incurred.

v. Income tax and other taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred income tax liabilities are recognised for all taxable temporary differences except when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that the future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Tax consolidation legislation

Guild Group Holdings Limited and its wholly owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2003.

The head entity, Guild Group Holdings Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, Guild Group Holdings Limited also recognises the current liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under the tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Goods and services tax ('GST')

Revenues, expenses and assets are recognised net of the amount of GST except where the GST incurred is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of the acquisition of the asset or as part of the expense item as applicable.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

w. Leases

Group as a lessee

Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

x. Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk Management Framework ('RMF')

The Guild Group has a formally approved RMF in place that describes the strategies and approach for effectively identifying, assessing and managing material risk across the organisation. The Group's RMF is considered an enterprise wide capability in that it is a fully integrated and active process within all Group entities, business lines and support service functional areas. The presence of the RMF supports the Group's belief that having an effective risk management framework in place is considered a critical element in supporting the organisation meet its strategic and operational goals.

The RMF details the layers of managerial responsibility, risk management related policies and the key processes used to identify, assess, monitor, report on and mitigate all material risks that have the potential (if realised) to impact the Group achieving its strategic objectives. The Board has delegated its authority for the oversight of the RMF to the Risk Management & Compliance Committee. In turn the Risk Management & Compliance Committee works closely with the Chief Executive Officer ('CEO'), the Chief Risk Officer ('CRO') and the dedicated risk management function to ensure that the RMF remains appropriate and effective. The CRO is charged with overall functional responsibility for the RMF and risk management capability. The Group's Executive Leadership Team also assists the CEO by providing additional support to ensure the management of risk, within established risk appetite parameters, is appropriately maintained across the Group.

A major element of the RMF is the Group's formally approved Risk Appetite Statement ('RAS') which is an overall declaration regarding the amount and type of risk that the Group is prepared to accept in order to achieve its strategic and operational objectives. The RAS has been developed by incorporating the expectations of various Group stakeholders and has resulted in risks considered material to the Group having specific risk tolerance limits established that form the basis for ongoing Board governance reporting and oversight.

The RMF is also reflected in the Risk Management Strategies ("RMSs") in place that describe the specific processes for managing risks considered material to the Group's general insurance and superannuation trustee licensed entities.

In conjunction with the application of the RMF, the risks currently considered material to the Group are discussed below.

a. Governance risk

Governance risk involves any risks associated with insufficient or ineffective processes being in place to ensure appropriate oversight and decision making within the Group. This includes a lack of transparency over decision-making processes, conflicts of interest, fitness & propriety issues, delegation of roles and responsibilities, and remuneration structures.

Key controls for mitigating Governance Risk

- The Group has a governance framework in place that includes director education, Board Charters, Board renewal processes, Board Remuneration Committee & Policy, conflicts recognition and a company secretariat function. Delegations of Authority have also been established and formally approved by the Board.
- Risk Management & Compliance Committee and an Audit Committee is in place that operates under a formal Terms of Reference and delegation from the Board.
- A Fit & Proper Policy is in place that provides the establishment and monitoring processes for the Group's regulator mandated Responsible Persons.
- A Conflicts Management Framework is in place that includes policies for Conflicts of Interest and Gifts & Entertainment.
- A Whistle-blower Policy is in place that informs employees of the Whistle-blower hotline and how to make a confidential report of any areas of concern. The purpose of the policy is to encourage the reporting of matters that may cause financial/non-financial loss or damage our reputation.

b. Strategic & tactical risk

Strategic and Tactical risk refers to any risks that may impact the Group as a result of strategic initiatives and/or the business plan being inadequately established or coordinated. This risk also includes issues concerning business efficiency, product or service design, and association, broker and/or client relationship maintenance.

Key controls for mitigating Strategic & Tactical Risk

- The Group's Strategic Business Plan is reviewed and formally approved by the Board annually. Regular reporting to the Board occurs regarding actual performance against the Strategic Business Plan.
- Strategic/continuous improvement initiatives are underway that are intended to improve business efficiency across the Group.
- The Strategic Business Plan includes specific customer focus and the Group's value proposition is also aligned to client expectations.
- Regular competitor analysis is conducted and market competitiveness is also considered during the Group's business pricing process.
- A tiered model is in place to facilitate key relationship engagement occurring on a regular basis.

c. Capital management risk

Capital management risk relates to the potential for financial issues occurring that may be amplified by the Group's inability to access capital, and/or that the Group's current capital adequacy requirements are being adversely impacted.

Key controls for mitigating Capital Management Risk

- The Group has a formally approved Internal Capital Adequacy Assessment Process (ICAAP) Summary Statement that identifies and documents the policies, procedures, systems and controls in place to manage associated capital related risks and to ensure that capital is held commensurate with the relevant level of risk. The ICAAP also articulates the Group's strategy for maintaining adequate capital over time, including the setting of capital targets that are consistent with the Group's risk profile, its risk appetite and the relevant regulatory requirements.
- Calculations occur monthly to monitor the adequacy of capital being maintained within a specified risk appetite range and these calculations are also reported to the Board quarterly for appropriate governance oversight.
- Capital management processes and calculations are subject to review by the Group's Appointed Actuary.

d. Insurance risk

Insurance risk is the risk of financial loss and the inability to meet liabilities due to inadequate or inappropriate insurance product design, pricing, underwriting, concentration risk, reserving, claims management and/or reinsurance management. The principal risk associated with any insurance contract is the possibility of the insured event occurring and the uncertainty of the amount of the resulting claim.

Key controls for mitigating Insurance Risk

To mitigate the impact of insurance risk, the entity has the RAS, ICAAP summary statement, RMF, RMSs as well as the following key policies and procedures in place:

Selection and Pricing of Risk

- Underwriting authority is delegated to experienced underwriters following a detailed analysis of each class of business being underwritten by the Group.
- Implementation and annual review of underwriting guidelines and criteria covering the classes of risk the Group is authorised to underwrite.
- Maximum limits are set for the acceptance of risk on an individual contract basis, for classes of business and across the portfolio with particular attention paid to geographic exposure, industry segment and the Group's risk appetite and tolerance.
- Management information systems are used to provide current reliable and accurate data about the various risks being underwritten by the business.
- In-house pricing models are formulated and monitored by the analytics unit within the Insurance division using historical pricing and statistical data as well as claims analysis for each portfolio. Economic data and industry information is gathered to ensure underwriters are aware of current developments and prevailing conditions in the markets being underwritten and the expected future trends facing those markets.

Notes to the Financial Statements cont.

Year ended 30 June 2018

- An Underwriting Committee is in place to oversee, investigate and determine the processes necessary to address the pricing of insurance products, and also to provide strategic direction in relation to the management of insurance portfolios.

Concentration Risk

- Relevant risk appetite parameters are in place requiring the diversification of the insurance portfolio across classes, industries and regions. Concentration exposure is monitored on a regular basis ensuring the portfolio is sufficiently diversified such that there is no undue concentration by risk class or by industry.
- The Group also writes business across broad geographical regions within Australia and regular reviews are undertaken to gauge the applicable geographic accumulation exposure.
- Catastrophe reinsurance is purchased to ensure that any accumulation of losses from one area is protected.
- Concentration risk is particularly relevant on the occurrence of a catastrophic event. Typically these are weather-related but can also be man-made such as industrial accidents and infrastructure collapse. The nature and level of catastrophes in any one year cannot be accurately anticipated but the Group uses predictive modelling in conjunction with its reinsurance broker to monitor its exposure.
- An Insurance Strategy is in place that defines catastrophe cover parameters. Such parameters also form part of the Group's risk appetite criteria.

Claims Management and Reserving

- Experienced claims officers are used to assess the claim and determine a case strategy. Where necessary, they are assisted by subject matter experts. It is the Group's policy to respond to and resolve genuine claims as quickly as possible in accordance with the provisions of the policy.
- Claims reserves are established by local knowledge from claims officers, underwriters and specialist advisors. The Appointed Actuary provides an independent assessment of the provision at least semi-annually.
- The risk of the liability being inadequate is monitored by way of half-yearly actuarial valuation and mitigated by the inclusion of a risk margin to increase the probability of sufficiency of the reserves to at least 90%.

