Avant mutual
by doctors for doctors

Financial Report
2015/2016

AVANT MUTUAL GROUP LIMITED
ABN 58 123 154 898
(A company limited by guarantee)

Table of Contents

Avant Mutual Group Limited is a company limited by guarantee, incorporated and domiciled in Australia. Its registered office and principal place of business is Level 28, 580 George Street, Sydney, NSW, Australia.

The financial report was authorised for issue by the Directors on 22 September 2016.

The Company has the power to amend and reissue the financial report.

Directors' report
30 June 2016

Directors' report

The Directors present their report on the Group consisting of Avant Mutual Group Limited ("the Company") and the entities it controlled at the end of, or during, the year ended 30 June 2016.

Directors

The following persons were Directors of the Company during the financial year ended 30 June 2016 and up to the date of this report (except as noted below):

Professor Simon Willcock (Chairman)

Mr Peter Beck

Dr Jan Dudley

The Hon John Fahey

Dr William Glasson[1]

Dr Steven Hambleton

Mr Peter Polson

Dr Beverley Rowbotham

Dr Douglas Travis[2]

[1]Appointed as director effective 26 November 2015 and continues in office as at the date of this report.

[2]Appointed as director effective 1 August 2015 and continues in office as at the date of this report.

Dr Stephen Clarke was a director from the beginning of the financial year until his retirement on 31 July 2015.

Dr Timothy Edwards was a director from 1 August 2015 until his retirement on 26 November 2015.

Principal activities

The principal activities of the Group during the year consisted of the protection, support and safeguarding of the reputation and interests of its members and policyholders.

The wholly owned controlled entity, Avant Insurance Limited ("AIL"), performs the function of an insurer for the professional indemnity risks of the members of the Company. This involves the underwriting of medical and health malpractice and legal expenses insurance policies. AIL also distributes life, income protection, TPD and travel insurance products and undertakes investment activities related to its insurance activities.

The wholly owned controlled entity, The Doctors' Health Fund Pty Ltd ("DHF"), allows the Company to provide its members and their employees and families with access to the DHF market leading suite of health insurance products.

The wholly owned controlled entity, Avant Group Holdings Limited ("AGHL"), acts as the holding company within the Group and manages the investment activities of the Company's capital reserves.

Dividends paid or recommended

During the year the Board declared payments under the Retirement Reward Plan (RRP) totalling $7,136,475 to eligible retiring members. These were the first dividends determined under the RRP, and this historically marked the first time a medical defence organisation in Australia has determined to pay franked dividends to members.

Review of operations

The Group's result for the year ended 30 June 2016 is a net profit after tax of $26,183,000 (2015: $66,109,000). The total members' accumulated equity as at 30 June 2016 is $1,032,890,000 (2015: $1,013,843,000).

Directors' report
30 June 2016

Retirement Reward Plan

The Company is proud of its Retirement Reward Plan which rewards eligible members for their loyalty to the Group by way of a dividend upon permanent retirement from medical practice.

During the year the Company resolved to notionally contribute an additional $19,600,000 to the RRP in respect to the year ended 30 June 2015. This brings the total assets notionally allocated to the RRP of $310,481,000 as at 30 June 2016.

Matters subsequent to the end of the financial year

a) Retirement Reward Plan

For the second consecutive year, having considered the financial position and projected outlook for Avant, the Board resolved to notionally contribute a further $19,296,767 to the RRP in respect of the year ended 30 June 2016.

In addition, at that meeting, the Board also resolved to determine dividends and authorise payments for Retirement Reward Dividends totalling $6,623,908 to eligible retiring members. These are the second dividends determined under the RRP, and this historically continues the tradition of being the first medical defence organisation in Australia to pay fully franked dividends to members.

b) Investment in NobleOak

On 18 July 2016, AGHL and NobleOak Life Limited ("NOL") entered into a Binding Share Subscription Term Sheet ("BSSTS") and a Binding Proposal. Pursuant to the terms of the BSSTS, AGHL subscribed for 14.99% of the shares in NOL at a price of $1.045 for total consideration of $6,231,916. The shares were issued to AGHL on 12 August 2016. The Binding Proposal sets out the headline terms for AGHL's further acquisition of shares in NOL which are subject to regulatory and NOL shareholder approval. Under the terms of Binding Proposal, once regulatory approval is received, AGHL will subscribe for a further 5% of the shares in NOL at a price of $1.045 per share to take its shareholding in NOL to 19.99%. If NOL shareholder approval is received, then AGHL will also make an offer to existing NOL shareholders to acquire up to a maximum of 10,000 shares from each shareholder for a minimum price of $1.00 per share and subject up to a cap of 30.99% of shares in NOL.

c) Other

Other than those described above, no other matter or circumstance has arisen since 30 June 2016 that has significantly affected or may significantly affect:

(i) the operations of the Group in future financial years, or

(ii) the results of those operations in future financial years, or

(iii) the state of affairs of the Group in future financial years.

Significant changes in the state of affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the Group that occurred during the financial year ended 30 June 2016.

Likely developments and expected results of operations

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental regulation

The Group is not subject to any significant environmental regulation in respect of its activities.

Directors' report
30 June 2016

Information on Directors

Professor Simon Willcock MBBS (Hons I), PhD, FRACGP, Dip. Obs. RANZCOG/RACGP, GAICD	
Experience and expertise	Professor Willcock is the Chair of AMGL and AGHL, and a Director of AIL and DHF. He is a General Practitioner who has worked in both rural and urban NSW. Professor Willcock is currently the Director of Primary Care at Macquarie University Hospital, and his educational and research interests include musculoskeletal medicine, the health of doctors and generational change in the medical workforce. In 2013, Professor Willcock was inducted into the AMA's Roll of Fellows, in recognition of his contribution to the medical profession. Professor Willcock is a graduate of the Australian Institute of Company Directors.
Avant Directorships	Avant Mutual Group Limited, Avant Group Holdings Limited, Avant Insurance Limited, The Doctors' Health Fund Pty Ltd, The Medical Defence Association of Victoria Limited, The Medical Defence Union Pty. Ltd., MDU Australia Insurance Co Pty Limited, Professional Insurance Australia Pty Ltd, Professional Indemnity Insurance Company Australia Pty. Limited, United Medical Protection of New South Wales Limited and United Medical Protection Limited.
Other current Directorships	RACGP – NSW Faculty Board, Corporate Protection Australia Group, Sydney North Primary Health Network, Future Health Leaders, Macquarie University Clinical Associates.
Former Directorships in last 3 years	Health Workforce Australia and Northern Sydney Medicare Local.
Special responsibilities	Chair of the Nominations Committee and member of the Remuneration Committee.

Mr Peter Beck BSc, FIA, FIAA, FSA, FASFA	
Experience and expertise	Mr Beck is a Director of AMGL, AGHL and AIL. Mr Beck is an actuary by profession and has over 30 years' experience in banking, insurance, superannuation and investments working in Australia, New Zealand, Asia, South Africa and the United Kingdom. He was formerly CEO of Pillar Administration, CEO of CommInsure, and Group General Manager, Strategic Development and Group Appointed Actuary at Colonial.
Avant Directorships	Avant Mutual Group Limited, Avant Group Holdings Limited, Avant Insurance Limited, MDU Australia Insurance Co Pty Limited, Professional Insurance Australia Pty Ltd and Professional Indemnity Insurance Company Australia Pty. Limited.
Other current Directorships	Nil.
Former Directorships in last 3 years	The Doctors' Health Fund Pty Ltd.
Special responsibilities	Member of the Risk Committee, the Audit Committee and the Group Investment Committee.

Directors' report
30 June 2016

Information on Directors (continued)

Dr Jan Dudley MBBS, FRANZCOG, GAICD	
Experience and expertise	Dr Dudley is a Director of AMGL and AGHL. She is a VMO Obstetrician and Gynaecologist at both the Royal Hospital for Women in Randwick and Prince of Wales Private Hospital in Randwick, where she is Chairman of Obstetrics. Dr Dudley has significant governance experience at local hospital level, and was formerly a long standing and highly respected member of Avant's Medical Experts Committee. Dr Dudley is a graduate of the Australian Institute of Company Directors.
Avant Directorships	Avant Mutual Group Limited and Avant Group Holdings Limited.
Other current Directorships	Nil.
Former Directorships in last 3 years	Nil.
Special responsibilities	Member of the Remuneration Committee and the Nominations Committee

The Hon John Fahey AC	
Experience and expertise	The Hon John Fahey is a Director of AMGL, AGHL and AIL, and is the Chair of DHF. He was the Premier of NSW for three years, and then Federal Minister for Finance and Administration (1996-2001). Prior to Parliament, he practised as a solicitor. In 2002 he was awarded a Companion in the Order of Australia. He was appointed President of the World Anti-Doping Authority in 2007, a position he held until the end of 2013. In 2014, he was appointed as Chancellor of the Australian Catholic University. He is the current Chair of the Sydney Olympic Park Authority.
Avant Directorships	Avant Mutual Group Limited, Avant Group Holdings Limited, Avant Insurance Limited, The Doctors' Health Fund Pty Ltd, The Medical Defence Association of Victoria Limited, MDU Australia Insurance Co Pty Limited, Professional Insurance Australia Pty Ltd, Professional Indemnity Insurance Company Australia Pty Limited and United Medical Protection of New South Wales Limited.
Other current Directorships	Chair of Sydney Olympic Park Authority, Director of Coasting Pty Limited (private trust company).
Former Directorships in last 3 years	Australian Rugby League Development Limited, Endeavour Energy Limited, Assetinsure Pty Limited and Men of League Foundation Limited.
Special responsibilities	Member of the Group Investment Committee and the Remuneration Committee.

Directors' report
30 June 2016

Information on Directors (continued)

Dr William Glasson^ MBBS (Qld), FRANZCO, FRACS, FRACGP, FRCOphth, DipAppSc(Opt), GAICD	
Experience and expertise	Dr William Glasson is a Director of AMGL and AGHL. Dr Glasson is a practising ophthalmologist working in urban, rural and regional Australia as well as in East Timor. Dr Glasson is the former Federal President of the Australian Medical Association and was awarded the Gold Medal for his services. As AMA President he led the AMA Presidential Medical Indemnity Task-force during the medical indemnity crisis of 2005. Dr Glasson is also a former President of the Royal Australian and New Zealand College of Ophthalmologists. He has been awarded an Order of Australia for his services to rural and regional medicine. Dr Glasson has significant skills and knowledge in finance, management and governance. He has served on a number of Boards, including the Medical and Allied Professional Superannuation Fund, Cancer Australia, St John Australia, Australian Medical Association, Royal Australia and NZ College of Ophthalmologists Board and QLD Urban Indigenous Health.
Avant Directorships	Avant Mutual Group Limited and Avant Group Holdings Limited.
Other current Directorships	Institute of Urban Indigenous Health, Cancer Australia.
Former Directorships in last 3 years	Nil.
Special responsibilities	Member of the Group Investment Committee.

^Dr William Glasson was first elected as a Director of AMGL on 26 November 2015.

Dr Steven Hambleton MBBS, FAMA, FRACGP (Hon), FAICD	
Experience and expertise	Dr Steve Hambleton is a Director of AMGL and AGHL. He is a former Federal President of the Australian Medical Association (AMA May 2011 to May 2014). Dr Hambleton has served on the Australian National Preventive Health Agency's Expert Committee on Alcohol and both the National Immunisation Committee and the Pharmaceutical Benefits Advisory Committee. Dr Hambleton is a current member of the Implementation Advisory Group for the Health Care Home and the Australian Commission on Safety and Quality in Health Care Atlas of Clinical Variation working group and is Deputy Chair of the Medicare Benefits Schedule Review Taskforce.
Avant Directorships	Avant Mutual Group Limited and Avant Group Holdings Limited.
Other current Directorships	Australasian Medical Publishing Company, AMAQ Foundation Chair.
Former Directorships in last 3 years	Australian Medical Association Limited, National E-Health Transition Authority.
Special responsibilities	Member of the Risk Committee and the Audit Committee.

Directors' report
30 June 2016

Information on Directors (continued)

Mr Peter Polson BCom, MBL, PMD	
Experience and expertise	Mr Polson is a Director of AMGL and AGHL and is the Chair of AIL. He has an extensive background in banking, insurance and financial services. He was formerly Managing Director of Colonial First State Investments, and with the Commonwealth Bank Group as Group Executive responsible for all Investment and Insurance Services.
Avant Directorships	Avant Mutual Group Limited, Avant Group Holdings Limited, Avant Insurance Limited, MDU Australia Insurance Co Pty Limited, Professional Insurance Australia Pty Limited and Professional Indemnity Insurance Company Australia Pty Limited.
Other current Directorships	Chairman of the Board of Challenger Financial Services Group Limited, Challenger Life Limited, IDP Education Pty Limited and Chairman of Very Special Kids.
Former Directorships in last 3 years	Chairman of Customers Limited and Director of Bennelong Group Holdings Pty Limited, Bennelong Foundation, Bennelong Funds Management and The Doctors' Health Fund Pty Ltd.
Special responsibilities	Chair of the Group Investment Committee, member of the Remuneration Committee and the Nominations Committee.