Reinsurance Management

- Clearly defined credit policies for the approval and management of credit risk in relation to reinsurers are in place.
- The entity monitors the financial condition of its reinsurers on an ongoing basis and periodically reviews the reinsurers' ability to fulfil their obligations to the entity under respective existing and future reinsurance contracts. In order to assess this, the entity uses rating information available in the public domain or gathered through other investigations.
- Reinsurance recoveries are also monitored and managed internally involving engagement with specialised reinsurance brokers operating in the international reinsurance market.
- The entity only deals with reinsurers with credit ratings of at least A- as determined by Standard & Poor's ("S&P") or AM Best equivalent. Where the credit rating of a reinsurer falls below the required quality during the period of risk, a contractual right to replace the counterparty exists. Having reinsurance protection with strong reinsurers also benefits the entity in its regulatory capital calculations. The risk charges vary with the grade of reinsurers such that higher credit quality reinsurance counterparties incur lower APRA regulatory capital charges.
- Reinsurance is used to limit the entity's exposure to individual claims and catastrophes. Guild Insurance calculates its insurance concentration risk charge ("ICRC") regularly and purchases reinsurance to limit its exposure accordingly within the entity's risk appetite.
- A Capital (Reinsurance & Investments) Committee is also in place that meets regularly to review the adequacy and effectiveness of the entity's reinsurance program.
- Reinsurance contracts include catastrophe excess of loss, property per risk excess of loss, casualty excess of loss, facultative, quota share and the run off of previous quota share and surplus reinsurance arrangements.
- The Reinsurance program and risk tolerances are subject to the principles set out in the Reinsurance Management Strategy (ReMS).

Terms and Conditions of insurance business

- The entity develops contract terms that are specific to each product written. There are no specific contract terms and conditions that are expected to have a material impact on the financial report.

e. Asset (investment) risk

The risk of unfavorable changes in interest rates, equity prices, credit spreads, commodity prices and investment market volatilities. It also includes the risk that the Group will be unable to service its cash flow obligations today or in the future.

Key controls for mitigating Asset (Investment) Risk

- To mitigate risks associated with investments, an Investment Policy is in place that provides restrictions for risk appetite and liability matching, transaction supervision, defined monthly and exception reporting processes.
- A Capital (Reinsurance & Investments) Committee is also in place to regularly review investment strategy, performance and compliance with the Investment Policy.

The Group is exposed to mainly the following categories of investment risks – liquidity risk, credit risk, interest rate risk and equity price risk. The key controls for mitigating these risks are outlined below.

f. Investment – liquidity risk

Liquidity risk is concerned with the risk of there being insufficient cash resources to meet payment obligations without affecting the daily operations of the financial condition of the Group. Liquidity facilitates the ability to meet expected and unexpected requirements for cash.

Key Controls for mitigating Liquidity Risk

- Investment portfolio mandates and policy provide sufficient cash deposits to meet day-to-day obligations.
- Investment funds set aside within the portfolio can be realised to meet significant claims payment obligations.
- In the event of a catastrophe, immediate cash access once retention limit is reached is available under the terms of reinsurance arrangements.
- Financing facility with set limits for loans, leasing and guarantees.
- Regular monitoring of liquidity levels.

A maturity analysis of the Group's cash, trade receivables, investments and reinsurance and other recoveries receivable by contractual maturity is provided in the following table along with maturity analysis of trade payables, interest bearing loans and the estimated net discounted outstanding claims liability based on the remaining term to payment at the reporting date.

This maturity profile is a key tool used in the investment of assets backing insurance liabilities in accordance with the policy of matching the maturity profile of the assets with the estimated pattern of claims payments.

2018	< 6 Months $'000	6-12 Months $'000	1-5 Years $'000	> 5 Years $'000	Total $'000
Financial Assets					
Cash and cash equivalents	**13,910**	**-**	**-**	**-**	**13,910**
Trade and other receivables	**103,310**	**109**	**-**	**-**	**103,419**
Financial assets	**34,607**	**60,456**	**174,105**	**37,191**	**306,359**
Reinsurance and other recoveries receivable	**15,624**	**6,208**	**13,136**	**3,000**	**37,968**
	167,451	**66,773**	**187,241**	**40,191**	**461,656**
Financial Liabilities					
Trade and other payables	**17,809**	**7,633**	**-**	**-**	**25,442**
Interest bearing loans and borrowings	**-**	**-**	**-**	**16,840**	**16,840**
Claims liabilities	**54,387**	**29,282**	**97,314**	**31,639**	**212,622**
	72,196	**36,915**	**97,314**	**48,479**	**254,904**
Net maturity	**95,255**	**29,858**	**89,927**	**(8,288)**	**206,752**
2017					
Financial Assets					
Cash and cash equivalents	12,346	-	-	-	12,346
Trade and other receivables	96,660	62	-	-	96,722
Financial assets	47,657	12,716	179,907	66,496	306,776
Reinsurance and other recoveries receivable	16,397	7,342	12,812	2,984	39,535
	173,060	20,120	192,719	69,480	455,379
Financial Liabilities					
Trade and other payables	16,522	7,081	-	-	23,603
Interest bearing loans and borrowings	-	-	-	16,840	16,840
Claims liabilities	52,800	29,972	95,617	33,408	211,797
	69,322	37,053	95,617	50,248	252,240
Net maturity	103,738	(16,933)	97,102	19,232	203,139

g. Investment – credit risk

Credit risk is the risk of financial loss from a counterparty failing to discharge an obligation within agreed terms. The entity's credit risk arises predominantly from trade receivables, reinsurance recoveries and investments.

Key controls for mitigating Credit Risk

To mitigate the impact of credit risk, the Group has the following key policies and procedures in place:

Trade Receivables

- Trade (including premiums) receivables are mostly due direct from the client or insurance brokers with a proportion coming from monthly instalments. Late premium payments will result in the cancellation of the insurance contract with the policy holder, eliminating both the credit risk and insurance risk for the unpaid balance.
- The maximum exposure to credit risk as at reporting date is indicated by the carrying amounts of the trade receivables on the Statement of Financial Position, with the ageing in Note 9.
- A Debtor Management policy is in place that outlines the appropriate processes and procedures for staff dealing with the management of debtors.

Reinsurance Recoveries

- Reinsurance arrangements are monitored and managed internally and by specialised reinsurance brokers operating in the international reinsurance market. Concentration of credit risk is mitigated by placement of cover with a number of reinsurers of at least A- rating as determined by Standard & Poor's ("S&P") or AM Best equivalent.

Investments

- Investments in financial instruments in the investment portfolio are held in accordance with the Investment Policy. Credit and counterparty limits have been established within the policy to ensure counterparties have appropriate credit ratings and that concentration risk is minimised. The Group limits its exposure to credit risk by investing with various counterparties that have an S&P credit rating of AA or better. The credit risk relating to investments is monitored and assessed regularly.
- The Group is exposed to credit risk from investments in fixed term deposits with Australian banks which are regulated by APRA. The maximum exposure to credit risk as at reporting date is the carrying amounts of the investments in the Statement of Financial Position as they are measured at fair value.
- The Group does not hold any credit derivatives to offset its credit exposure.

The following table provides information regarding the credit risk exposure of the Group to trade receivables, reinsurance recoveries and investments.

		Internally Classified			
2018	A- and above $'000	New Customers $'000	Closely Monitored Customers $'000	No default customers $'000	Total $'000
Cash and cash equivalents	**13,910**	**-**	**-**	**-**	**13,910**
Interest bearing investments	**251,306**	**4,286**	**-**	**10,450**	**266,042**
Trade and other receivables	**-**	**18,349**	**2,094**	**82,976**	**103,419**
Reinsurance and other recoveries receivable	**37,968**	**-**	**-**	**-**	**37,968**
Net exposure	**303,184**	**22,635**	**2,094**	**93,426**	**421,339**
2017					
Cash and cash equivalents	12,346	-	-	-	12,346
Interest bearing investments	256,895	4,846	-	10,220	271,961
Trade and other receivables	-	17,629	2,966	76,127	96,722
Reinsurance and other recoveries receivable	39,535	-	-	-	39,535
Net exposure	308,776	22,475	2,966	86,347	420,564

h. Investment – interest rate risk

Interest rate risk is the risk of loss arising from an unfavourable movement in market interest rates. Fixed interest rate assets and liabilities create exposure to fair value interest rate risk which is a market risk. Financial assets and liabilities with floating interest rates create exposure to cash flow interest rate risk

Key controls for mitigating Interest Rate Risk – Assets

- Exposure to interest rate risk is monitored through several measures that include position limits, scenario testing, stress testing, and asset and liability matching using measures such as duration.