Dr Beverley Rowbotham MBBS (Hons 1) MD, FRACP, FRCPA, GAICD	
Experience and expertise	Dr Rowbotham is a Director of AMGL, AGHL, AIL and DHF. She is Director of Haematology and a member of the Executive at Sullivan Nicolaides Pathology. She is the Chairman of the AMA Federal Council, Chair of the National Pathology Accreditation Advisory Committee and is a past President of the Royal College of Pathologists of Australasia. Dr Rowbotham is an Associate Professor at the University of Queensland, and is a member of the MBS Review Taskforce and other government committees. Dr Rowbotham is a graduate of the Australian Institute of Company Directors.
Avant Directorships	Avant Mutual Group Limited, Avant Group Holdings Limited, Avant Insurance Limited, The Doctors' Health Fund Pty Ltd, The Medical Defence Association of Victoria Limited, Professional Insurance Australia Pty Limited, and United Medical Protection of New South Wales Limited.
Other current Directorships	RCPA Quality Assurance Programs Pty Limited, AEIOU Foundation for children with autism and Genome One.
Former Directorships in last 3 years	Association for Childhood Language and Related Disorders and Australian Medical Association Ltd.
Special responsibilities	Nil.

Directors' report

30 June 2016

Information on Directors (continued)

Dr Douglas Travis^ MBBS, FRACS, FAMA GAICD	
Experience and expertise	Dr Doug Travis is a Director of AMGL and AGHL. He is a urological consultant practising in both the public and private health systems in Victoria. Dr Travis currently holds the position of Honorary Consultant at Melbourne's Western Health in parallel with working as a urological consultant at his own practice in Melbourne's Western suburbs. Dr Travis was recently appointed as the chair of Better Care Victoria, a Victorian State Government innovation for healthcare. In 2014 he was appointed by the new Victorian Government to head the Travis Review, a study to increase the capacity of the Victorian public hospital system for better patient outcomes. Dr Travis held the position of AMA Victoria State President 2007-2009 and was Chair of the Federal AMA Audit Committee until 2012. He is a former member of Avant's Medical Experts Committee.
Avant Directorships	Avant Mutual Group Limited and Avant Group Holdings Limited.
Other current Directorships	James Armstrong Pty Ltd, Travchair Pty Ltd.
Former Directorships in last 3 years	EJ Whitten Foundation Ltd.
Special responsibilities	Member of the Group Investment Committee.

^Dr Douglas Travis was first appointed as a Director of AMGL on 1 August 2015.

Directors' report
30 June 2016

Meeting of Directors

The number of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2016, and the number of meetings attended by each Director are set out in the tables below.

	Avant Mutual Group Board Full meeting		Group Audit Committee Full meeting		Group Risk Committee Full meeting	
	A	B	A	B	A	B
Professor Simon Willcock (Chairman)	7	7	*	*	*	*
Mr Peter Beck	7	7	6	6	5	5
Dr Stephen Clarke[1]	0	0	*	*	*	*
Dr Jan Dudley	7	7	*	*	*	*
Mr Timothy Edwards[2]	2	2	*	*	*	*
The Hon John Fahey	7	7	*	*	*	*
Dr William Glasson[3]	4	5	*	*	*	*
Dr Steven Hambleton	7	7	5	5	4	4
Mr Peter Polson	6	7	*	*	*	*
Dr Beverley Rowbotham	7	7	1	1	1	1
Mr Douglas Travis	6	7	*	*	*	*

	Group Investment Committee Full meeting		Remuneration Committee Full meeting		Nominations Committee Full meeting	
	A	B	A	B	A	B
Professor Simon Willcock (Chairman)	*	*	4	5	5	5
Mr Peter Beck	5	5	*	*	*	*
Dr Stephen Clarke[1]	*	*	0	0	0	0
Dr Jan Dudley	*	*	3	3	4	4
Mr Timothy Edwards[2]	*	*	*	*	*	*
The Hon John Fahey	4	5	4	5	*	*
Dr William Glasson[3]	1	1	*	*	*	*
Dr Steven Hambleton	*	*	*	*	*	*
Mr Peter Polson	5	5	5	5	5	5
Dr Beverley Rowbotham	*	*	*	*	*	*
Mr Douglas Travis	4	4	*	*	*	*

A = Number of meetings attended
B = Number of meetings held during the time the Director held office or was a member of the committee during the year.
*Not a member of the relevant committee
1 Mr Stephen Clark retired as a Director of the Company effective as of 31 July 2015. The information above represents his attendance at Board and Committee meetings in his capacity as a Director of the Company.

2 Mr Timothy Edwards retired as a Director of the Company effective as of 26 November 2015. The information above represents his attendance at Board and Committee meetings in his capacity as a Director of the Company.

3 Dr William Glasson was appointed as a Director of the Company as of 26 November 2015. The information above represents his attendance at Board and Committee meetings in his capacity as a Director of the Company.

Directors' report

30 June 2016

Company Secretary

During the year, Suzanne Barron BScLLB GAICD, served as Group Company Secretary for all Avant group companies.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Insurance of officers

During the financial year, AIL paid a premium to insure certain officers of the Company and its controlled entities. The officers of the Group and its controlled entities covered by the insurance policy include the Directors and the Company Secretary.

Under the terms of the insurance contract, the premium paid and the nature of the cover provided are required to be kept confidential.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 10.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest dollar.

This report is made in accordance with a resolution of the Board of Directors.

Professor Simon Willcock
Chairman
Sydney
22 September 2016

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Auditor's Independence Declaration

As lead auditor for the audit of Avant Mutual Group Limited for the year ended 30 June 2016, I declare that 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 Avant Mutual Group Limited and the entities it controlled during the period.

Scott Fergusson
Partner
PricewaterhouseCoopers

Sydney
22 September 2016

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Statements of comprehensive income

For the year ended 30 June 2016

	Notes	Consolidated		Company	
		2016 $'000	2015 $'000	2016 $'000	2015 $'000
Gross written premium		281,471	248,583	-	-
Movement in unearned premiums		(17,052)	(8,393)	-	-
Gross premium revenue		**264,419**	**240,190**	-	-
Reinsurance premium expense		(12,032)	(10,062)	-	-
Net premium revenue		**252,387**	**230,128**	**-**	**-**
Gross claims expense	4	(207,665)	(210,691)	-	-
Reinsurance and other recoveries revenue	4	25,198	46,350	-	-
Net claims incurred	4	**(182,467)**	**(164,341)**	**-**	**-**
Acquisition costs	5	(22,053)	(20,252)	-	-
Run-off Cover Scheme (ROCS) levy		(8,827)	(8,272)	-	-
Other underwriting expenses	5	(50,308)	(47,165)	-	-
Underwriting expenses		**(81,188)**	**(75,689)**	**-**	**-**
Underwriting result		**(11,268)**	**(9,902)**	**-**	**-**
Investment income	6	41,141	100,574	7,432	219
Other income	7	17,285	15,235	15,383	13,678
Other operating expenses	5	(18,798)	(17,658)	(14,748)	(15,955)
Profit / (loss) before income tax		**28,360**	**88,249**	**8,067**	**(2,058)**
Income tax (expense) / benefit	8(a)	(2,177)	(22,140)	1,259	256
Profit / (loss) for the year		**26,183**	**66,109**	**9,326**	**(1,802)**
Other comprehensive income for the year		**-**	**-**	**-**	**-**
Total comprehensive income / (loss) for the year		**26,183**	**66,109**	**9,326**	**(1,802)**

The above statements of comprehensive income should be read in conjunction with the accompanying notes.

Balance sheets

As at 30 June 2016

	Notes	Consolidated		Company	
		2016 $'000	**2015 $'000**	**2016 $'000**	**2015 $'000**
Current assets					
Cash and cash equivalents	9	157,933	122,415	877	7,130
Receivables	10	75,787	68,695	18,610	28,419
Financial assets	11	164,410	210,953	2,195	2,168
Reinsurance and other recoveries	12	100,993	109,575	-	-
Current tax assets	8(f)	3,555	-	3,555	-
Deferred expenses	13	16,386	15,904	-	-
Total current assets		**519,064**	**527,542**	**25,237**	**37,717**
Non-current assets					
Property, plant and equipment	14	3,102	5,187	-	-
Intangible assets	15	3,199	4,115	-	-
Financial assets	11	1,261,161	1,226,176	508,602	508,602
Reinsurance and other recoveries	12	229,302	247,990	-	-
Deferred tax assets (Net)	8(e)	11,206	-	165	49
Total non-current assets		**1,507,970**	**1,483,468**	**508,767**	**508,651**
TOTAL ASSETS		**2,027,034**	**2,011,010**	**534,004**	**546,368**
Current liabilities					
Payables	16	48,225	38,992	4,738	3,007
Current tax liabilities	8(f)	-	18,146	-	18,146
Outstanding claims liabilities	17	189,357	198,156	-	-
Provisions	18	7,233	3,953	-	-
Unearned income	19	156,216	137,484	9,932	8,071
Total current liabilities		**401,031**	**396,731**	**14,670**	**29,224**
Non-current liabilities					
Outstanding claims liabilities	17	590,191	589,905	-	-
Provisions	18	2,922	3,378	-	-
Deferred tax liabilities (Net)	8(e)	-	7,153	-	-
Total non-current liabilities		**593,113**	**600,436**	**-**	**-**
TOTAL LIABILITIES		**994,144**	**997,167**	**14,670**	**29,224**
NET ASSETS		**1,032,890**	**1,013,843**	**519,334**	**517,144**
Equity					
Reserves	21(a)	54,598	54,598	508,602	508,602
Accumulated surpluses	21(b)	978,292	959,245	10,732	8,542
TOTAL EQUITY		**1,032,890**	**1,013,843**	**519,334**	**517,144**

The above balance sheets should be read in conjunction with the accompanying notes.

Statements of changes in equity
For the year ended 30 June 2016

Consolidated	Notes	Reserves $'000	Accumulated surpluses $'000	Total $'000
Balance at 30 June 2014	21	**54,598**	**893,136**	**947,734**
Profit for the year		-	66,109	66,109
Other comprehensive income		-	-	-
Total comprehensive income for the year		**-**	66,109	66,109
Balance at 30 June 2015	21	**54,598**	**959,245**	**1,013,843**
Profit for the year		-	26,183	26,183
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	**26,183**	**26,183**
Retirement reward dividend / payments			(7,136)	(7,136)
Transaction with owner in its capacity as owner			**(7,136)**	**(7,136)**
Balance at 30 June 2016	21	**54,598**	**978,292**	**1,032,890**

Company	Notes	Reserves $'000	Accumulated surpluses $'000	Total $'000
Balance at 30 June 2014	21	**508,602**	**10,344**	**518,946**
Profit for the year		-	(1,802)	(1,802)
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	(1,802)	(1,802)
Balance at 30 June 2015	21	**508,602**	**8,542**	**517,144**
Profit for the year		-	9,326	9,326
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	**9,326**	**9,326**
Retirement reward dividend / payments		-	(7,136)	(7,136)
Transaction with owner in its capacity as owner		-	**(7,136)**	**(7,136)**
Balance at 30 June 2016	21	**508,602**	**10,732**	**519,334**

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Statements of cash flows

For the year ended 30 June 2016

	Notes	Consolidated		Company	
		2016	**2015**	**2016**	**2015**
		$'000	**$'000**	**$'000**	**$'000**
Cash flows from operating activities					
Premium and subscription income received		313,597	281,356	19,018	15,414
Reinsurance premium paid		(10,604)	(10,113)	-	-
Claims paid		(211,920)	(184,506)	-	-
Reinsurance and other recoveries received		52,671	56,518	-	-
Run-off Cover Scheme paid		(8,854)	(8,330)	-	-
Dividends and distributions received		94,835	37,182	-	-
Interest received		28,160	30,096	104	221
Sundry income		2,061	1,717	-	-
Payments (to) / from related parties		-	-	(1,409)	14,119
Income tax paid		(40,117)	(25,818)	(637)	(9,440)
Underwriting and administrative expenses paid		(85,069)	(80,263)	(14,832)	(16,832)
Goods and services tax paid		(19,379)	(20,105)	(1,334)	(1,489)
Net cash inflows from operating activities	29	**115,381**	**77,734**	**910**	**1,993**
Cash flows from investing activities					
Purchase of investments		(384,622)	(539,889)	(27)	(66)
Proceeds from sale of investments		312,347	484,379	-	-
Purchase of fixed assets		(452)	(1,923)	-	-
Net cash outflow from investing activities		**(72,727)**	**(57,433)**	**(27)**	**(66)**
Cash flows from financing activities					
Retirement reward dividend payment		(7,136)	-	(7,136)	-
Net cash outflow from financing activities		**(7,136)**	**-**	**(7,136)**	**-**
Net increase / (decrease) in cash held		35,518	20,301	(6,253)	1,927
Cash and cash equivalents at the beginning of the year		122,415	102,114	7,130	5,203
Cash and cash equivalents at the end of the year	9	**157,933**	**122,415**	**877**	**7,130**

The above statements of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

30 June 2016

Note 1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and the entities it controlled during the year.

a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. The Company is a for-profit entity for the purpose of preparing the financial statements.

(i) Compliance with IFRS

The consolidated financial statements of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) New and amended standards adopted by the Group

The Group has applied the following amendments to the standards for the first time for their annual reporting period commencing 1 July 2016:

- *Amendments arising from Withdrawal of AASB 1031 Materiality (AASB CF 2013-1, AASB 1031, AASB 2013-9, AASB 2015-3) (effective 1 July 2015)*

  Removes Australian-specific guidance on materiality from AASB 1031 and removes references to AASB 1031 in all Australia Accounting Standards and Interpretations, allowing that Standard to effectively be withdrawn.

None of the amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2015 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

(iii) Early adoption of standards

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2015.

(iv) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

a) *AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9* (Must be applied on or after 1 January 2018.)

   AASB 9 addresses the classification, measurement and derecognition of financial assets, financial liabilities and introduces new rules for hedge accounting and new impairment for financial assets.

   This simplifies the model for classifying and recognising financial instruments and aligns hedge accounting more closely with common risk management practices. Changes in own credit risk in respect of liabilities designated at fair value through profit or loss shall now be presented within other comprehensive income.

   AASB 9's new impairment model is a move away from AASB 139's incurred credit loss approach to an expected credit loss model. Earlier recognition of impairment losses is likely to result and for entities with significant lending activities, an overhaul of related systems and processes will be needed.

   The new rules are not expected to materially impact the amounts recognised in the financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2018.

Notes to the financial statements

30 June 2016

Note 1. Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

(iv) New accounting standards and interpretations (continued)

b) *AASB 15 Revenue from Contracts with Customers* (Mandatory for financial years commencing 1 January 2018, but available for early adoption).

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2018. At this stage, the Group is not able to estimate the effect of the new rules on the Group's financial statements. The Group will make more detailed assessments of the effect over the next twelve months.

c) AASB2014-9 Amendments to Australian Accounting Standards: Equity method in separate financial statements (effective 1 January 2016). The Group will adopt this new standard on 1 July 2016.

The AASB has made amendments to AASB 127 Separate Financial Statements which will allow entities to use the equity method in their separate financial statements to measure investments in subsidiaries, joint ventures and associates.

d) AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle (effective 1 January 2016). The Group will adopt this new standard on 1 July 2016.

Amendments to clarify minor points in various accounting standards including AASB 5, AASB 7, AASB 119 and AASB 134.

e) AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 (effective 1 January 2016). The Group will adopt this new standard on 1 July 2016.

The amendments clarify a number of presentation issues and highlight that preparers are permitted to tailor the format and presentation of the financial statements to their circumstances and the needs of users.

f) AASB 2015-5 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception (effective 1 January 2016). The Group will adopt this new standard on 1 July 2016.

The amendments to AASB 10, AASB 12 and AASB 128 clarify the application of the consolidation exception for investment entities and their subsidiaries.

g) AASB 16 Leases (effective date 1 January 2019)

The key features of AASB 16 are as follows:

Lessee accounting:

- Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.
- A lessee measures a right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities.
- Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.
- AASB 16 contains disclosure requirements for lessees.

There are no other standards that are not yet effective and that are expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Notes to the financial statements
30 June 2016

Note 1. Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

(v) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

(vi) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where judgments and estimates are significant to the financial statements are disclosed in note 2.

(vii) Reclassifications

When the presentation or classification of items in the financial report is amended, comparative amounts have been reclassified.

During the year, the Company changed the presentation of its financial assets and reclassified its investment management fees. As a result, some items in the Statement of comprehensive income, Statement of cash flows and Notes to the financial statements of the prior year comparatives at 30 June 2015 were reclassified but no profit or loss or balance sheet impact associated with this reclassification.

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2016 and the results of all subsidiaries for the year then ended. The Company and its subsidiaries together are referred to in this financial report as the Group.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Investments in subsidiaries are accounted for at cost in the individual financial statements of the Company.

(c) Premium revenue

Premium revenue comprises amounts charged to policyholders, excluding taxes collected on behalf of third parties. The earned portion of premiums written is recognised as revenue. Premiums are earned from the date of attachment of risk and recognised over the policy period based on time, which is considered to closely approximate the pattern of risks undertaken. The portion of premium received or receivable not earned in the statement of comprehensive income at the reporting date is recognised in the balance sheet as an unearned premium liability.

Notes to the financial statements

30 June 2016

Note 1. Summary of significant accounting policies (continued)

(c) Premium revenue (continued)

Loyalty Reward Plan

AIL operates a loyalty reward plan to reward members of the Company for their loyalty whilst financial performance is strong. The loyalty reward is delivered through a deduction to premium before taxes upon renewal of the insurance policy. The loyalty reward is offset against premium revenue and is recognised over the period of insurance policy in line with premium revenue. The portion of the loyalty reward not earned in the statement of comprehensive income at the reporting date is recognised in the balance sheet as part of the unearned premium liability.

Run-off Cover Scheme

The Medical Indemnity (Run-off Cover Support Payment) Act 2004 imposes an annual levy on medical indemnity insurers to fund the Run-off Cover Scheme (ROCS). The tax is a percentage of premiums received by the insurer during the contribution year. The tax rate applicable to AIL is 5% and its contribution year is the year ending on 31 May. Premium charged in relation to ROCS is included in premium written and recognised as part of premium revenue. A ROCS expense is recognised in AIL on the acceptance of the risk that results in the requirement to pay the tax. The expense is recognised on the same basis as the recognition of the earned premium.

Premium Support Subsidy

The Medical Indemnity Act 2002 establishes a Premium Support Subsidy (PSS) for policyholders whose insurance costs exceed a set proportion of their gross income. AIL is responsible for administering the subsidy and in this role it obtains details of estimated gross income to determine that portion to be collected from Medicare Australia. In subsequent years, AIL obtains actual gross income details from policyholders and either collects monies from policyholders for reimbursement to Medicare Australia or seeks additional subsidies from Medicare Australia to be passed through to the policyholder. Amounts due to and from Medicare Australia and the policyholders are recognised in the PSS debtor account.

(d) Subscription revenue

Subscription revenue comprises amounts charged to members, excluding taxes collected on behalf of third parties. Subscription revenue is recognised over the period of membership, being twelve months from 1 January or 1 July each year. The portion of subscription received or receivable not earned in the statement of comprehensive income at the reporting date is recognised in the balance sheet as an unearned subscription liability.

e) Liability adequacy test

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 cash flows relating to potential future claims in respect of relevant insurance contracts, plus an additional risk margin to reflect the inherent uncertainty of the central estimate. This test is carried out separately for each group of contracts subject to broadly similar risks that are managed together as a single portfolio. If the unearned premium liability, less intangible assets and deferred acquisition costs is deficient, the resulting deficiency is recognised in the statement of comprehensive income of the Group.

(f) Outwards reinsurance

Premiums ceded to reinsurers are recognised as an expense in accordance with the pattern of reinsurance service received. Reinsurance premiums payable under adjustment clauses of the reinsurance contracts are measured at the present value of expected future payments.

(g) Outstanding claims liabilities

The provision for outstanding claims is measured as the central estimate of the present value of expected future claims payments plus a risk margin. The expected future claims payments include those in relation to claims reported but not yet paid; claims incurred but not enough reported (IBNER); claims incurred but not reported (IBNR); anticipated claims handling costs and allowances for the Risk Equalisation Special Account for health insurance outstanding claims liabilities.

Notes to the financial statements

30 June 2016

Note 1. Summary of significant accounting policies (continued)

(g) Outstanding claims liabilities (continued)

Claims handling costs exclude costs that can be associated directly with individual claims, such as legal and other professional fees (which are included within claim payments), but include costs that can only be indirectly associated with individual claims, such as claims administration costs.

The expected future payments are discounted to present value using a risk free rate.

A risk margin (also referred to as a prudential margin) is applied to the discounted central estimate of outstanding claims to reflect the inherent uncertainty in the central estimate to arrive at the outstanding claims provision.

(h) Reinsurance and other recoveries

Reinsurance and other recoveries on paid and outstanding claims are recognised as revenue on an accruals basis. Reinsurance and other recoveries on outstanding claims are measured at the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims. Where recoverability of an amount owing from a reinsurer or other party is in doubt, a provision for default is raised.

Included in other recoveries are amounts receivable under Commonwealth Government schemes. Details of the Government schemes are set out in note 2(b).

(i) Acquisition costs

A portion of acquisition costs relating to unearned premium is deferred in recognition that it represents a future benefit. Deferred acquisition costs are measured at the lower of cost and recoverable amount. Deferred acquisition costs are amortised over the period related to the premium written.

(j) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of the investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Notes to the financial statements

30 June 2016

Note 1. Summary of significant accounting policies (continued)

(j) Income tax (continued)

The Company and its controlled entities AGHL, The Medical Defence Association of Victoria Limited ("MDAV") and United Medical Protection of New South Wales Limited ("UMP NSW"), are limited by guarantee and operate for the mutual benefit of their members. These entities have been treated as mutual such that they are not liable for income tax on membership income nor are the outgoings related to that income allowable as income tax deductions. These entities are, however, liable to income tax on investment income, capital profits, and income from insurance-related activities. AIL, a subsidiary of AGHL, is taxed in accordance with normal taxation rules applicable to an insurance company.

Tax consolidation legislation

The Company and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

The Company and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

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

Assets and liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details of the tax funding agreement are disclosed in note 8.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(k) Operating leases

Operating leases are defined as those in which a significant portion of the risk and rewards of ownership are retained by the lessor.

Operating lease payments (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight line basis over the lease term.

(l) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets (cash generating units). Non financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(m) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term and highly liquid investments with maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

(n) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Notes to the financial statements

30 June 2016

Note 1. Summary of significant accounting policies (continued)

(n) Receivables (continued)

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

(o) Financial assets

Classification

The Group classifies its financial assets with the exception of investment in controlled entities (Note 1(b)) at fair value through profit or loss. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its investments at initial recognition.

The licensed insurance entity, AIL, has determined that its financial assets are held to back general insurance liabilities under AASB 1023 and as such have been valued at fair value through profit or loss ("FVTPL"). The Group has determined which assets are required to back general insurance liabilities under AASB 1023 and as such has valued these assets at FVTPL.

AASB 9 Financial Instruments specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified in their entirety on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortised cost or fair value.

This new standard has been adopted because it includes requirements for the classification and measurement of financial assets which enables the Group to align its accounting policy for all financial assets and to reflect the way in which management monitors the recognition of gains and losses on financial assets for internal reporting purposes.

The Directors have reviewed and assessed all of the Group's existing financial assets as at the date of initial application of AASB 9 and have concluded that all financial assets are measured at FVTPL.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if they are expected to be settled within 12 months; otherwise they are classified as non-current.

Recognition and derecognition

Purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Group measures a financial asset at its fair value and assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within investment income/(loss) in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income when the Group's right to receive payments is established. Interest income from these financial assets is included in the investment income/(loss).

Notes to the financial statements
30 June 2016

Note 1. Summary of significant accounting policies (continued)

(o) Financial assets (continued)

Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

(p) Property and equipment

Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Depreciation on the assets is calculated using the straight-line method so as to write off the net cost of each item over its expected useful life to the Group, or for leasehold improvements, over the unexpired period of the lease, if this is shorter. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives of the assets are as follows:

Leasehold improvements	6-10 years
Office furniture and fittings	10-13 years
Office equipment	3-4 years
Computer equipment	3-4 years
IT Software	3-5 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income. When revalued assets are sold, it is a Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(q) Intangible assets

Value of Customer Relationships

The Value of Customer Relationships acquired is carried at its fair value at the date of acquisition less accumulated amortisation. Amortisation is calculated based on the timing of projected cash flows that will emerge from the block of in-force business and business written (renewal of existing policyholders) over its estimated useful life of 10 years.

Brand

The value of brand and trademarks acquired as part of an acquisition is calculated using the replacement cost approach and is carried at its fair value at the date of acquisition less accumulated amortisation. Amortisation is calculated over its estimated useful life of 5 years.

(r) Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. The amounts are unsecured and, except for adjustment reinsurance premiums, are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Notes to the financial statements
30 June 2016

Note 1. Summary of significant accounting policies (continued)

(s) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(t) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for accumulating sick leave is recognised in the provision for employee entitlements. All other short-term employee benefit obligations are presented as current provisions.

(ii) Other long-term employee benefit obligations

The liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore recognised in the provision for employee entitlements and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current provisions in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

Superannuation

Contributions to the defined contribution fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in the future payments is available.

(u) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, except:

(i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

(ii) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Notes to the financial statements

30 June 2016

Note 1. Summary of significant accounting policies (continued)

(u) Goods and services tax (GST) (continued)

Cash flows are included in the statement of cash flows on a gross basis. 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 operating cash flows.

(v) Risk Equalisation Special Account (RESA)

As part of the abolition of the former Private Health Insurance Administration Council by the Private Health Insurance (Prudential Supervision) Consequential Amendments and Transitional Provisions Act 2015, and the replacement of the prudential regulation of the private health insurance industry by the Australian Prudential Regulation Authority (APRA), the previous Risk Equalisation Trust Fund (RETF) has been replaced by the Risk Equalisation Special Account (RESA).

From 1 April 2007, under the provision of the Private Health Insurance Act 2007, all health insurers must participate in the RESA, which charges a levy to all health insurers, and shares a proportion of the hospital claims of all persons aged 55 years and older and those with high cost claims amongst all registered health insurers. The amounts payable to and receivable from the RESA are determined by APRA after the end of each quarter. Estimated provisions for amounts payable and receivable are recognised on an accrual basis.

(w) Accumulated surpluses

The Company and its controlled entities recognise total comprehensive income through accumulated surpluses.

The Group accumulated surpluses are generated from either:

(i) Mutual, tax exempt activities, or
(ii) Mutual, but taxable activities.

(x) Functional and presentation currency

The consolidated financial statements are presented in Australian dollars which is the Group's functional and presentation currency.

(y) Reserves

The consolidated reserves relate to the portfolio transfer of Professional Indemnity Insurance Company Australia Pty Limited's ("PIICA") assets to AIL on 30 September 2007 when PIICA ceased to offer insurance policies. PIICA was the insurer of The Medical Defence Association of Victoria ("MDAV") prior to the merger of AGHL (previously UMP) and MDAV in 2007.

The company reserves resulted from the merger of AGHL and MDAV.