Key controls for mitigating Interest Rate Risk – Liabilities

- The Group has a policy of investing in assets backing insurance liabilities principally in fixed interest securities broadly matched to the expected payment pattern of the insurance liabilities. Movements in investment income on assets backing insurance liabilities broadly offset the impact of movements in discount rates on the insurance liabilities.
- Interest bearing liabilities (bank loans) are exposed to interest rate risk but as they are measured at amortised cost they therefore do not expose the Group to fair value interest rate risk. In addition, interest bearing liabilities bearing fixed interest rates reduce the entity's exposure to cash flow interest rate risk.

Sensitivity Analysis

The sensitivity analysis provided in the following table demonstrates the effect of a change in a key assumption while other assumptions remain unchanged. The investments in interest bearing securities are recognised on the balance sheet at fair value. Movements in market interest rates impact the price of the securities (and hence their fair value measurement) and so would impact profit. The impact from the measurement of the interest bearing securities held at reporting date of a change in interest rates at reporting date by +1% or -1% on profit after tax, is shown in the table below.

		2018 $'000	2017 $'000
		Post Tax Profit	Post Tax Profit
Financial assets – interest bearing securities	+1%	**4,236**	4,793
	-1%	**(4,236)**	(4,793)

The majority of the interest bearing securities are expected to be held to maturity and so movements in the fair value are expected to reverse upon maturity of the instruments.

i. Investment – equity price risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in market prices, whether those changes are caused by factors specific to individual stocks or factors affecting all instruments in the market.

Key controls for mitigating Equity Price Risk

- To limit equity price risk, the Group invests in a diversified Australian shares trust in accordance with limits set by the Board. The majority of the equity investments within the trust are of a high quality and are publicly traded on the ASX 300 Index.
- Risk appetite parameters have been established defining the upper and lower limits for equity asset allocation for the Group's Guild Insurance entity.

Sensitivity Analysis

The impact from the measurement of the investments held at reporting date of a change in equity values at reporting date by +10% or -10% on profit after tax, is shown in the table below.

		2018 $'000	2017 $'000
		Post Tax Profit	Post Tax Profit
Financial assets – unlisted unit trust	+10%	**2,702**	2,329
	-10%	**(2,702)**	(2,329)

j. Operational risk

Operational risk is the risk of financial loss (including lost opportunities) resulting from external events and/or inadequate or failed internal processes, wherein people and systems fail to perform as required. Operational risk can have overlaps with all of the other risk categories. When controls fail, operational risk events can cause injury, damage to reputation, have legal or regulatory implications or can lead to financial loss. The Group cannot expect to eliminate all operational risks, but manages these by initiating an appropriate control framework and by monitoring and responding to potential risks, and thereby minimise exposure to such risks.

Key controls for mitigating Operational Risk

- In conjunction with the various policies and processes that make up the Group's RMF, the identification, assessment, management and monitoring of operational risk is regularly performed. In addition to this, the RMSs & ICAAP (incorporating the Group's Capital Management Plan) also include specific consideration of operational risk being 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 and the Group also has a designated Risk, Audit & Compliance function that monitors processes and procedures involving the management of operational risk.

k. Regulatory risk

Regulatory risk is the risk of legal or regulatory sanctions, financial loss, or loss to reputation which the entity may suffer as a result of its failure to comply with all applicable regulations, codes of conduct and good practice standards.

Key controls for mitigating Regulatory Risk

- In conjunction with the various licences and regulatory obligations that the Group operates under, Compliance Plans have been developed for all Group licensed entities and attestations are obtained regularly from the business confirming adherence with the obligations noted in the Compliance Plans. Any breach (potential or actual) of a regulatory obligation, will be managed by the Group's established incident management process that forms part of the RMF.
- Commensurate with the Group operating within the heavily regulated Australian financial services industry, the Group's Risk, Audit & Compliance function facilitates a process whereby any regulatory change resulting from new or amended legislation/regulation will be identified, assessed and the appropriate areas of the Group engaged to ensure the changes are addressed as necessary.

l. Outsourcing risk

Outsourcing risk is the risk of material service providers and/or external third party suppliers being poorly selected and/or failing to meet their obligations under the outsourced arrangements, including in respect to adequacy of resources, resulting in material loss, or significant reputational damage or regulatory action.

Key controls for mitigating Outsourcing Risk

- A Vendor Management framework is in place to establish the discipline behind the process of working with vendors, controlling costs and increasing value, while ensuring quality and mitigating risks. It also assists in promoting a productive and successful relationship between both parties.
- An Outsourcing policy describes the framework and processes for ensuring that all risks arising from outsourcing material business activities are being appropriately managed. The policy, along with its associated policies, is considered a key part of the RMF.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a. Ultimate liability arising from claims made under insurance contracts

A liability is recorded at the end of the year for the estimated cost of claims incurred but not settled at the reporting date, including the cost of claims incurred but not yet reported to the Group.

The estimated net cost of claims includes direct expenses to be incurred in settling claims net of the expected value of salvage and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Given the uncertainty in establishing claims liabilities, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ("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. IBNR claims may often not be reported until many years after the events giving rise to the claims that have occurred. Long-tail classes of business will typically display greater variations between initial estimates and final outcomes because there is a greater degree of difficulty in estimating IBNR reserves. Short-tail claims are typically reported soon after the claim event, and hence, tend to display lower levels of volatility.

In calculating the estimated cost of unpaid claims, the Group uses a variety of estimation techniques, generally based upon statistical analyses of historical Group and industry experience that assumes that the development pattern of the current claims will be consistent with past Group experience and/or general industry benchmarks as appropriate. Allowance is made, however, for changes or uncertainties that may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or decrease when compared with the cost of previously settled claims.

Details of specific actuarial techniques and assumptions used and analysis of the outstanding claims liabilities at the reporting date are described in Note 21.

At each balance date, the adequacy of the unearned premium liability is assessed on a net of reinsurance basis against the present value of the expected future cash flows relating to potential future claims, plus a risk margin to reflect the inherent uncertainty of the central estimate (refer Note 21). Future claims are those claims expected to arise from claims events occurring after the balance date. The assessment is carried out using the same methods described in Note 2(L).

AASB 1023 requires that this test be carried out at the level of a "portfolio of contracts that are subject to broadly similar risks and are managed together in a single portfolio". As AASB 1023 does not explicitly define "broadly similar risks" or "managed together as a single portfolio", the Group has interpreted these terms in a way that reflects our day to day approach to managing the various risks to which the Group is exposed. The Group's portfolios are structured in a way that facilitates the efficient and effective management of our insurance businesses, and recognises that these businesses are subject to broadly similar risks such as the interest and inflation rate environment, pricing risk, credit risk, social and political risks such as unemployment and social unrest, and common insurance risks such as exposure to weather-related or other natural catastrophe risks.

b. Assets arising from reinsurance contracts and other recoveries

Estimates of reinsurance and other recoveries are also determined using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Group may not receive amounts due and these amounts can be reliably measured. Analysis of reinsurance recoveries is provided in Note 10.

c. Annual impairment tests

The Group tests annually whether goodwill and identifiable intangibles have suffered any impairment, in accordance with the accounting policy stated in Note 2(R). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to Note 16 for details of these assumptions and the potential impact of changes to the assumptions.

d. Deferred tax assets

The Group has recognised deferred tax assets relating to carried forward tax losses to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority against which the unused tax losses can be utilised. However, utilisation of the tax losses also depends on the ability of the entity to satisfy certain tests at the time the losses are recouped. If the entity fails to satisfy the tests, carried forward losses of $30,142 that are currently recognised as deferred tax asset would have to be written off to income tax expense.

5. REVENUE AND EXPENSES

		2018 $'000	2017 $'000
	Revenue		
(a)	**Premium revenue**	**182,804**	187,979
(b)	**Investment revenue on assets backing policyholder funds**		
	Interest income	**7,187**	7,447
	Rebate of management services fees	**29**	28
	Realised losses on financial assets	**(253)**	(117)
	Unrealised losses on financial assets held at fair value	**(2,034)**	(4,075)
	Distributions from unit trust	**246**	218
		5,175	3,501
(c)	**Investment revenue on assets backing shareholder funds**		
	Interest income	**3,597**	3,905
	Rebate of management services fees	**91**	98
	Realised (losses)/gains on financial assets	**(177)**	6
	Unrealised gains/(losses) on financial assets held at fair value	**1,160**	(167)
	Distributions from unit trust	**1,089**	839
		5,760	4,681
(d)	**Fee and other income**		
	Commission, fees and brokerage	**17,268**	16,312
	Reinsurance commission	**3,091**	2,677
	Professional services revenue	**17,104**	13,694
	Other revenue	**1,393**	276
		38,856	32,959
	Expenses		
(e)	**Gross claims expense**		
	Gross claims – current year	**117,388**	128,814
	Gross claims – prior years[1]	**(30,692)**	(29,625)
		86,696	99,189
(f)	**Reinsurance and other recoveries revenue**		
	Reinsurance and other recoveries – current year	**27,859**	33,165
	Reinsurance and other recoveries – prior years[1]	**(7,464)**	770
		20,395	33,935
(g)	**Net claims expense**		
	Net claims – current year	**89,529**	95,649
	Net claims – prior years[1]	**(23,228)**	(30,395)
		66,301	65,254

5. REVENUE AND EXPENSES cont.

		2018 $'000	2017 $'000
(h)	**Acquisition costs**		
	Commissions and referral fees	**15,316**	15,443
	Other acquisition costs	**16,774**	15,893
		32,090	31,336
(i)	**Underwriting expenses**		
	Other underwriting expenses	**35,215**	35,081
	Fire service levy expense	**5,818**	7,043
		41,033	42,124
(j)	**Finance costs**		
	Interest expenses – parent entity	**934**	962
	Interest expenses – other corporations	**2**	2
		936	964
(k)	**Other expenses**		
	Loss/(gain) on disposal of property, plant and equipment	**39**	(4)
	Depreciation – property, plant and equipment	**1,249**	1,552
	Employee Entitlements	**7,232**	7,181
	Amortisation of intangible assets and goodwill	**887**	1,516
		9,407	10,245
(l)	**Provisions**		
	Doubtful debts – trade and other receivables	**(94)**	187
	Doubtful debts – loans and receivables	**(18)**	(9)
	Make good provisions	**(151)**	84
	Employee entitlements	**1,626**	1,449
	Total provisions	**1,363**	1,711

[1] Prior year reversals relate to the release of provisions where there has been a lower than expected cost of claims.

6. INCOME TAX

	2018 $'000	2017 $'000
The major components of income tax expense are:		
Income statement		
Current income tax		
Current income tax charge	**3,636**	5,028
Adjustments in respect of current income tax of previous years	**(15)**	(65)
Deferred income tax		
Relating to origination and reversal of temporary differences	**(236)**	(1,696)
Movement in booked losses	**5**	3
Adjustments in respect of current income tax of previous years	**-**	13
Income tax expense reported in the statement of comprehensive income	**3,390**	3,283

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the company's applicable income tax rate is as follows:

	2018 $'000	2017 $'000
Accounting profit before income tax	**12,415**	11,329
At the company's statutory income tax rate @ 30% (2017:30%)	**3,724**	3,399
Rebateable dividends	**(395)**	(374)
Movement in booked losses	**5**	3
Expenditure not allowable for income tax purposes	**57**	55
Other	**(1)**	200
Income tax expense reported in the statement of comprehensive income	**3,390**	3,283

	Balance Sheet		Income Statement	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Deferred income tax				
Deferred income tax at 30 June relates to the following:				
Deferred tax liabilities				
Revaluations of available-for-sale investments to fair value	**(2,534)**	(1,570)	**964**	(110)
Prepayments	**(74)**	(79)	**(5)**	(2)
Work in progress	**(1,037)**	(782)	**255**	239
Other	**(106)**	(110)	**(4)**	(39)
	(3,751)	(2,541)		
Deferred tax assets				
Provisions	**4,535**	4,487	**(48)**	(311)
Revaluations of available-for-sale investments to fair value	**2,611**	1,183	**(1,428)**	(1,183)
Claims handling costs	**3,017**	3,004	**(13)**	18
Other	**1,348**	1,396	**48**	(292)
	11,511	10,070		
Deferred income tax benefit			**(231)**	(1,680)

The deferred tax asset for the consolidated entity relating to prior year tax losses brought into account is $30,142 (2017 – $34,884). This benefit for tax losses will only be obtained if:

a. the subsidiary entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, or

b. the subsidiary entity continues to comply with the conditions for deductibility imposed by tax legislation, and

c. no changes in tax legislation adversely affect the subsidiary entity in realising the benefit from the deductions for the losses.

At 30 June 2018, there are no unrecognised temporary differences associated with the Group's investments in subsidiaries, as the Group has no liability for additional taxation should unremitted earnings be remitted (2017 – $nil).

7. DIVIDENDS PAID AND PROPOSED

The Guild Group Holdings Limited board declared a dividend of $3.0 million on 30 August 2017, payable to the Pharmacy Guild of Australia on 9 October 2017.

	2018 $'000	2017 $'000
Declared and paid during the year		
Dividends on ordinary shares:	**3,000**	3,000

	2018 $'000	2017 $'000
Franking credit balance		
The amount of franking credits available for the subsequent financial year are:		
> franking account balance as at the end of the financial year at 30% (2017: 30%)	**60,604**	55,696
> franking credits that will arise from the payment of income tax payable as at the end of the financial year	**65**	2,506
	60,669	58,202

The tax rate at which paid dividends have been franked is 30% (2017: 30%)

8. CASH AND CASH EQUIVALENTS

(a) Reconciliation of the net profit after tax to the net cash flows from operations

	2018 $'000	2017 $'000
Net profit	**9,025**	8,047
Adjustments for:		
Depreciation and amortisation	**2,138**	3,059
Movement in doubtful debts and impairment	**(89)**	195
Changes in fair value of financial assets	**1,304**	4,353
Movement in interest receivable	**(10,784)**	(11,352)
Movement in investment in an associate	**(4)**	-
Movement in distributions from unit trust	**(1,335)**	(1,057)
Loss/(profit) on sale of property, plant and equipment	**39**	(4)
Changes in assets and liabilities		
(Increase) in work in progress	**(848)**	(798)
Decrease/(increase) in reinsurance and other recoveries receivable	**1,567**	(2,169)
Decrease/(increase) in deferred acquisition costs	**98**	(377)
(Increase) in deferred outwards reinsurance premium expense	**(207)**	(368)
Increase/(decrease) in claims liabilities	**825**	(1,012)
Increase/(decrease) in premium liabilities	**2,378**	(1,736)
Increase/(decrease) in amounts payable to reinsurers	**1,058**	(1,556)
Increase in trade and other payables	**956**	1,935
Increase in provisions	**1,475**	1,533
(Decrease)/increase in income tax payable	**(2,424)**	2,506
Increase in deferred tax liabilities	**1,210**	88
(Increase) in deferred tax assets	**(1,441)**	(1,768)
(Increase) in loan receivable from Australian Childcare Alliance NSW	**-**	(500)
(Decrease)/increase in amount payable to ultimate parent entity	**(71)**	130
(Increase) in trade and other receivables	**(6,603)**	(2,827)
(Increase)/decrease in prepayments	**(2,363)**	3,125
Decrease in income tax receivable	**-**	790
Net cash flows from operating activities	**(4,096)**	237

8. CASH AND CASH EQUIVALENTS cont.

(b) Changes in liabilities arising from financing activities

	1 July 2017 $'000	Cash Flows $'000	Reclassified as part of disposal group $'000	Foreign exchange movement $'000	Changes in fair values $'000	New leases $'000	Other $'000	30 June 2018 $'000
Dividends Paid	-	3,000	-	-	-	-	-	3,000

	2018 $'000	2017 $'000
(c) Reconciliation of cash		
Cash balance comprises:		
Cash at bank and on hand	**13,910**	12,346

(d) Financing facilities available

At reporting date, the following financing facilities had been negotiated and were available:

	2018 $'000	2017 $'000
Total facilities		
> Bank overdraft	**1,000**	1,000
> Leasing/hire purchase/credit cards	**1,363**	1,333
> Bank guarantees	**4,750**	4,750
	7,113	7,083
Facilities used at reporting date		
> Bank overdraft	**-**	-
> Leasing/hire purchase/credit cards	**121**	111
> Bank guarantees	**3,327**	3,220
	3,448	3,331
Facilities unused at reporting date		
> Bank overdraft	**1,000**	1,000
> Leasing/hire purchase/credit cards	**1,242**	1,222
> Bank guarantees	**1,423**	1,530
	3,665	3,752

9. TRADE AND OTHER RECEIVABLES

	2018 $'000	2017 $'000
(a) Trade receivables		
Trade receivables	**99,118**	92,383
Allowance for doubtful debts	**(405)**	(499)
	98,713	91,884
(b) Other receivables		
Other amounts receivable	**3,081**	4,338
Loan receivable	**500**	500
Agency service debtors	**1,125**	-
	103,419	96,722

(c) Allowance for doubtful debts

Trade receivables are non-interest bearing and are generally on 30-90 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss of $405,000 (2017: $499,000) has been recognised by the Group. No individual amount within the impairment allowance is material.