(z) Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Notes to the financial statements

30 June 2016

Note 2. Critical accounting estimates and judgments

The Group makes estimates and judgments in respect of certain key assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates are applied are as follows:

(a) Net insurance liabilities

The net insurance liabilities arising from the Group's activities comprise outstanding claims liabilities, reinsurance, other recoveries receivable, and reinsurance premiums payable.

Actuarial valuations are used to estimate the components of the net insurance liabilities. Although the most appropriate methodology, analyses and assumptions are adopted, the actuarial valuations are subject to reliances and limitations and the estimates of future costs of claims are always inherently uncertain, especially for claims which involve physical and/or mental injury.

Future costs and related recoveries depend on the outcome of events which cannot be forecast precisely, such as numbers of claims which will ultimately be lodged, expectations of claimants and their legal representatives and amounts of court awards.

The assessment of the anticipated claims liability is particularly sensitive to a number of factors, including:

- The ultimate number of claims
- Average claim cost
- Inflation rates and discount factors
- Changes in the medico-legal environment

Estimates of the IBNR liability are subject to greater uncertainty than the estimates relating to the known claims.

To mitigate the risk associated with the inherent uncertainty in the liability estimation, the Group maintains a prudential margin on its claims liabilities. Maintaining such a provision is a common practice within the industry and a requirement of the industry regulator APRA. The effect of such a margin is to increase the probability that the booked liability will be adequate.

Details of specific assumptions used in deriving the outstanding claims liability at year end are detailed in note 3.

(b) Recoveries under Government schemes

Recoveries on paid and outstanding claims are receivable from the Commonwealth under the *Medical Indemnity Act (2002)*. There are four medical indemnity insurance schemes currently in place that benefit the Group:

- High Cost Claims Scheme (HCCS)
- Run-off Cover Scheme (ROCS)
- Incurred But Not Reported (IBNR) scheme
- Exceptional claims scheme

The key accounting judgment that the Group makes is that the schemes will not be withdrawn in whole or in part with retrospective effect.

Recoveries due under Government schemes are included within note 12 and comprise recoveries on paid claims and on known and IBNR outstanding claims.

Note 3. Insurance risk and actuarial assumptions

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

Notes to the financial statements

30 June 2016

Note 3. Insurance risk and actuarial assumptions (continued)

In accordance with Prudential Standards CPS 220 Risk Management and GPS 230 Reinsurance Management issued by the Australian Prudential Regulation Authority (APRA), the Board and senior management of the Group have developed, implemented and maintain a sound and prudent Risk Management Strategy (RMS) and a Reinsurance Management Strategy (REMS).

The RMS and REMS identify the Group's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the Group. Annually, the Board certifies to APRA that adequate strategies have been put in place to monitor those risks, that the Group has systems in place to ensure compliance with legislative and prudential requirements and that the Board has satisfied itself as to the compliance with the RMS and REMS.

The RMS and REMS are subject to regular reviews by the internal auditors. The internal auditors are independent of the day to day operational management of the Company and its consolidated entities. They prepare a report on compliance with the procedures outlined in the RMS and REMS.

(a) Insurance risk

(i) Terms and conditions of insurance business

The wholly owned controlled entity, AIL, provides ongoing professional indemnity insurance to healthcare professionals covering:

- certain claims in connection with the provision of healthcare treatment, advice and services to patients and legal expenses in connection with those claims,
- legal fees and related expenses in connection with inquiries, inquests and disciplinary proceedings, and
- a range of other matters including tax audits, Medicare Australia investigations, employment disputes, visiting medical officer disputes and certain criminal matters.

The wholly owned controlled entity, DHF, provides policies to the Australian medical and health practitioner community, principally medical practitioners, their employees and their families.

(ii) Risk management of insurance business

The financial condition and operation of the Group are affected by a number of key risks including insurance risk, reinsurance risk, credit risk and interest rate risk. Notes on the Group's policies and procedures in respect of managing these risks are set out below.

Insurance risk – General Insurance

A range of strategies, policies, procedures, and processes are in place to control and manage key business risks.

Underwriting authority is delegated to underwriters with industry experience. Delegated authority limits reflect the seniority and experience of the underwriter and are supported by controls over the acceptance of risk for both individual and group policies.

Insurance premiums are determined on an annual basis to coincide with the renewal date of the portfolio. Premium rating is determined with regard to type of specialisation and state of practice and level of billings. The projection of future claims costs is performed by the Approved Actuary using the same data used to estimate the outstanding claims liability to ensure the most accurate and up to date information and claims experience are used for pricing decisions.

Claims management authorities are delegated to claims managers with either or both of medical or legal qualifications and experience. Depending on their nature and complexity, claims are managed either internally or in combination with external legal advisors and solely or in combination by legal and medical practitioners.

Notes to the financial statements
30 June 2016

Note 3. Insurance risk and actuarial assumptions (continued)

(a) Insurance risk (continued)

(ii) Risk Management of insurance business (continued)

Insurance Risk - General Insurance (continued)

The Group insurance portfolio comprises predominantly two classes of risk, being general insurance and health insurance, and is not exposed to the traditional form of external catastrophe risk. The Group is however, exposed to large losses arising from groups of claims resulting from a common dependent source. For example, a large number of claims arising from a class action related to a faulty medical procedure. This exposure is monitored on a regular basis with a formal review of potential and emerging exposure at least annually.

There is a possibility that changes may occur in the estimate of obligations at the end of a contract period. The tables in note 17(d) show the estimates of total claims outstanding for each accident year at successive year ends for the professional indemnity portfolio.

Insurance risk – Health Insurance

The provision of private health insurance in Australia is governed by the Act which is premised on the principle of community rating.

The community rating principle applies to the setting of Australian private health insurance premiums. In principle, the premium charged may not improperly discriminate between people. Premiums may not be set on the basis of age, gender, occupation, race, existing illness or other characteristics of a person likely to vary the need for hospital or general treatment. The principles of community rating are specified in the Act.

In these circumstances, the Company adopts a prudent approach to pricing its products; a process which requires approval by the Minister for Health and Ageing. Pricing is typically determined annually and at levels which at least cover the projected benefit payments and management expenses of operating the Company.

An important consideration in insurance risk is the Risk Equalisation Special Account (RESA). This scheme imposes a levy to all health insurers; and shares a proportion of the hospital claims, of all persons aged over 55 years and those with high cost claims, between all health insurers. With an older than average membership base, the Company has been a net drawer of funds from the RESA. As a net drawer, the Company is exposed to adverse changes that may be implemented to the scheme by the Australian government.

The Company employs sound claims management practices based on an expert health insurance information technology platform. Together, these seek to ensure that all claims are paid in compliance with benefit schedules and provide the detailed statistics required for actuarial projection purposes.

The Company employs the services of an external actuarial firm proficient in health insurance, which assist across a number of areas including reserving, pricing, product development, capital management and reporting.

Reinsurance risk

The Group provides professional indemnity insurance on a claims made basis.

Professional indemnity business for healthcare professionals is a long tailed class of business covering bodily injury and as a result is subject to occasional large losses. As a way of moderating the insurance risk, the Group purchases reinsurance. Any potential exposure of the reinsurance program is managed by seeking a diversified portfolio of reinsurers operating in different reinsurance markets, where the maximum potential exposure of any one reinsurer to the total program is limited.

Credit risk

Credit risk exposure arises because the Group's business is exclusively sourced from health industry participants. The resultant exposure to a single participant is not material.

Notes to the financial statements

30 June 2016

Note 3. Insurance risk and actuarial assumptions (continued)

(a) Risk Management of insurance business (continued)

Credit risk (continued)

Credit and concentration risk in relation to reinsurance recoveries is managed by having a number of different reinsurers participate on the reinsurance program. The credit rating of participants to the program is taken into account when placing reinsurance cover for the year and the terms of the reinsurance contracts provide for the removal of participants whose credit rating falls below the minimum standard. The current minimum rating for new participants in the reinsurance program is Standard and Poor's A-.

Interest rate risk

The insurance contracts are not exposed to interest rate risk.

(b) Actuarial assumptions

(i) The following assumptions have been used in determining the outstanding claims liabilities:

	2016	**2015**
Normal inflation rate	3.5 - 4.0%	3.5 - 4.0%
Superimposed inflation	2.5 - 4.0%	2.5 - 4.0%
Average weighted discount rate	1.80%	2.50%
Average weighted term to settlement – known claims	3.3 years	3.3 years
Average weighted term to settlement – IBNR claims	4.8 years	5.1 years
Estimated ultimate number of claims	3,453	2,628
Claims handling expense percentage	7.00%	7.00%

(ii) Process used to determine assumptions

Methodology

Claims are split into six claim groups; legal expenses claims, non-civil claims, large claims (those with an estimated cost ever over $1,500,000 in June 2011 dollars), medium claims (estimate cost to have ever exceeded $300,000 in June 2011 dollars), small claims and infant claims. Civil claims are separated into different state based jurisdictions.

Inflation and discount rates

Normal inflation is based on average weekly earnings as reported by an independent economics consultancy. Superimposed inflation is modelled on past experience taking into account the general experience for bodily injury claims. The rates of future investment return assumed for discounting projected future claims payments and expenses are based on market yields on Australian Government fixed interest securities.

Claims handling expense

Allowance for claims handling expenses is determined by analysing historical claims handling costs.

Average term to settlement

The average term to settlement from the balance date of the outstanding claims liabilities is determined by reference to historical claim reporting and payment patterns.

Notes to the financial statements

30 June 2016

Note 3. Insurance risk and actuarial assumptions (continued)

(c) Sensitivity analysis

(i) Summary

The Group conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the performance and equity of the Group. The tables below describe how a change in each assumption will affect the insurance liabilities and show analysis of the sensitivity of the profit /(loss) and equity to changes in these assumptions both gross and net of reinsurance.

Variable	Impact of movement in variable
Inflation and superimposed inflation rates	Outstanding claims costs make an allowance for future claims inflation. In addition to the general economic inflation rate an amount is superimposed to take account of non-economic inflationary factors, such as increases in court awards. Such rates of superimposed inflation are specific to the model adopted. An increase or decrease in the assumed levels of either the economic or superimposed inflation would have a corresponding impact on claims expense.
Discount rates	The outstanding claims liability is calculated with reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed rate will have an opposing impact on the total claims expense.

(ii) Impact of changes in key variables

		Profit / (loss) after tax		Equity
		Gross of reinsurance $000	Net of reinsurance $000	$000
Variable	Movement in variable	Adjusted amounts		
Superimposed inflation	1%	(12,582)	(3,759)	(3,759)
	-1%	9,889	3,442	3,442
Discount rates	1%	16,045	8,422	8,422
	-1%	(17,355)	(9,033)	(9,033)

Notes to the financial statements

30 June 2016

Note 4. Net claims incurred

Current period claims relate to risks borne by the Group in the current financial period.

Prior period claims relate to a reassessment of the risks borne by the Group in all previous reporting periods. The reduction in net claims incurred for prior periods reflects a reassessment by the Group's valuation actuary of the medico-legal claims environment, including the impact of tort reforms and the prudential margin held against those claims.

	Consolidated			Company		
2016	**Current period $'000**	**Prior periods $'000**	**Total $'000**	**Current period $'000**	**Prior periods $'000**	**Total $'000**
Undiscounted claims incurred:						
Gross claims incurred	(290,325)	106,170	(184,155)	-	-	-
Reinsurance recoveries	65,114	(54,167)	10,947	-	-	-
Net claims incurred	(225,211)	52,003	(173,208)	-	-	-
Discount movement:						
Gross claims incurred	13,979	(37,489)	(23,510)	-	-	-
Reinsurance recoveries	(4,992)	19,243	14,251	-	-	-
Net discount movement	8,987	(18,246)	(9,259)	-	-	-
Net discounted claims	**(216,224)**	**33,757**	**(182,467)**	**-**	**-**	**-**
Discounted claims expense:						
Gross claims expense	(276,346)	68,681	(207,665)	-	-	-
Reinsurance recoveries	60,122	(34,924)	25,198	-	-	-
Net discounted claims expense	**(216,224)**	**33,757**	**(182,467)**	**-**	**-**	**-**

	Consolidated			Company		
	Current period $'000	**Prior periods $'000**	**Total $'000**	**Current period $'000**	**Prior periods $'000**	**Total $'000**
2015						
Undiscounted claims incurred:						
Gross claims incurred	(254,439)	60,229	(194,210)	-	-	-
Reinsurance recoveries	55,632	(16,769)	38,863	-	-	-
Net claims incurred	(198,807)	43,460	(155,347)	-	-	-
Discount movement:						
Gross claims incurred	16,947	(33,428)	(16,481)	-	-	-
Reinsurance recoveries	(6,693)	14,180	7,487	-	-	-
Net discount movement	10,254	(19,248)	(8,994)	-	-	-
Net discounted claims	**(188,553)**	**24,212**	**(164,341)**	**-**	**-**	**-**
Discounted claims expense:						
Gross claims expense	(237,492)	26,801	(210,691)	-	-	-
Reinsurance recoveries	48,939	(2,589)	46,350	-	-	-
Net discounted claims expense	**(188,553)**	**24,212**	**(164,341)**	**-**	**-**	**-**

Notes to the financial statements

30 June 2016

Note 5. Acquisition and other expenses

	Consolidated		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Employee related costs	(61,875)	(56,845)	-	-
Director related costs	(2,135)	(2,000)	(1,040)	(896)
Rental expense relating to operating leases	(3,791)	(3,717)	-	-
Other rent related outgoings	(1,231)	(803)	-	-
Depreciation and amortisation	(3,147)	(2,748)	-	-
General & administration expenses	(11,746)	(11,355)	(4,515)	(4,301)
Management fees paid	-	-	(9,205)	(10,730)
Investment management fees paid	(7,619)	(7,529)	-	-
Provision for impairment	385	(78)	12	(28)
	(91,159)	**(85,075)**	**(14,748)**	**(15,955)**
Acquisition costs	(22,053)	(20,252)	-	-
Other underwriting expenses	(50,308)	(47,165)	-	-
Other operating expenses	(18,798)	(17,658)	(14,748)	(15,955)
	(91,159)	**(85,075)**	**(14,748)**	**(15,955)**

Note 6. Investment income

	Consolidated		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Interest	28,023	29,899	132	219
Distributions from unit trusts	86,383	28,870	-	-
Dividends from equities	3,769	4,323	-	-
Dividends from Subsidiary	-	-	7,300	-
Other	6,795	6,657	-	-
	124,970	69,749	7,432	219
Change in fair value of investments held at fair value through profit or loss	(83,829)	30,825	-	-
	41,141	**100,574**	**7,432**	**219**

Note 7. Other income

	Consolidated		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Membership subscription revenue	15,383	13,678	15,383	13,678
Government Support Scheme Fee income	1,105	1,044	-	-
Other income	797	513	-	-
	17,285	**15,235**	**15,383**	**13,678**

Notes to the financial statements

30 June 2016

Note 8. Income tax

	Consolidated		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
(a) Income tax expense				
Current tax expense	(21,730)	(38,706)	846	236
Deferred tax benefit	18,586	13,369	129	(23)
Over provision in prior years	967	3,197	284	43
Income tax (expense) / benefit attributable to profit from continuing operations	**(2,177)**	**(22,140)**	**1,259**	**256**
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit from continuing operations before income tax	28,360	88,249	8,067	(2,058)
Tax at Australian tax rate of 30% (2015: 30%)	(8,508)	(26,475)	(2,420)	617
Other permanent differences	3,267	(1,497)	3,415	(381)
Effect of franking credits	2,117	2,658	-	-
Benefit of tax losses of prior years recouped	(20)	(23)	(20)	(23)
Current year income tax expense	(3,144)	(25,337)	975	213
Over provision in prior years	967	3,197	284	43
Income tax (expense) / benefit	**(2,177)**	**(22,140)**	**1,259**	**256**
(c) Deferred tax assets				
The balance comprises temporary differences attributable to:				
Amounts recognised in the profit or loss:				
Accruals and provisions	19,844	18,591	148	-
Investments	75	75	-	-
	19,919	18,666	148	-
Deferred tax recognised on losses	17	49	17	49
Total deferred tax assets	**19,936**	**18,715**	**165**	**49**
Movements:				
Opening balance at the beginning of the year	18,715	16,962	49	71
Prior year (over) / under provision	(227)	(526)	(12)	1
Charged to the income statement	1,468	2,302	148	-
Utilisation of prior year tax losses	(20)	(23)	(20)	(23)
Closing balance at the end of the year	**19,936**	**18,715**	**165**	**49**

Notes to the financial statements

30 June 2016

Note 8. Income tax (continued)

	Consolidated		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
(d) Deferred tax liabilities				
Financial assets	(7,225)	(24,363)	-	-
Investment in associates	(1,505)	(1,505)	-	-
Total deferred tax liabilities	**(8,730)**	**(25,868)**	**-**	**-**
Movements:				
Opening balance at the beginning of the year	(25,868)	(37,205)	-	-
Prior year over provision	-	247	-	-
Charged to the income statement	17,138	11,090	-	-
Closing balance at the end of the year	**(8,730)**	**(25,868)**	**-**	**-**
(e) Set-off of deferred tax balances				
Set-off of deferred tax assets against deferred tax liabilities pursuant to set-off provisions:				
Deferred tax assets	19,936	18,715	165	49
Deferred tax liabilities	(8,730)	(25,868)	-	-
Total deferred tax assets / (liabilities) after set-off	**11,206**	**(7,153)**	**165**	**49**
(f) Current tax assets / (liabilities)				
Opening balance at the beginning of the year	(18,146)	(11,393)	(18,146)	(11,393)
Payment of prior year tax liabilities	16,952	9,433	16,952	9,433
Payment of current year tax liabilities	23,167	17,902	23,167	17,902
Over provision	1,194	1,960	1,194	1,960
Effect of franking credits	2,118	2,658	2,118	2,658
Current year provision	(21,730)	(38,706)	(21,730)	(38,706)
Closing balance at the end of the year	**3,555**	**(18,146)**	**3,555**	**(18,146)**
(g) Franking credits				
Franking credits available for the subsequent financial years based on a tax rate of 30% (2015: 30%)	**286,755**	**246,301**	**286,755**	**246,301**

(h) Tax consolidation legislation

The Company and its wholly-owned Australian controlled entities implemented the tax consolidation legislation from 1 July 2007. The accounting policy in relation to this legislation is set out in note 1(j).

Notes to the financial statements

30 June 2016

Note 8. Income tax (continued)

(h) Tax consolidation legislation (continued)

On adoption of the tax consolidation legislation, the entities in the tax consolidated group have entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the Company.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate the Company for any current tax payable assumed and are compensated by the Company for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to the Company under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement is due upon receipt of the funding advice from the Company, which is issued as soon as practicable after the end of each financial year. The Company may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables (see Note 25).

Note 9. Cash and cash equivalents

	Consolidated		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Cash at bank and in hand	157,933	122,415	877	7,130
	157,933	**122,415**	**877**	**7,130**

Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

Balances as above	157,933	122,415	877	7,130
Balances per statement of cash flows	**157,933**	**122,415**	**877**	**7,130**

Note 10. Receivables

	Consolidated		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Premium and subscription debtors	72,624	66,156	75	221
Provision for impairment	(426)	(932)	(7)	(35)
Net premium and subscription revenue debtors	72,198	65,224	68	186
Sundry debtors	2,931	2,674	-	-
Interest receivables	658	797	38	9
Receivable from related entity	-	-	18,504	28,224
Net receivables	**75,787**	**68,695**	**18,610**	**28,419**

Notes to the financial statements
30 June 2016

Note 10. Receivables (continued)

All receivables that were determined as doubtful as per note 1(n) are provided for in full.

(a) Fair value

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

(b) Risk

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables. Detail regarding credit risk exposure is disclosed in note 20.

Note 11. Financial assets

	Notes	Consolidated		Company	
		2016 $'000	2015 $'000	2016 $'000	2015 $'000
Investments held at fair value through profit or loss					
Short duration interest bearing securities		98,702	82,564	2,195	2,168
Fixed interest securities		544,994	540,391	-	-
Unit trusts		729,207	746,902	-	-
Equities		52,668	67,272	-	-
		1,425,571	**1,437,129**	**2,195**	**2,168**
Investments held at cost					
Investments in controlled entities	26	-	-	508,602	508,602
		-	**-**	**508,602**	**508,602**
		1,425,571	**1,437,129**	**510,797**	**510,770**
Current financial assets		164,410	210,953	2,195	2,168
Non-current financial assets		1,261,161	1,226,176	508,602	508,602
		1,425,571	**1,437,129**	**510,797**	**510,770**

Notes to the financial statements
30 June 2016

Note 12. Reinsurance and other recoveries

	Consolidated		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Expected future reinsurance and other recoveries undiscounted on:				
Paid claims	19,277	60,718	-	-
Outstanding claims	338,620	384,848	-	-
	357,897	445,566	-	-
Discount to present value	(27,602)	(42,114)	-	-
Provision for impairment of reinsurance and other recoveries	-	(45,887)	-	-
Reinsurance and other recoveries on claims	**330,295**	**357,565**	**-**	**-**
Reinsurance and other recoveries receivable - current	100,993	155,462	-	-
Less: Provision for impairment of reinsurance assets	-	(45,887)	-	-
	100,993	**109,575**	**-**	**-**
Reinsurance and other recoveries receivable - non current	229,302	247,990	-	-
			-	-
	229,302	247,990	**-**	**-**
	330,295	**357,565**	**-**	**-**

The Group has a financial exposure to the HIH Group (HIH) under a series of contracts entered with FAI Insurance Limited and other HIH companies. HIH was placed into liquidation on 15 March 2001 and an Established Scheme of Arrangement was put in place for each of the separate HIH companies for which the Company have a creditor claim.

The HIH liquidators finalised the Established Scheme of Arrangement in May 2014. As the Scheme is very close to being wound up and the outstanding net debtor close to final, the HIH balance has been reflected as a debtor net of default at 30 June 2016. The net outstanding debtor receivable from HIH is $1,690,395 (2015: $2,948,748).

Notes to the financial statements

30 June 2016

Note 13. Deferred expenses

	Consolidated		Company	
	2016 $'000	**2015 $'000**	**2016 $'000**	**2015 $'000**
Deferred reinsurance premiums	4,700	5,228	-	-
Deferred ROCS expense	5,380	4,828	-	-
Deferred acquisition costs	6,306	5,848	-	-
	16,386	**15,904**	**-**	**-**

Note 14. Property and equipment

	Consolidated		Company	
	2016 $'000	**2015 $'000**	**2016 $'000**	**2015 $'000**
Gross carrying value				
At the beginning of the year	13,605	11,985	-	-
Additions	452	2,033	-	-
Written off in the year	(1,133)	(413)	-	-
At the end of the year	**12,924**	**13,605**	**-**	**-**
Accumulated depreciation				
At the beginning of the year	(8,418)	(6,739)	-	-
Written off in the year	825	302	-	-
Depreciation expense for the year	(2,229)	(1,981)	-	-
At the end of the year	**(9,822)**	**(8,418)**	**-**	**-**
Net carrying value at the end of the year	**3,102**	**5,187**	**-**	**-**

Notes to the financial statements

30 June 2016

Note 14. Property and equipment (continued)

Reconciliation

Reconciliations of the carrying amounts of each class of plant and equipment at the beginning and end of the current financial year are set out below.

	Office furniture & fittings $'000	Office and Computer equipment $'000	IT software $'000	Leasehold improve-ments $'000	Total $'000
Consolidated					
Net carrying value at 1 July 2015	816	1,569	1,979	823	5,187
Additions	-	306	146	-	452
Written off in the year	(216)	-	-	(92)	(308)
Depreciation	(346)	(595)	(891)	(397)	(2,229)
Net carrying value at 30 June 2016	**254**	**1,280**	**1,234**	**334**	**3,102**

Note 15. Intangible assets

	Consolidated		Company	
	2016 $'000	**2015 $'000**	**2016 $'000**	**2015 $'000**
Gross carrying value				
At the beginning of the year	7,764	7,764	-	-
At the end of the year	**7,764**	**7,764**	**-**	**-**
Accumulated amortisation				
At the beginning of the year	(3,649)	(2,882)	-	-
Amortisation charge	(916)	(767)	-	-
At the end of the year	**(4,565)**	**(3,649)**	**-**	**-**
Net carrying value at the end of the year	**3,199**	**4,115**	**-**	**-**

Reconciliations

Reconciliations of the carrying amounts of intangible assets at the beginning and end of the current financial year are set out below.

	Brand $'000	Value of customer relationships $'000	Total $'000
Consolidated			
Net carrying value at 1 July 2015	200	3,915	4,115
Amortisation	(100)	(816)	(916)
Net carrying value at 30 June 2016	**100**	**3,099**	**3,199**
Remaining useful life at 30 June 2016	1 years	6 years	

Amortisation of $916,000 (2015: $767,000) is included in other operating expenses in the statement of comprehensive income and in depreciation and amortisation expense in note 5.

Notes to the financial statements
30 June 2016

Note 16. Payables

	Consolidated		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Sundry creditors and accruals	40,519	30,763	443	207
Reinsurance premiums payable	3,133	4,182	-	-
ROCS levy payable	4,573	4,047	-	-
Payable to related entity	-	-	4,295	2,800
	48,225	**38,992**	**4,738**	**3,007**

Note 17. Outstanding claims liabilities

(a) Outstanding claims liabilities

	Consolidated		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Central estimate	677,020	700,879	-	-
Discount to present value	(43,578)	(62,487)	-	-
	633,442	638,392	-	-
Risk margin discounted	146,106	149,669	-	-
Gross outstanding claims liabilities discounted	**779,548**	**788,061**	**-**	**-**
Current outstanding claims liabilities	189,357	198,156	-	-
Non-current outstanding claims liabilities	590,191	589,905	-	-
	779,548	**788,061**	**-**	**-**
Gross claims outstanding undiscounted central	677,020	700,879	-	-
Risk margin undiscounted	156,831	165,474	-	-
Total gross claims undiscounted	**833,851**	**866,353**	**-**	**-**

Notes to the financial statements

30 June 2016

Note 17. Outstanding claims liabilities (continued)

(b) Risk margin

The process used to determine the risk margin is explained in note 3. The probability of adequacy at 30 June 2016 is 85% (2015: 85%) for AIL, AGHL, MDAV and DHF and 99.5% for PIA (2015: 99.5%).

The discounted risk margin included in gross outstanding claims at 30 June 2016 is 23.1% (2015: 23.4%). The discounted risk margin included on net outstanding claims at 30 June 2016 is 17.5% (2015: 16.8%).