(d) Maturity

	Total days $'000	0 – 30 days $'000	30 – 60 days $'000	60 – 90 days $'000	91+ days $'000
2018	**99,118**	**93,280**	**2,713**	**1,688**	**1,437**
2017	92,383	86,271	2,253	1,749	2,110

The loan receivable from Australian Childcare Alliance NSW is in relation to the Guild Early Learning Pty Ltd joint venture. Interest is calculated quarterly utilising the aggregate of the Australian Bond 5 year yield quoted by Bloomberg at 10.00am (AEST) and a margin of 1%. There are no set repayment terms or covenants.

Other receivable balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other receivable balances will be received when due.

(e) Fair value and credit risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the entity's policy to transfer (on-sell) receivables to special purpose entities.

(f) Receivables are expected to be received within 12 months of the financial year end

10. REINSURANCE AND OTHER RECOVERIES RECEIVABLE

	2018 $'000	2017 $'000
(a) On outstanding claims		
Expected future recoveries (undiscounted)	**39,811**	41,166
Discount to present value	**(1,843)**	(1,631)
Reinsurance and other recoveries receivable	**37,968**	39,535
(b) Maturity		
Expected to be realised within 12 months	**21,833**	23,739
Expected to be realised after 12 months	**16,135**	15,796
	37,968	39,535

(c) Actuarial Assumptions

The effect of changes in assumptions on the net outstanding claims liability, which incorporates the reinsurance recoveries on outstanding claims and other recoveries receivable, is disclosed in the claim liability note.

11. FINANCIAL ASSETS

		2018 $'000	2017 $'000
(a)	Fixed interest deposits – fair value	**251,306**	256,895
(b)	Investment in unlisted unit trust – fair value	**38,601**	33,272
(c)	Agricultural investments	**1,043**	812
(d)	Amounts receivable (at amortised cost) in respect of:		
	Hire purchase arrangements	**452**	1,332
	Investment loans	**14,284**	13,734
		14,736	15,066
(e)	Loans*	**673**	731
		306,359	306,776
(f)	Maturity		
	Expected to be realised within 12 months	**75,458**	60,373
	Expected to be realised after 12 months	**230,901**	246,403
		306,359	306,776

* Loans have been made directly with selected Meridian senior employees for the purchase of Meridian Shares via the Employee Share Trust and are fully recourse.

Financial assets – determination of fair value

There has been no change during the current reporting period in the processes used for the determination of the fair value for financial assets. There is an insignificant portion of financial assets (5.0%) for which a valuation methodology is used to determine the fair value. Reasonable changes in the judgement applied in conducting these valuations would not have a significant impact on the balance sheet.

The table below separates the total finacial assets balance based on a hierarchy that reflects the significance of the inputs used in the determination of fair value. The fair value hierarchy has the following levels:

> Level 1 – the fair value is calculated using quoted prices in active markets.

> Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liablity, either directly (as prices) or indirectly (derived from prices).

> Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data. Investment loans are carried at amortised cost and not fair valued.

11. FINANCIAL ASSETS cont.

	Quoted market price (Level 1) $'000	Valuation technique – market observable inputs (Level 2) $'000	Valuation technique – non market observable inputs (Level 3) $'000	Total $'000
2018				
Financial Assets				
Investment in unlisted unit trust – fair value	**-**	**32,898**	**5,703**	**38,601**
Fixed interest deposits – fair value	**-**	**251,306**	**-**	**251,306**
Agricultural investment	**-**	**-**	**1,043**	**1,043**
Hire purchase arrangements	**-**	**-**	**452**	**452**
Investment/other loans	**-**	**-**	**14,957**	**14,957**
	-	**284,204**	**22,155**	**306,359**
2017				
Financial Assets				
Investment in unlisted unit trust – fair value	-	28,941	4,331	33,272
Fixed interest deposits – fair value	-	256,895	-	256,895
Agricultural investment	-	-	812	812
Hire purchase arrangements	-	-	1,332	1,332
Investment/other loans	-	-	14,465	14,465
	-	285,836	20,940	306,776

Description of significant unobservable inputs to valuation:

The significant unobservable inputs have been summarised using the fair value measurement categorised within the Level 3 of the fair value hierachy for the Agricultural Investment/Unlisted init trust.

Valuation Technique	Significant Unobservable Inputs	Range	Sensitivity of the input to fair value
Guild's proportion of net assets	Net asset value	+10% -10%	10% increase/(decrease) in net asset value will result in an increase/ (decrease) in fair value by $674K
	Liquidity discount factor of 30%	+10% -10%	10% increase/(decrease) in liquidity discount factor will result in a (decrease)/increase in fair value by $31K

	2018 $'000	2017 $'000
Reconciliation of Level 3 fair value movements		
Opening Balance	**20,940**	16,725
Fair value movement	**102**	339
New business/purchases	**5,302**	10,466
Repayments	**(4,188)**	(6,590)
Closing balance	**22,156**	20,940

During the reporting period ending 30 June 2018, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

12. INVESTMENT IN AN ASSOCIATE

The Group has a 50% interest in Guild Early Learning Pty Ltd (2017: 50%) which involves general insurance underwriting for workers compensation. The Group's interest in Guild Early Learning Pty Ltd is accounted for using the equity method in the financial statements. The following table illustrates the summarised financial information of the Company's investment in Guild Early Learning Pty Ltd:

	2018 $'000	2017 $'000
Current assets	**2,401**	1,777
Current liabilities	**(1,393)**	(777)
Equity	**1,008**	1,000
Company's share in equity = 50% (2017:50%)	**504**	500
(a) Company's carrying amount of the investment	**504**	500
Revenue	**2,236**	777
Administrative expenses	**(2,224)**	(777)
Profit before income tax	**12**	-
Income tax expense	**(4)**	-
Net profit for the year	**8**	-
(b) Company's share of net profit for the year	**4**	-

The associate had no contingent liabilities or capital commitments as at 30 June 2018.

13. PREPAYMENTS AND WORK IN PROGRESS

	2018 $'000	2017 $'000
Work in progress	**3,456**	2,608
Allowance for impairment loss	**(66)**	(55)
Prepayments	**6,486**	4,123
	9,876	6,676

14. DEFERRED INSURANCE ASSETS

	2018 $'000	2017 $'000
(a) Deferred Acquisition Costs		
Carrying amount at the beginning of the period	**16,634**	16,257
Deferral of expenses in the period	**31,992**	31,713
Expensed in the period	**(32,090)**	(31,336)
Carrying amount at the end of the period	**16,536**	16,634
(b) Maturity		
Expected to be realised within 12 months	**16,536**	16,634
	16,536	16,634
(c) Deferred Outwards Reinsurance Premium Expense		
Carrying amount at the beginning of the period	**12,068**	11,700
Deferral of expenses in the period	**34,456**	35,720
Expensed in the period	**(34,249)**	(35,352)
Carrying amount at the end of the period	**12,275**	12,068
(d) Maturity		
Expected to be realised within 12 months	**12,275**	12,068
	12,275	12,068

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold Improvements $'000	Fixtures & Fittings $'000	Total $'000
Reconciliation 2018			
Carrying amount at the beginning of the period	**336**	**3,066**	**3,402**
Additions	**95**	**442**	**537**
Utilised/Disposals	**-**	**(60)**	**(60)**
Depreciation charge for the year	**(130)**	**(1,119)**	**(1,249)**
Carrying amount at the end of the period	**301**	**2,329**	**2,630**
Reconciliation 2017			
Carrying amount at the beginning of the period	457	2,590	3,047
Additions	81	1,822	1,903
Utilised/Disposals	-	4	4
Depreciation charge for the year	(202)	(1,350)	(1,552)
Carrying amount at the end of the period	336	3,066	3,402

16. INTANGIBLE ASSETS AND GOODWILL

	2018 $'000	2017 $'000
(a) Goodwill		
Goodwill at the beginning of the year	**3,757**	3,757
Balance at end of year	**3,757**	3,757

Goodwill – Impairment Tests

For the purposes of impairment testing, goodwill is allocated to the Group's operating divisions, or cash generating units ('CGU') (superannuation) which represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The recoverable amount for the relevant CGU has been determined based on value-in-use calculations. The value-in-use is calculated using a discounted cash flow methodology covering a five year period with an appropriate terminal value at the end of year five less net assets required, for the CGU. The carrying value of identified intangible assets is deducted from the value generated from the cash flow projections to arrive at a recoverable value for goodwill which is then compared with the carrying value of goodwill.

Key assumptions used

The following describes the key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill:

> **Cash flow forecasts** – are based on cash flow projections from 2018/2019 financial budgets, as well as the three year business plans approved by management and the Board. Five year periods are used to enable appropriate phasing to terminal values.

> **Terminal growth rates** – are based on past performance, market performance and management's expectations for future performance in each CGU. Terminal growth rate 0% (2017 – 0%) – Zero growth rate has been applied for periods after year five.

> **Discount rate** – the discount rates used reflect management's estimate of the time value of money, and the benchmark to assess operating performance and to evaluate future investment proposals. Discount rate of 10% (2017 – 10%) has been applied which is the pre tax hurdle rate.

Sensitivity – Superannuation

For a period of five years, using any one of annual investment returns of negative 10.3%, client exits of 13.7% or a 44.0% discount rate would result in a value in use equal to the carrying amount of the CGU.

(b) Systems Development & Computer Software – at cost

	Computer Software $'000	Assets in the course of Development $'000	Total $'000
Reconciliation 2018			
Carrying amount at the beginning of the period	**1,873**	**-**	**1,873**
Additions	**523**	**1,190**	**1,713**
Amortisation	**(888)**	**-**	**(888)**
Carrying amount at the end of the period	**1,508**	**1,190**	**2,698**
Reconciliation 2017			
Carrying amount at the beginning of the period	2,270	-	2,270
Additions	1,143	-	1,143
Amortisation	(1,540)	-	(1,540)
Carrying amount at the end of the period	1,873	-	1,873

Systems development costs are carried at cost less accumulated amortisation and any applicable accumulated impairment losses. The intangible assets have been assessed as having a finite life and are amortised on a straight line basis over a 4 (Guidewire Insurance System) and 5 (Digital & Audio Visual Experience) year period. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

	2018 $'000	2017 $'000
Total intangible assets and goodwill	**6,455**	5,630

17. TRADE AND OTHER PAYABLES

		2018 $'000	2017 $'000
(a)	Trade and other payables	**22,170**	21,318
	Amounts payable to reinsurers	**2,170**	1,112
	Amounts payable to ultimate parent entity	**1,102**	1,173
		25,442	23,603
(b)	Maturity		
	Expected to be realised within 12 months	**25,442**	23,603
	Expected to be realised after 12 months	**-**	-
		25,442	23,603

(c) Fair value

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

18. PREMIUM LIABILITIES

		2018 $'000	2017 $'000
(a)	Unearned premium	**118,552**	116,174
	Unearned commission	**2,074**	1,971
		120,626	118,145
(b)	Carrying amount at the beginning of the period	**118,145**	119,395
	Deferral of premiums on contracts in the period	**185,285**	186,729
	Earning of premiums written in the period	**(182,804)**	(187,979)
	Carrying amount at the end of the period	**120,626**	118,145

(c) Maturity

Premium liabilities are expected to be earned within 12 months of the financial year end.

(d) Liability adequacy test

The probability of adequacy applied in the liability adequacy test differs from the probability of adequacy adopted in determining the outstanding claims provision. The reason for the difference is that the former is a benchmark used only to test the sufficiency of net premium liabilities whereas the latter is a measure of the adequacy of the outstanding claims provision actually carried by the Group.

AASB 1023 requires the inclusion of a risk margin in insurance liabilities, but does not prescribe a minimum level of margin. Whilst there is established practice in the setting of the probability of adequacy for the claims provision, no such guidance exists in respect of the level of probability of adequacy to be used in determining the adequacy of premium liabilities. The Group has adopted a risk margin for the purposes of the liability adequacy test to produce a 75% probability of adequacy in respect of total insurance liabilities. The 75% basis is a recognised industry benchmark in Australia, being the minimum probability of adequacy required for Australian licensed insurers by APRA.

The application of the liability adequacy test in respect of the net premium liabilities identified a surplus at 30 June 2018 and 2017.

19. INTEREST BEARING BORROWINGS

The $16.84 million floating rate loan with the Pharmacy Guild of Australia qualifies as Tier 2 capital for APRA reporting purposes.

	2018 $'000	2017 $'000
(a) Loan – floating rate		
Loan payable to ultimate parent entity – floating rate	**16,840**	16,840
	16,840	16,840
(b) Maturity		
Expected to be realised within 12 months	**-**	-
Expected to be realised after 12 months	**16,840**	16,840
	16,840	16,840
(c) Assets pledged as security		
The carrying amount of assets pledged as security for interest bearing liabilities;		
Fixed and floating company charge on assets		
Guild Superannuation Services Limited	**6,313**	6,287
Guild Finance Facility Limited	**789**	798
Guild Commercial Finance Pty Limited	**138**	138
	7,240	7,223
Fixed Charge		
Shares in Guild Trustee Services Pty Limited	**50**	50
	50	50
Total assets pledged as security	**7,290**	7,273

A fixed and floating charge, in favour of the bank, applies against all the guarantees supported by a Registered Equitable Mortgage.

Fair values

The carrying amount of the Group's borrowings disclosed in order of liquidity approximate their fair value.

Defaults and breaches

During the current and prior years, there were no defaults or breaches on any of the loans.

20. PROVISIONS	Employee Entitlements $'000	Make Good Provision $'000	Total $'000
At 1 July 2017	**16,415**	**1,058**	**17,473**
Arising during the year	**12,212**	**97**	**12,309**
Utilised	**(10,074)**	**(169)**	**(10,243)**
Unused amounts Reversed	**(504)**	**(77)**	**(581)**
Discount rate adjustment	**(8)**	**(2)**	**(10)**
As at 30 June 2018	**18,041**	**907**	**18,948**
Current 2018	**12,966**	**122**	**13,088**
Non-current 2018	**5,075**	**785**	**5,860**
	18,041	**907**	**18,948**
Current 2017	11,384	521	11,905
Non-current 2017	5,031	537	5,568
	16,415	1,058	17,473

Employee Entitlements

a. Annual Leave

Liability for annual leave is recognised at the nominal amounts unpaid at the reporting date using remuneration rates that are expected to be paid when the liability is settled, including oncosts.

b. Long Service Leave

A liability for long service leave is recognised as the present value of estimated future cash outflows to be made in respect of services provided by employees up to the reporting date. The estimated future cash outflows are discounted using corporate bond yields which have terms to maturity that match, as close as possible, the estimated future cash outflows. Factors which affect the estimated future cash outflows such as expected future salary increases, experience of employee departures and period of service, are incorporated in the measurement.

c. Short Term Incentive (STI)

The short term incentive plan continued in operation during the current reporting year. Eligible employees have the capacity to earn a proportion of their base pay as a cash incentive annually. The incentive opportunity is set depending on an employee's role and responsibilities. The majority of employees are on a 8%, 10%, 15% or 20% plan. The incentive payments are determined based on an assessment of individual performance and achievement of a range of business unit and individual goals.

d. Long Term Incentive (LTI)

LTI rewards behaviour and results that add value to the Group's business. The LTI is based on company, business unit and individual performance metrics. The rules for the payment of the incentive schemes must, and have been developed to meet the APRA prudential requirements in respect to remuneration arrangements. Participation in the Group LTI scheme commencing 1 July 2010 is only available to the following eligible employees: Executive Team and Extended Leadership Team (ELT)/Technical Talent. Incentive achievement targets for the Group or business units will be set annually by the Chief Executive Officer and the Board. The LTI bonus earned will be paid at the end of year 3 on a rolling year (1 July – 30 June) basis.

Make Good Provision

Under AASB 116: Property, plant and equipment the entity is required to include as part of the cost of its leasehold improvements, an estimate of the costs to remove those improvements at the end of the lease term where such an obligation exists to the lessor. The corresponding liability is recognised above as a make good provision.