(c) Reconciliation of movement in discounted outstanding claims liability

Consolidated	**2016**			**2015**		
	Gross $'000	**Re-insurance $'000**	**Net $'000**	**Gross $'000**	**Re-insurance $'000**	**Net $'000**
Brought forward	788,061	(337,658)	450,403	762,090	(340,186)	421,904
Effect of changes in assumptions	(68,681)	34,924	(33,757)	(26,801)	2,589	(24,212)
Increase in claims incurred / Recoveries anticipated over the year	272,088	(60,955)	211,133	237,278	(56,579)	180,699
Claim payments / recoveries during the year	(211,920)	52,671	(159,249)	(184,506)	56,518	(127,988)
Carried forward	**779,548**	**(311,018)**	**468,530**	**788,061**	**(337,658)**	**450,403**

The above table includes recoveries on outstanding and paid claims.

Notes to the financial statements

30 June 2016

Note 17. Outstanding claims liabilities (continued)

(d) Claims development table

Information for the claims development tables is extracted from claims administration systems and actuarial models. These systems are not set up to provide consolidated group wide data by accident year. The following tables show the development of gross and net undiscounted outstanding claims for the Company's insurance subsidiaries, AIL and PIA and for the Company's combined mutual entities. Note that IBNR liabilities have been included in the "2005 and prior" outstanding claims below.

Insurance Subsidaries

2016

i) Gross	2007 and prior $'000	2008 $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	Total $'000
Estimate of ultimate claims cost											
At middle of accident year		60,471	61,764	59,383	71,533	75,572	75,084	81,198	75,250	**88,680**	
One year later		117,502	113,337	132,990	120,460	158,405	136,208	172,908	**172,260**		
Two years later		112,097	117,343	120,698	113,999	125,795	146,923	**154,620**			
Three years later		118,348	103,095	119,964	106,945	147,077	**143,690**				
Four years later		105,421	102,132	101,121	106,226	**139,882**					
Five years later		108,027	102,505	121,999	**103,697**						
Six years later		86,215	96,372	**117,384**							
Seven years later		113,930	**88,985**								
Eight years later		**115,434**									
Nine years later											
Current estimate of cumulative claims cost	977,737	115,434	88,985	117,384	103,697	139,882	143,690	154,620	172,260	88,679	2,102,368
Cumulative payments	(918,758)	(105,125)	(79,414)	(98,627)	(84,663)	(86,503)	(73,162)	(59,033)	(25,432)	(3,817)	(1,534,534)
Outstanding claims-undiscounted	58,979	10,309	9,571	18,757	19,034	53,379	70,528	95,587	146,828	84,862	567,834
Discount											(36,106)
Claims handling expenses											34,048
Risk margin											135,679
GST											10,853
Total gross outstanding claims											**712,308**

ii) Net	2007 and prior $'000	2008 $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	Total $'000
Estimate of ultimate claims cost											
At middle of accident year		44,690	43,353	41,044	45,792	51,006	54,688	61,095	59,264	**69,397**	
One year later		87,281	80,261	87,122	90,134	113,624	120,067	129,499	**135,492**		
Two years later		79,916	77,866	90,349	85,121	107,853	112,480	**118,017**			
Three years later		80,864	74,606	83,407	82,431	101,860	**110,522**				
Four years later		76,243	72,947	84,469	80,247	**96,114**					
Five years later		76,714	70,274	82,975	**78,424**						
Six years later		74,977	70,920	**79,948**							
Seven years later		77,696	**67,460**								
Eight years later		**78,314**									
Nine years later											
Current estimate of cumulative claims cost	858,447	78,314	67,460	79,948	78,424	96,114	110,522	118,017	135,492	69,397	1,692,135
Cumulative payments	(841,969)	(72,162)	(61,422)	(68,873)	(66,359)	(66,575)	(62,731)	(49,650)	(23,895)	(3,812)	(1,317,448)
Outstanding claims-undiscounted	16,478	6,152	6,038	11,075	12,065	29,539	47,791	68,367	111,597	65,585	374,687
Discount											(20,204)
Claims handling expenses											32,598
Risk margin											67,196
Total net outstanding claims											**454,277**

Notes to the financial statements

30 June 2016

Note 17. Outstanding claims liabilities (continued)

(d) Claims development table (continued)

Mutual entities

2016

i) Gross	2007 and prior $'000	2008 $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	Total $'000
Estimate of ultimate claims cost											
At middle of accident year		8,619	6,449	5,157	6,558	4,569	7,834	7,259	1,591	**-**	
One year later		12,555	10,325	11,198	5,740	6,037	3,522	2,801	**2,571**		
Two years later		9,434	9,628	4,074	5,577	4,778	5,966	**2,705**			
Three years later		7,079	4,983	2,431	2,159	3,881	**5,169**				
Four years later		4,862	2,803	2,957	2,638	**3,307**					
Five years later		4,803	4,840	2,429	**4,578**						
Six years later		6,222	2,815	**2,469**							
Seven years later		4,098	**2,772**								
Eight years later		**4,466**									
Nine years later											
Current estimate of cumulative claims cost	512,138	4,466	2,772	2,469	4,578	3,307	5,169	2,705	2,571	-	540,175
Cumulative payments	(469,955)	(3,799)	(2,698)	(2,048)	(2,230)	(3,307)	(5,169)	(1,172)	(543)	-	(490,921)
Outstanding claims-undiscounted	42,183	667	74	421	2,348	-	-	1,533	2,028	-	49,254
Discount											(3,860)
Claims handling expenses											6,690
Risk margin											10,144
GST											910
Total gross outstanding claims											**63,138**

ii) Net	2007 and prior $'000	2008 $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	Total $'000
Estimate of ultimate claims cost											
At middle of accident year		947	669	133	1,447	643	-	-	-	**-**	
One year later		3,302	1,413	1,867	1,387	1,116	576	(9)	**(21)**		
Two years later		2,422	1,045	1,384	257	583	144	**(64)**			
Three years later		3,750	1,740	1,258	540	105	**(246)**				
Four years later		2,291	202	1,949	445	**75**					
Five years later		2,822	973	1,243	**445**						
Six years later		3,041	191	**1,264**							
Seven years later		2,391	**245**								
Eight years later		**2,642**									
Nine years later											
Current estimate of cumulative claims cost	348,159	2,642	245	1,264	445	75	(246)	(64)	(21)	-	352,499
Cumulative payments	(345,139)	(2,291)	(194)	(1,179)	(445)	(75)	246	59	21	-	(348,997)
Outstanding claims-undiscounted	3,020	351	51	85	0	0	0	(5)	0	-	3,502
Discount											(239)
Claims handling expenses											4,596
Risk margin											1,324
Total net outstanding claims											**9,183**

The claims development tables above are based on notification year which for the Company is the calendar year. As the claims development is shown on a financial year basis, the first year of the claims development represents six months only. This accounts for the significant increase in claims in the year following the initial reporting of the notification year.

The claims development of DHF has not been included due to the short tail nature of the business. DHF has $5.1 million in outstanding claims as at 30 June 2016.

Notes to the financial statements

30 June 2016

Note 18. Provisions

	Consolidated		Company	
	2016 $'000	**2015 $'000**	**2016 $'000**	**2015 $'000**
Restoration provision	1,954	1,503	-	-
Employee entitlements	6,252	5,828	-	-
Provision for reinsurance premiums payable	1,949	-	-	-
	10,155	**7,331**	**-**	**-**
Current provision	7,233	3,953	-	-
Non-current provision	2,922	3,378	-	-
	10,155	**7,331**	**-**	**-**
Numbers of employees at reporting date	417	369	-	-

a) Information about individual provisions and significant estimates

Restoration provision relates to the expected costs of restoring the current leased premises to their original condition.

Employee benefits relates to the Group's liability for long service leave and annual leave.

The provision for reinsurance premiums payable represents the adjustment premiums payable in respect of prior years' reinsurance cover. The adjustment premiums are additional reinsurance expenses payable under reinsurance contracts where recoveries under those contracts have exceeded or are expected to exceed specified limits.

b) Movement in provisions

	Employee entitlements Current $'000	**Provision for reinsurance premiums payable Current $'000**	**Restoration provision Current $'000**	**Employee entitlements Non-current $'000**	**Restoration provision Non-current $'000**	**Total $'000**
Carrying value at the beginning of the year	3,953	-	-	1,875	1,503	7,331
Additional provisions recognised	7,935	1,949	-	270	-	10,154
(Payments) / receipts	(7,913)	-	-	-	-	(7,913)
Increase / (reductions) from remeasurement	109	-	-	23	451	583
Reclassification	-	-	1,200	-	(1,200)	-
Carrying value at the end of the year	**4,084**	**1,949**	**1,200**	**2,168**	**754**	**10,155**

Notes to the financial statements

30 June 2016

Note 18. Provisions (continued)

c) Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes accrued annual leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service. The entire amount of the provision of $3,953,000 is presented as current, since the Group does not have unconditional right to defer settlement for any of these obligations. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

	2016	2015
	$'000	$'000
Current leave obligation expected to be settled after 12 months	1,711	1,591

Note 19. Unearned income

	Consolidated		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Unearned subscriptions	9,932	8,071	9,932	8,071
Unearned premiums	146,284	129,413	-	-
	156,216	**137,484**	**9,932**	**8,071**
Unearned premium liability at the beginning of the year	129,413	121,175	-	-
Deferral of premiums on contracts written in the period	146,284	129,413	-	-
Earnings of premiums written in previous periods	(129,413)	(121,175)	-	-
Unearned premium liability at the end of the year	**146,284**	**129,413**	**-**	**-**

The application of the liability adequacy test in respect of the net premium liabilities identified a surplus at 30 June 2016 and 2015.

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

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 calculation of the probability of sufficiency of the outstanding claims liabilities provision, no such guidance exists in respect of the level of risk margin to be used in determining the adequacy of net premium liabilities. The Group has adopted a risk margin for the purpose of the liability adequacy test to produce a 75% probability of sufficiency. The 75% basis is a recognised industry benchmark in Australia, for both general insurers and health insurers.

The application of the liability adequacy test in respect of the net premium liabilities identified surplus at 30 June 2016 and 2015.

Notes to the financial statements

30 June 2016

Note 20. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The risks are controlled by ensuring that all activities are transacted in accordance with approved mandates, strategies and limits.

The Group has an appointed custodian (J. P. Morgan Investor Services Australia), an investment advisor (Mercer (Australia) Pty Limited) and has negotiated Investment Management Agreements (IMA) with external investment managers, with all the funds managed in accordance with these IMAs. However, full responsibility and accountability is maintained by the Group through management and the Group Investment Committee.

Investment Policy Statements take into account the Group's overall risk tolerance and long-term risk-return requirements.

Financial risk management disclosures relating to the Company are not relevant as the only material financial asset relates to cash and cash equivalents, which has been disclosed in Note 9.

The following list of factors are considered and addressed as part of the Group's financial risk management policies and procedures.

(a) Market risk

Market risk is the risk of diminution in value of the Group's investment portfolio arising from adverse movements in the levels and volatility of interest rates and equity prices.

(i) Interest rate risk

Financial instruments with floating interest rate expose the Group to cash flow interest rate risk, whereas fixed interest rate instruments expose the Group to fair value interest rate risk.

Interest rate risk is addressed by ensuring that assets and liabilities are appropriately matched so that the effects on them of interest rate fluctuations can, to a large extent, be offset.

The Group's exposure to interest rate risk by maturity period is set out in the following table:

2016			**Fixed interest maturing in:**			
	Floating interest rate $'000	**1 year or less $'000**	**1 to 5 years $'000**	**Over 5 years $'000**	**Non-interest bearing $'000**	**Total $'000**
Financial assets						
Cash and cash equivalents	157,933	-	-	-	-	157,933
Receivables	-	-	-	-	75,787	75,787
Financial assets - investments	83,886	110,617	316,076	130,460	784,532	1,425,571
Reinsurance and other recoveries	-	-	-	-	330,295	330,295
Total financial assets	**241,819**	**110,617**	**316,076**	**130,460**	**1,190,614**	**1,989,586**
Financial liabilities						
Payables	-	-	-	-	48,225	48,225
Provisions	-	-	-	-	10,155	10,155
Outstanding claims liabilities	-	-	-	-	779,548	779,548
Total financial liabilities	-	-	-	-	**837,928**	**837,928**
Net financial assets	**241,819**	**110,617**	**316,076**	**130,460**	**352,686**	**1,151,658**

Notes to the financial statements

30 June 2016

Note 20. Financial risk management (continued)

(a) Market risk (continued)

(i) Interest rate risk (continued)

2015		**Fixed interest maturing in:**				
	Floating interest rate $'000	**1 year or less $'000**	**1 to 5 years $'000**	**Over 5 years $'000**	**Non-interest bearing $'000**	**Total $'000**
Financial assets						
Cash and cash equivalents	122,415	-	-	-	-	122,415
Receivables	-	-	-	-	68,695	68,695
Financial assets - investments	119,461	171,303	244,549	88,630	813,186	1,437,129
Reinsurance and other recoveries	-	-	-	-	357,565	357,565
Total financial assets	**241,876**	**171,303**	**244,549**	**88,630**	**1,239,446**	**1,985,804**
Financial liabilities						
Payables	-	-	-	-	38,992	38,992
Provisions	-	-	-	-	7,331	7,331
Outstanding claims liabilities	-	-	-	-	788,061	788,061
Total financial liabilities	**-**	**-**	**-**	**-**	**834,384**	**834,384**
Net financial assets	**241,876**	**171,303**	**244,549**	**88,630**	**405,062**	**1,151,420**

Reconciliation of net financial assets to net assets	**2016 $'000**	**2015 $'000**
Net financial assets as above		
Interest bearing	798,972	746,358
Non-Interest bearing	352,686	405,062
Net financial assets	1,151,658	1,151,420
Net non-financial liabilities	(118,768)	(137,577)
Net assets	**1,032,890**	**1,013,843**

Notes to the financial statements

30 June 2016

Note 20. Financial risk management (continued)

(a) Market risk (continued)

(i) Interest rate risk (continued)

The Group's sensitivity to movements in interest rates in relation to the value of interest bearing financial assets is shown in the table below:

		FINANCIAL IMPACT *			
	Movement in variable	Profit / (Loss) 2016 $'000	Equity 2016 $'000	Profit / (Loss) 2015 $'000	Equity 2015 $'000
Interest rate movement – interest bearing financial assets	100 bpt +	(4,293)	(4,293)	(4,959)	(4,959)
	100 bpt -	4,293	4,293	4,964	4,964

* Net of taxation at the prima facie rate of 30%.