21. CLAIMS LIABILITIES

		2018 $'000	2017 $'000
(a)	Expected future claims payments (undiscounted – central estimate)	**180,453**	180,575
	Discount to present value	**(15,625)**	(16,756)
		164,828	163,819
	Claims handling costs	**8,241**	8,191
		173,069	172,010
	Risk margin	**39,553**	39,787
	Liability for outstanding claims	**212,622**	211,797
	Expected to be realised within 12 months	**83,669**	82,772
	Expected to be realised after 12 months	**128,953**	129,025
		212,622	211,797

(b) Process for determining risk margin

The overall risk margin was determined by the Appointed Actuary based on the uncertainty of the outstanding claims estimates for each class and allowing for diversification between different business classes. The uncertainty for each class was established using benchmarking, supplemented by analysis of the history of Guild Insurance.

The assumptions regarding uncertainty for each class were applied to the net central estimates, and the results were aggregated, allowing for diversification in order to arrive at an overall provision which is intended to have a 95% (2017 – 95%) probability of sufficiency.

The overall risk margin applied was 22.9% (2017 – 23.1%).

(c) Actuarial assumptions and methods

The following ranges of key actuarial assumptions were used in the measurement of outstanding claims and recoveries, where appropriate, at the reporting date.

	2018	2017
Inflation rate	**2.90%**	2.84%
Superimposed inflation rate (weighted average)	**4.62%**	4.50%
Discount rate (weighted average)	**2.50%**	2.55%
Claims handling expense rate	**5.00%**	5.00%
Weighted average term to settlement (number of years)	**3.2**	3.3

Process used to determine assumptions

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

Inflation rate
Economic inflation assumptions are set by reference to current economic indicators.

Superimposed inflation rate
Superimposed inflation occurs due to non-economic effects such as court settlements increasing at a faster rate than the economic inflation rate utilised. An allowance for superimposed inflation was made for each underlying model, where appropriate, based on expected cost pressures to re-emerge.

Discount rate
The discount rate is derived from market yields on government securities.

21. CLAIMS LIABILITIES cont.

Claims handling expense rate

A rate for claims handling expenses was calculated by reference to past experience of estimated claims handling costs as a percentage of past payments.

Weighted average term to settlement

The average weighted term to settlement is calculated as the time weighted average of projected aggregate cash flows for all classes of business (gross of reinsurance and other recoveries and discounted to the balance date).

Sensitivity analysis

The impact on the profit or loss to changes in key actuarial assumptions is summarised below. Each change has been calculated in isolation of the other changes and is gross and net of reinsurance recoveries.

Variable	Movement	Gross of Recoveries $'000	Net of Recoveries $'000	Equity $'000
Recognised amounts per the financial statements				
Claim Inflation	+ 50 basis points	3,139	2,860	(2,002)
Discount Rate	+ 50 basis points	(3,135)	(2,794)	1,956
Claims Handling Expense	+ 50 basis points	1,012	935	(654)
Risk Margin	+ 50 basis points	865	718	(502)

(d) Reconciliation of movement in discounted outstanding claims liability

	2018			2017		
	Gross $'000	Reinsurance $'000	Net $'000	Gross $'000	Reinsurance $'000	Net $'000
Brought forward	**211,797**	**39,535**	**172,262**	212,809	37,366	175,443
Movement in the prior year central estimate	**(29,579)**	**(5,035)**	**(24,544)**	(27,342)	(60)	(27,282)
Current year claims incurred	**85,045**	**15,561**	**69,484**	88,412	21,086	67,326
Claims paid/recoveries received	**(54,374)**	**(12,091)**	**(42,283)**	(60,242)	(18,789)	(41,453)
Movement in discounting	**(267)**	**(56)**	**(211)**	(1,840)	(189)	(1,651)
Movement in risk margin	**-**	**54**	**(54)**	-	121	(121)
Carried forward	**212,622**	**37,968**	**174,654**	211,797	39,535	172,262

21. CLAIMS LIABILITIES cont.

(e) Claims development table

The following table shows the development of net undiscounted outstanding claims relative to the ultimate expected claims for the ten most recent accident years.

Net	2009 (and prior) $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	Total $'000
Estimate of Ultimate claims cost											
At end of accident year	488,374	65,089	88,456	80,930	79,813	96,793	103,690	86,124	91,464	**86,054**	488,374
One year later	478,983	68,524	79,066	76,078	74,161	88,218	97,177	82,011	84,207		544,072
Two years later	471,820	65,331	78,919	74,202	72,054	84,314	93,489	79,488			628,801
Three years later	471,400	64,642	76,065	72,226	69,370	81,827	92,810				696,726
Four years later	470,390	64,320	74,243	69,416	67,323	81,602					769,841
Five years later	466,930	63,808	73,241	67,470	67,676						852,470
Six years later	467,292	62,961	72,903	67,354							941,531
Seven years later	464,892	62,183	72,300								1,007,495
Eight years later	463,880	62,179									1,082,548
Nine years later	461,805										1,155,476
Current estimate of cumulative claims cost	461,805	62,179	72,300	67,354	67,676	81,602	92,810	79,488	84,207	**86,054**	1,155,476
Cumulative payments	453,742	59,215	67,235	61,432	63,405	70,293	80,259	61,504	60,289	**28,984**	1,006,358
Outstanding claims – undiscounted	8,063	2,964	5,065	6,178	4,271	11,309	12,551	17,984	23,918	**57,070**	149,373
Discount	(1,310)	(470)	(804)	(1,004)	(636)	(1,221)	(1,297)	(1,630)	(2,051)	**(3,662)**	(14,085)
Outstanding claims	6,753	2,493	4,261	5,174	3,635	10,088	11,254	16,354	21,867	**53,408**	135,288
Claims handling expenses											8,241
Risk margin											31,125
Total net outstanding claims per the Statement of Financial Position											**174,654**
Reinsurance and other recoveries on outstanding claims liability											37,968
Total gross outstanding claims per the Statement of Financial Position											**212,622**

22. CONTRIBUTED EQUITY

(a) Authorised shares

Consolidated and Parent entity	Number of shares	$'000
2018		
(i) Ordinary shares		
Ordinary shares issued and fully paid ($1.55 par value)	**3,605,434**	**5,585**
2017		
(i) Ordinary shares		
Ordinary shares issued and fully paid ($1.55 par value)	3,605,434	5,585

* There were no shares issued during the financial year.

(b) Terms and conditions of contributed equity

Ordinary shares have the right to receive dividends as declared.

(c) Capital management

When managing capital, management's objective is to ensure the Group continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the Group. Management adjust the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. During 2017/2018, dividends of $3,000,000 were paid by Guild Group Holdings Limited (2016/2017: $3,000,000).

	Notes	2018 $'000	2017 $'000
(d) Retained earnings			
Balance at 1 July		**110,119**	105,600
Net profit attributable to members of Guild Group Holdings Limited		**8,391**	7,504
Sale of non-controlling interest	22(b)	**19**	15
Total available for appropriation		**118,529**	113,119
Dividends paid or provided		**(3,000)**	(3,000)
Balance at 30 June		**115,529**	110,119

23. NON-CONTROLLING INTEREST

	2018 $'000	2017 $'000
(a) Interest in:		
'A' class ordinary shares	**746**	741
Dividend paid	**(371)**	-
Retained earnings	**1,643**	1,009
Balance at 30 June	**2,018**	1,750

(b) Guild Group Holdings Limited owns 50.25% of the total equity in Meridian Lawyers Limited. The remaining 49.75% of equity is held by the Meridian Employee Share Scheme (24.75%) and Steadfast Group Limited (ASX:SGL) (25%).

24. COMMITMENTS

Operating lease commitments – Group as a lessee

The entity has entered into commercial leases on certain motor vehicles, business equipment and office premises. These leases have an average life of between 1 and 7 years.