(ii) Price Risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded on the market.

The Group is exposed to securities price risk. This arises from investments in listed and unlisted securities classified in the balance sheet at fair value through profit or loss.

To manage price risk arising from investments in unit trusts and equities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set down by AGHL and AIL.

The potential impact of movements in the market value of unit trusts and equities on the Group's statement of comprehensive income and balance sheet is shown in the sensitivity analysis below. The analysis is based on the assumption that the value had increased/decreased by 20% (2015: 20%) with all other variables held constant.

		FINANCIAL IMPACT *			
	Movement in variable %	Profit / (Loss) 2016 $'000	Equity 2016 $'000	Profit / (Loss) 2015 $'000	Equity 2015 $'000
Unit trusts	20% +	102,089	102,089	104,566	104,566
	20% -	(102,089)	(102,089)	(104,566)	(104,566)

* Net of taxation at the prima facie rate of 30%.

Post-tax profit for the year would increase/decrease as a result of the gains/losses on trusts classified as fair value through profit or loss.

		FINANCIAL IMPACT *			
	Movement in variable %	Profit / (Loss) 2016 $'000	Equity 2016 $'000	Profit / (Loss) 2015 $'000	Equity 2015 $'000
Equities	20% +	7,374	7,374	9,418	9,418
	20% -	(7,374)	(7,374)	(9,418)	(9,418)

* Net of taxation at the prima facie rate of 30%.

Notes to the financial statements

30 June 2016

Note 20. Financial risk management (continued)

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. Credit risk is the risk that one party to a financial instrument will cause financial loss to the other party by failing to discharge an obligation.

The following policies and procedures are in place to mitigate the Group's exposure to credit risk:

A Group-wide credit risk policy is in place which defines what constitutes credit risk for the Group. Compliance with the policy is monitored and exposures and breaches are reported to the Group Investment Committee. Credit risk in respect of debtors is actively monitored. Strict controls are maintained over counterparty exposures. Business is transacted with counterparties that have a strong credit rating and concentration of risk is avoided by adherence to counterparty limits that are set each year by management and the Board of Directors and which are reviewed by management on a regular basis.

The carrying amounts of financial assets included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to these assets. Where entities have a right of set-off and intend to settle on a net basis, this set-off has been reflected in the financial statements in accordance with accounting standards.

Credit risk is addressed by limiting the aggregate exposure to any single counterparty by prescribing the credit quality of the counterparties, and by prescribing credit policies to direct management in managing credit exposures. Also, a minimum of two participants on any layer of reinsurance is required, with a minimum of five reinsurers on the program. No reinsurer will be allocated a share equal to more than 50% of any original insurance policy claim exposure. Participants in the current year's reinsurance program must have a minimum Standard and Poor's rating of A-.

The following tables provide information regarding the aggregate credit risk exposure of the Group at the balance sheet date in respect of the major classes of financial assets. The analysis classifies the assets according to Standard & Poor's counterparty credit ratings. AAA is the highest possible rating. Rated assets falling outside the range of AAA and BBB are classified as speculative grade.

As at 30 June 2016	**CREDIT RATING**					
	AAA $'000	**AA $'000**	**A $'000**	**BBB $'000**	**Not rated $'000**	**TOTAL $'000**
Cash at bank and short-term bank deposits	-	157,933	-	-	-	157,933
Receivables	-	-	-	-	75,787	75,787
Financial assets	379,368	136,035	61,952	33,869	814,347	1,425,571
Reinsurance and other recoveries	304,956	11,612	10,595	-	3,132	330,295

As at 30 June 2015	**CREDIT RATING**					
	AAA $'000	**AA $'000**	**A $'000**	**BBB $'000**	**Not rated $'000**	**TOTAL $'000**
Cash at bank and short-term bank deposits	-	122,415	-	-	-	122,415
Receivables	-	-	-	-	68,695	68,695
Financial assets	371,565	102,449	86,685	17,191	859,239	1,437,129
Reinsurance and other recoveries	319,582	14,817	20,093	-	3,073	357,565

Notes to the financial statements

30 June 2016

Note 20. Financial risk management (continued)

(c) Liquidity risk

The Group manages liquidity risk by maintaining sufficient cash and marketable securities. Liquidity risk is addressed by imposing restrictions on the quality of assets which can be held and by having in place plans for managing liquidity under different scenarios to ensure the Group can operate for a minimum time under adverse conditions.

The tables below summarises the maturity profile of certain financial liabilities of the Group based on the remaining undiscounted contractual obligations. The impact of discounting on the financial liabilities shown in the table is not significant.

As at 30 June 2016

	1-3 months $'000	3-6 months $'000	6-12 months $'000	Between 1-2 years $'000	Over 2 years $'000	Total $'000
Payables	48,225	-	-	-	-	48,225
Provisions	-	-	5,522	2,465	2,168	10,155

As at 30 June 2015

	1-3 months $'000	3-6 months $'000	6-12 months $'000	Between 1-2 years $'000	Over 2 years $'000	Total $'000
Payables	38,992	-	-	-	-	38,992
Provisions	-	-	2,362	3,094	1,875	7,331

(d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level 1) quoted prices (unadjusted) in active markets for identical assets or liabilities,

Level 2) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices), and

Level 3) inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following tables represent the Group's assets measured and recognised at fair value at 30 June 2016 and 30 June 2015.

As at 30 June 2016	Level 1 $'000	Level 2 $'000	Total $'000
Assets			
Financial assets at fair value through profit or loss			
Short duration interest bearing securities	91,746	6,956	98,702
Fixed interest securities	2,000	542,994	544,994
Unit trusts	8,857	720,350	729,207
Equities	52,668	-	52,668
	155,271	**1,270,300**	**1,425,571**

Notes to the financial statements

30 June 2016

Note 20. Financial risk management (continued)

(d) Fair value measurements (continued)

As at 30 June 2015	**Level 1 $'000**	**Level 2 $'000**	**Total $'000**
Assets			
Financial assets at fair value through profit or loss			
Short duration interest bearing securities	69,652	13,912	83,564
Fixed interest securities	1,323	538,068	539,391
Unit trusts	6,324	740,578	746,902
Equities	67,272	-	67,272
	144,571	**1,292,558**	**1,437,129**

The fair value of financial instruments traded in active markets (such as trading securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for fixed interest securities for disclosure purposes. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. These instruments are included in level 2. In circumstances where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in level 3.

There were no level 3 instruments for the years ended 30 June 2016 and 30 June 2015.

Notes to the financial statements

30 June 2016

Note 21. Equity

	Consolidated		Company	
	2016 $'000	**2015 $'000**	**2016 $'000**	**2015 $'000**
(a) Reserves				
Business combination reserve				
At the beginning and at the end of the year	**54,598**	**54,598**	**508,602**	**508,602**
(b) Accumulated surpluses				
At the beginning of the year				
- Mutual – Tax exempt	221,219	216,887	6,770	8,894
- Mutual – Taxable	738,026	676,249	1,772	1,450
	959,245	893,136	8,542	10,344
Total comprehensive income for the year				
- Mutual – Tax exempt	3,814	4,332	3,370	(2,124)
- Mutual – Taxable	15,233	61,777	(1,180)	322
	19,047	66,109	2,190	(1,802)
At the end of the year				
- Mutual – Tax exempt	225,033	221,219	10,140	6,770
- Mutual – Taxable	753,259	738,026	592	1,772
	978,292	**959,245**	**10,732**	**8,542**

The Group has separated its accumulated surpluses between those derived from mutual tax exempt activities and those derived from mutual but taxable activities including the activities of AIL and Professional Insurance Australia Pty Ltd ("PIA"). The Group has franking credits that would only be available for distributions from accumulated surpluses derived from mutual but taxable activities.

Note 22. Remuneration of key management personnel

Details of the remuneration of the key management personnel (KMP) of the Group are shown below. The key management personnel include the Company Directors, the Chief Executive Officer (CEO) and those executives that report directly to the CEO.

	Consolidated		Company	
	2016 $'000	**2015 $'000**	**2016 $'000**	**2015 $'000**
Short-term employee benefits				
Cash salary and fees	6,692	6,169	2,079	2,070
Post-employment benefits				
Superannuation	488	424	145	141
Termination benefits	359	391	17	38
Total remuneration	**7,539**	**6,984**	**2,241**	**2,249**

Notes to the financial statements

30 June 2016

Note 22. Remuneration of key management personnel (continued)

Directors' remuneration is paid to all Directors by the controlled entity, AIL.

Directors do not receive termination benefits.

Directors' remuneration excludes insurance premiums paid by the Group in respect of Directors' and officers' liability insurance contracts as the contracts do not specify premiums paid in respect of individual Directors and officers. Information relating to the insurance contract is set out in the Directors' report.

Note 23. Remuneration of auditors

	Consolidated		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Audit services				
PricewaterhouseCoopers Australian Firm:				
Audit of financial reports	626	617	56	56
Other assurance services				
PricewaterhouseCoopers Australian Firm:				
Audit of regulatory returns	110	109	10	10
Accounting advice	-	38	-	38
Actuarial services	46	62	-	-
Other	17	-	-	-
	799	**826**	**66**	**104**

Note 24. Commitments for expenditure

	Consolidated		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Operating leases				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	4,254	4,000	-	-
Later than one year but not later than five years	21,414	1,254	-	-
Later than five years	19,887	-	-	-
	45,555	**5,254**	**-**	**-**

The minimum lease payments are calculated up to the date of the first option to cease payments without financial penalty. Each operating lease is renewed under new terms as determined by both parties as each contract expires. The operating leases identified above do not restrict the Group's financing objectives nor do they contain any obligation or option to purchase the underlying asset.

The lease payments recognised in the Statement of Comprehensive Income were $3,790,937 (2015: $3,717,497).

Notes to the financial statements

30 June 2016

Note 25. Related parties

The following persons were Directors of the Company during the financial year ended 30 June 2016 and up to the date of this report (except as noted below):

Professor Simon Willcock (Chairman)

Mr Peter Beck

Dr Jan Dudley

The Hon John Fahey

Dr William Glasson[1]

Dr Steven Hambleton

Mr Peter Polson

Dr Beverley Rowbotham

Dr Douglas Travis[2]

[1]Appointed as director effective 26 November 2015 and continues in office as at the date of this report.

[2]Appointed as director effective 1 August 2015 and continues in office as at the date of this report.

Dr Stephen Clarke was as a director from the beginning of the financial year until his retirement on 31 July 2015.

Dr Timothy Edwards was a director from 1 August 2015 until his retirement on 26 November 2015.

Key management personnel

In addition to the Directors, the chief executive officer (CEO) and those executives that report directly to the CEO are deemed key management personnel.

Remuneration

Information on remuneration of key management personnel is disclosed in Note 22.

Transactions with Directors

For the year ended 30 June 2016, member services provided by the Company were also available to all member Directors on the same terms and conditions available to other members. No member services were provided to the other key management personnel.

The Directors of Avant group companies are able to purchase a DHF policy on the same terms and conditions as all other Avant staff, who currently receive a 25% subsidy.

The Avant Corporate Travel Insurance policy automatically covers Directors and accompanying family members for leisure travel more than 100 kilometres from their home.

Group structure

Up to 30 June 2016, the ultimate Australian parent entity within the Group was Avant Mutual Group Limited. Refer to Note 26 for the details and ownership interests of the controlled entities of the Company up to 30 June 2016.

Intercompany capital undertakings

As part of a group-wide initiative to centrally manage capital, on 8 July 2014, the Group agreed to support capital undertakings from the Company to AGHL in support of AGHL's capital undertakings to AIL of $90,000,000 and to DHF of $10,000,000.

Notes to the financial statements

30 June 2016

Note 25. Intercompany capital undertakings (continued)

The capital undertaking from the Company to AGHL and from AGHL to AIL provide additional financial support to a maximum of $90,000,000 in the event that AIL's regulatory capital adequacy multiple falls below a minimum ratio of 1.5.

The capital undertaking from the Company to AGHL and from AGHL to DHF provide additional financial support to a maximum of $10,000,000 in the event that the DHF's regulatory capital adequacy multiple falls below a minimum ratio of 1.5.

Related party transactions

All transactions between the parties and balances remaining between the parties were at normal terms and conditions and consisted of the following:

(a) A decrease in insurance recoveries paid or payable from AIL to AGHL for the period 1 July 2015 to 30 June 2016 of $nil (2015: decrease of $771,163) in respect of claims arising from the indemnity risks insured by AIL.

(b) Included in reinsurance and other recoveries (Note 12) is an amount receivable from AGHL by AIL of $968,708 (2015: $820,433).

(c) Transfers of funds between the parent entity and its controlled entities occur for day to day financing purposes.

(d) The provision of management services by the controlled entity, AIL, for the Company with management fees of $9,204,672(2015: $10,729,886) paid to the controlled entity.

(e) At 30 June 2016, AIL is due to pay $4,445,451 (2015: pay $2,820,221) to Avant Law Pty Limited ("Avant Law") for the settlement of inter-company transactions.