	2018 $'000	2017 $'000
Future minimum rentals payable under operating leases as at 30 June are as follows:		
Within one year	**4,939**	4,682
After one year but not more than five years	**18,686**	13,519
More than five years	**-**	3,372
	23,625	21,573

25. RELATED PARTIES

(Amounts are in whole dollars)	2018 $	2017 $
Transactions of Directors		
Guild Insurance Limited had loans to directors during the period, Mr. J. Dowling (Directors of the parent entity) on normal terms and conditions no more favorable than those available on similar transactions to other customers:		
Repayments received during the year in relation to the loans	**47,596**	47,648
Aggregate amount of loans outstanding at year end	**280,914**	315,194
Interest revenue from directors	**12,695**	14,263
Transactions of Parent		
During 2006, 2008 and 2012 Guild Insurance Limited made loans and hire purchase arrangements with Pharmacy Guild of Australia (SA Branch) on normal terms and conditions no more favorable than those available on similar transactions to other customers:		
Lease/Hire purchase repayments	**-**	131,089
Interest revenue	**-**	4,094
Interest paid to The Pharmacy Guild of Australia	**855,061**	961,532
Guild Insurance Limited commission paid/payable on policies written to The Pharmacy Guild of Australia. The rates are based on normal commercial terms and conditions.	**3,332,507**	3,793,916
Commission on policies payable at balance date	**1,101,573**	1,172,735
Sponsorship Fees paid by the parent and subsidiary entities to The Pharmacy Guild of Australia.	**138,020**	286,773
Insurance Premiums received by subsidiary entities from The Pharmacy Guild of Australia.	**68,424**	45,882
Legal fees received by subsidiary entities from The Pharmacy Guild of Australia.	**731,501**	505,848
Subsidiaries of Guild Group Holdings Limited sold insurance policies and financial products to key management personnel or their related entities during the year within a normal employee or customer relationship on terms and conditions no more favourable than those available on similar transactions to other employees in line with the company's policy on staff discounts.		
Transactions of Other Related Parties:		
Legal fees received from other related parties	**917,268**	570,701
Insurance premiums received from other related parties	**68,424**	45,882
Commission paid/payable to Steadfast owned brokers	**341,851**	447,480

Parent entity:

The parent entity (and ultimate parent entity) is The Pharmacy Guild of Australia.

26. SIGNIFICANT EVENTS AFTER BALANCE DATE

A dividend of $3.5 million was declared by the Directors at the Board meeting held on 31 August 2018, payable to the Pharmacy Guild of Australia on 9 October 2018.

Guild Link Pty Ltd (Guild Link) was acquired by Guild Group Holdings Limited on the 1st July 2018. 100% of the equity (1,324,073 fully paid ordinary shares) was acquired for a consideration of $1. Guild Link provides software solutions to the Health Care Industry. Guild Link was previously 100% owned by the Pharmacy Guild of Australia, the parent entity.

27. REMUNERATION OF AUDITORS

(Amounts are in whole dollars)	2018 $	2017 $
Amounts received, or due and receivable, by Ernst & Young:		
Audit of the financial report of the consolidated group	**279,641**	274,158
Assurance services in relation to the consolidated group	**149,290**	148,127
Other services in relation to the consolidated group*	**186,048**	960,596
	614,979	1,382,881

* Other services includes data management and analytic services. The provision of these data management and analytic services were considered as part of a formal tender process subject to Audit Committee approval, and the Audit Committee is satisfied that these other services and the level of fees are compatible with maintaining auditors' independence.

28. KEY MANAGEMENT PERSONNEL

Directors' remuneration

The following Directors held office during the year:

Mr G. Venardos, Mr A. Bloore, Mr J.C. Dowling, Mr T. Logan (to 7 March 2018), Mr S. Somogyi, Mr I. Todd (to 7 March 2018), Ms. L. Jenkinson, Mr T. Twomey (from 8 March 2018) and Mr N. Panayiaris (from 8 March 2018).

Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of the consolidated entity, directly or indirectly, from the entity or any related party:

(Amounts are in whole dollars)	2018 $	2017 $
Short term benefits	**830,215**	834,630
Post employment benefits	**86,740**	92,411
Total compensation	**916,955**	927,041

Other Key Management Personnel

Remuneration received or due and receivable by executive officers (including directors) of the consolidated group whose remuneration is $100,000 or more, from the entities in the consolidated entity or a related party, in connection with the management of the affairs of the entities in the consolidated group, whether as an executive officer or otherwise is:

(Amounts are in whole dollars)	2018 $	2017 $
Short term benefits	**6,198,624**	5,648,944
Post employment benefits	**318,958**	253,067
Other long term benefits	**885,607**	890,927
Termination benefits*	**180,408**	561,519
Total compensation	**7,583,597**	7,354,457

* Termination benefits relate to key management personnel who have ceased employment.

28. KEY MANAGEMENT PERSONNEL cont.

The remuneration of all Leadership Team members includes a base remuneration component, a short-term incentive payment and a pro-rata long-term incentive payment.

The remuneration detailed above only includes amounts that were either paid or payable at 30 June 2018.

If certain performance conditions are met and employment continues an additional amount may be payable in accordance with the long-term incentive scheme at a future date.

Subsidiaries of Guild Group Holdings Limited sold insurance policies and financial products to key management personnel or their related entities during the year within a normal employee or customer relationship on terms and conditions no more favourable than those available on similar transactions to other employees in line with the company's policy on staff discounts.

29. INVESTMENT IN SUBSIDIARY ENTITIES

Name of entity	Book Value of Parent Entity's Investment		Equity Holding		Class of shares
	2018 $'000	2017 $'000	**2018 %**	2017 %	
Parent Entity					
Guild Group Holdings Limited					
Controlled Entities					
Guild Insurance Limited	**27,938**	27,938	**100**	100	Ordinary
Guild Superannuation Services Limited	**5,862**	5,862	**100**	100	Ordinary
Guild Finance Facility Limited	**750**	750	**100**	100	Ordinary
Meridian Lawyers Limited	**754**	759	**50**	51	Ordinary
Guild Commercial Finance Pty Limited	**350**	350	**100**	100	Ordinary
Meridian Employee Share Plan	**-**	-	**100**	100	
	35,654	35,659			

All controlled entities are incorporated in Australia.

Guild Group Holdings Limited owns 50.25% (2017: 50.58%) of the total equity in Meridian Lawyers Limited. The remaining 49.75% (2017: 48.42%) of equity is held by the Meridian Employee Share Scheme (24.75%) (2017:24.42%) and Steadfast Group Limited (ASX:SGL) (25%) (2017:25%).

Guild Link Pty Ltd (Guild Link) was acquired by Guild Group Holdings Limited on the 1st July 2018. 100% of the equity (1,324,073 fully paid ordinary shares) was acquired for a consideration of $1. Guild Link provides software solutions to the Health Care Industry. Guild Link was previously 100% owned by the Pharmacy Guild of Australia, the parent entity.

Guild Group Holdings has registered a new subsidiary, Health Programme Services Pty Ltd. This entity was registered on 13 July 2018.

30. CONTINGENCIES

The entity has $3,326,579 (2017: $3,219,797) in contingent liabilities relating to bank guarantees as at 30 June 2018.

31. PARENT ENTITY FINANCIAL STATEMENTS

Statement of financial position	Parent 2018 $'000	Parent 2017 $'000
Assets		
Cash and cash equivalents	**366**	371
Trade and other receivables	**62**	740
Income tax receivable	**195**	-
Prepayments and inventories	**306**	310
Property, plant and equipment	**757**	960
Deferred tax assets	**1,124**	1,289
Financial assets	**37,297**	37,158
Intangible assets	**7**	14
Total Assets	**40,114**	40,842
Liabilities		
Trade and other payables	**1,372**	734
Income tax payable	**-**	2,444
Interest-bearing loans and borrowings	**16,840**	16,840
Provisions	**5,167**	5,335
Deferred tax liabilities	**288**	227
Total Liabilities	**23,667**	25,580
Net Assets	**16,447**	15,262
Equity		
Contributed equity	**5,585**	5,585
Retained earnings	**10,862**	9,677
Total Equity	**16,447**	15,262

Statement of comprehensive income		
Other revenue	**23,943**	23,459
Administration expenses	**(5,005)**	(5,386)
Marketing expenses	**(301)**	(323)
Salary related expenses	**(14,315)**	(15,703)
Other expenses	**(934)**	(962)
Unrealised gain on investment	**202**	301
Profit on sale of subsidiary entity	**19**	15
Profit before income tax	**3,609**	1,401
Income tax credit	**574**	1,025
Net profit for the year	**4,183**	2,426
Profit for the year is attributable to:		
Owners of the parent	**4,183**	2,426
Other comprehensive income for the year is attributable to:		
Owners of the parent	**4,183**	2,426

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Guild

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