(f) At 30 June 2016, AIL is due to pay $13,087 (2015: pay $13,087) to The Medical Defence Association of Victoria Limited ('MDAV') for the settlement of inter-company transactions.

(g) At 30 June 2016, AIL is due to receive $2,390,661 (2015: receive $14,440,878) from AGHL for the settlement of inter-company transactions.

(h) At 30 June 2016, AIL is due to pay $875,240 (2015: pay $848,912) to the Company for the settlement of inter-company transactions.

(i) At 30 June 2016, AIL is due to receive $40,608 (2015: receive $25,622) from The Professional Insurance Australia ("PIA") for the settlement of inter-company transactions.

(j) At 30 June 2016, AIL is due to receive $13,719 (2015: receive $181,313) from DHF for the settlement of inter-company transactions.

(k) At 30 June 2016, AGHL is due to pay $nil (2015: pay $nil) to PIA; due to receive $146 (2015: receive $339) from MDAV; due to pay $3,906,302 (2015: receive $nil) to Doctors Financial Services (DFS); due to pay $84,550 (2015: pay $84,550) to UMPNSW; due to pay $nil (2015: receive $40,571) to DHF for the settlement of inter-company transactions. .

(l) At 30 June 2016, United Medical Protection Limited ("UMP") is due to receive $766 (2015: receive $769,704) from AGHL for the settlement of inter-company transactions.

(m) As at 30 June 2016, the Company is due to pay $40,826 (2015: receive $116,938) to PIA; due to pay $361,264 (2015: receive $352,720) to DHF; due to receive $767 (2015: receive $766) from UMP; due to pay $2,777,696 (2015: pay $2,777,696) to MDU; due to receive $376 (2015: receive $376) from UMP NSW; due to pay $487,447 (2015: pay $22,461) to Avant Law; due to pay $628,080 to DFS (2015: pay $nil); and due to receive $17,628,727 (2015: receive $26,902,905) from AGHL for the settlement of inter-company transactions.

(n) During the year AIL declared and paid $nil dividend to AGHL (2015: $285,000,000).

(o) During the year AIL received a dividend amounting $2,000,000 from Avant Law (2015: $5,000,000).

(p) During the year AGHL declared a $7,300,000 dividend payable to the Company.

(q) During the year UMP declared and paid a dividend amounting $769,133 to AGHL.

(r) During the year DHF declared and paid a dividend amounting $5,500,000 to AGHL.

Notes to the financial statements
30 June 2016

Note 26. Investments in controlled entities

Name of Entity	Country of incorporation	Class of shares	Ownership Interest 2016 %	Ownership Interest 2015 %
Avant Group Holdings Limited	Australia	Ordinary	100	100
The Medical Defence Association of Victoria	Australia	Ordinary	100	100
Investments in controlled entities of Avant Group Holdings Limited				
Avant Insurance Limited	Australia	Ordinary	100	100
The Doctors' Health Fund Pty Limited	Australia	Ordinary	100	100
The Medical Defence Union Pty Ltd	Australia	Ordinary	100	100
United Medical Protection of New South Wales Limited*	Australia	-	-	-
United Medical Protection Limited	Australia	Ordinary	100	100
Doctors Financial Services Pty Limited	Australia	Ordinary	100	-
Investments in controlled entities of Avant Insurance Limited				
Avant Law Pty Limited	Australia	Ordinary	100	100
Investments in controlled entities of Avant Insurance Limited				
Avant Law (SA) Pty Limited	Australia	Ordinary	100	-
Investments in controlled entities of The Medical Defence Union Pty Ltd				
Professional Insurance Australia Pty Ltd	Australia	Ordinary	100	100

*Avant Group Holdings Limited does not have any equity interests in this company as it is a member based entity limited by guarantee. Control is exercised by virtue of the Directors of Avant Group Holdings Limited sitting on the Board of this entity.

Notes to the financial statements

30 June 2016

Note 27. Contingent liabilities

At the request of the Group, Westpac Banking Corporation Limited has undertaken to pay on demand amounts up to $1,897,189 (2015: $1,860,514) in respect of lease payments payable. This bank guarantee is secured by a fixed charge over the Group's cash deposits.

Other than described above, there are no other contingent liabilities relating to the Group.

Note 28. Segment reporting

a) Description of segments

In accordance with AASB 8 *Operating Segments*, the Group has identified its operating segments based on the reports that are reviewed by the Group Executives and the Group Board of Directors, representing the Group's Chief Operating Decision Maker ("CODM"), in assessing performance and in determining the allocation of resources.

The Group operates in Australia and its revenue is largely derived from the underwriting of professional indemnity insurance and health insurance and from investment activities. The Group's operating segments are determined based on their business activities as described below.

Segment	Business Activities
General Insurance & MDO	Provision of professional indemnity insurance products to the healthcare professionals who are primarily members of the ultimate parent company. This involves underwriting of medical and health malpractice and legal expenses insurance policies. Provision of Mutual Services including member benefits and advocacy on behalf of our members; and Management of run off activities.
Health Insurance	Provision of health insurance policies to the Australian medical and health practitioner community, principally medical practitioners, their employees and their families.
Investment Activities on other capital reserves	Management of investment activities of Avant's other capital reserves.

Notes to the financial statements

30 June 2016

Note 28. Segment reporting (continued)

b) Segment information provided to the CODM

Segment results presented are measured on a consistent basis to how they are reported to the CODM.

Revenues and expenses occurring between segments are subject to contractual agreements between the legal entities comprising each segment

Asset and liability segment information has not been disclosed as the balances are not used by the CODM.

There are no differences between the recognition and measurement criteria used in the segment disclosures and those used in this financial report.

The segment information provided to the CODM for the reportable segments are as follows:

30 June 2016	**GI & MDO $'000**	**Health Insurance $'000**	**Investment Activities and other $'000**	**Total $'000**
Gross written premium	210,459	71,012	-	281,471
Movement in unearned premiums	(12,654)	(4,398)	-	(17,052)
Gross premium revenue	197,805	66,614	-	264,419
Reinsurance premium expense	(12,032)	-	-	(12,032)
Net premium revenue	**185,773**	**66,614**	**-**	**252,387**
Gross claims expense	(150,426)	(57,239)	-	(207,665)
Reinsurance and other recoveries revenue	25,068	130	-	25,198
Net claims incurred	**(125,358)**	**(57,109)**	**-**	**(182,467)**
Acquisition costs	(19,838)	(2,215)	-	(22,053)
Run-off cover scheme (ROCS) Levy	(8,827)	-	-	(8,827)
Other underwriting expenses	(47,336)	(2,972)	-	(50,308)
Underwriting expenses	**(76,001)**	**(5,187)**	**-**	**(81,188)**
Underwriting result	**(15,586)**	**4,318**	**-**	**(11,268)**
Investment income	34,259	1,412	5,470	41,141
Other income	17,257	28	-	17,285
Other operating expenses	(14,997)	-	(3,801)	(18,798)
Profit before income tax	**20,933**	**5,758**	**1,669**	**28,360**
Income tax expense	(4,637)	(1,656)	4,116	(2,177)
Profit for the year	**16,296**	**4,102**	**5,785**	**26,183**

Notes to the financial statements
30 June 2016

Note 28. Segment reporting (continued)

b) Segment information provided to the CODM (continued)

30 June 2015	GI & MDO $'000	Health Insurance $'000	Investment Activities and other $'000	Total $'000
Gross written premium	189,535	59,048	-	248,583
Movement in unearned premiums	(5,118)	(3,275)	-	(8,393)
Gross premium revenue	184,417	55,773	-	240,190
Reinsurance premium expense	(10,062)	-	-	(10,062)
Net premium revenue	**174,355**	**55,773**	**-**	**230,128**
Gross claims expense	(162,641)	(48,050)	-	(210,691)
Reinsurance and other recoveries revenue	46,070	280	-	46,350
Net claims incurred	**(116,571)**	**(47,770)**	**-**	**(164,341)**
Acquisition costs	(18,372)	(1,880)	-	(20,252)
Run-off cover scheme (ROCS) Levy	(8,272)	-	-	(8,272)
Other underwriting expenses	(44,703)	(2,462)	-	(47,165)
Underwriting expenses	**(71,347)**	**(4,342)**	**-**	**(75,689)**
Underwriting result	**(13,563)**	**3,661**	**-**	**(9,902)**
Investment income	34,653	1,535	58,924	95,112
Other income	15,213	22	-	15,235
Other operating expenses	(11,604)	-	(592)	(12,196)
Profit before income tax	**24,699**	**5,218**	**58,332**	**88,249**
Income tax expense	(2,464)	(1,466)	(18,210)	(22,140)
Profit for the year	**22,235**	**3,752**	**40,122**	**66,109**

Notes to the financial statements

30 June 2016

Note 29. Reconciliation of profit from continuing operations after income tax to net cash inflow from operating activities

	Consolidated		Company	
	2016 $'000	**2015 $'000**	**2016 $'000**	**2015 $'000**
Profit / (loss) from continuing operations after income tax	**26,183**	**66,109**	**9,326**	**(1,802)**
Depreciation, amortisation and impairment loss	3,147	2,748	-	-
Change in fair value of investments held at fair value through profit or loss	83,829	(30,825)	-	-
Write down of fixed assets	307	-	-	-
Dividend from subsidiary	-	-	(7,300)	-
Net movement in amounts due to related parties	-	-	18,513	(2,353)
Decrease / (increase) in:				
Receivables	(7,095)	(1,073)	90	(127)
Reinsurance and other recoveries	28,090	8,109	-	-
Deferred expenses	(483)	19	-	-
Deferred tax assets	(18,358)	-	(116)	22
Other operating assets	66	(392)	-	-
Increase / (decrease) in:				
Reinsurance premiums payable	1,949	(200)	-	-
Outstanding claims	(10,744)	26,068	-	-
Unearned premiums	18,669	8,581	1,861	524
Income tax payable	(21,700)	6,753	(21,701)	6,753
Provisions	2,273	290	-	-
Deferred tax liabilities	-	(13,090)	-	-
Other operating liabilities	9,248	4,637	237	(1,024)
Net cash inflow from operating activities	**115,381**	**77,734**	**910**	**1,993**

Notes to the financial statements

30 June 2016

Note 30. Capital Management

The Group and the Company's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide benefits for stakeholders, including members, and to meet its obligations to policyholders.

The Group have a comprehensive Internal Capital Adequacy Assessment Process (ICAAP) which documents the various practices governing the management of the Group's capital. The policy articulates the Group's tolerance to capital management risk and how these practices manage risk of the Group's tolerance framework.

In meeting its capital management objectives, the Group allocates its consolidated net assets to a number of purposes including:

a) Capital in APRA regulated insurance subsidiaries (AIL and PIA) held to meet APRA regulatory and target surplus capital requirements within the entities. The amount of capital at 30 June 2016 and its basis for determination is summarised in section (a) below.

b) Capital in DHF held to meet APRA (formerly PHIAC) regulatory and target surplus capital requirements within the entity. The amount of capital at 30 June 2016 and its basis for determination is summarised in section (b) below.

c) Intercompany undertakings: As part of a group-wide initiative to centrally manage capital, the Group agreed to support capital undertakings from the Company to AGHL in support of AGHL's capital undertakings to AIL of $90,000,000 and to DHF of $10,000,000 in the event that entities' regulatory capital adequacy multiple falls below a minimum ratio of 1.5. An additional $14,000,000 is held as prudential margin on the guarantees.

d) Capital notionally held to support the Retirement Reward Plan noting that the directors maintain sole discretion to declare RRP dividends. The Company does not carry a present obligation to provide the amount at balance date other than any declared dividend amount in the period that have not yet been paid at balance date.

e) Other capital reserves held to support Group business initiatives to enhance and grow its membership offerings and services to policyholders including the Retirement Reward Plan.

In summary, the net assets are allocated to the above objectives as follows:

	$'000
APRA entities' capital base	316,092
DHF capital base	18,196
Intercompany capital undertakings	114,000
Notional RRP Assets	310,481
Other capital reserves	274,121
Total	1,032,890

a) APRA Capital Adequacy Multiple

The Group's insurance subsidiary, AIL is regulated by APRA. The capital base, prudential capital requirement and capital adequacy multiple of AIL are shown in the table below.

Australian Prudential Regulation Authority ("APRA") Prudential Standard GPS 110 Capital Adequacy for General Insurers requires that the Company maintain a capital base in excess of its prudential capital requirement as defined under the Prudential Standard.

A Board approved ICAAP has been in place during the year to ensure the AIL's capital is managed adequately, in line with its risk appetite, and target capital requirements.

AIL manages its capital to achieve the following objectives:

- continuation as a going concern;
- ongoing compliance with APRA prudential framework and the applicable Australian Accounting standards;
- remaining within the Company's risk appetite boundaries as set out in the RAS, including the capital boundary;

Notes to the financial statements

30 June 2016

Note 30. Capital Management (continued)

a) APRA Capital Adequacy Multiple (continued)

- compliance with the financial requirements of the Australian Financial Services Licence issued by the Australian Securities and Investments Commission; and
- compliance with the capital management framework and strategy of the Group.

The Group also includes PIA, an APRA regulated general insurer, in the later stages of its run-off.

Management monitors both Companies' capital position regularly and reports the capital position to the Board.

The following tables show the capital adequacy of AIL and PIA calculated in accordance with APRA prudential framework.

(i) AIL

	2016	2015
	$'000	$'000
Eligible Tier 1 Capital as defined by APRA		
Contributed equity	215,621	215,621
Retained profits[1]	67,162	60,618
Insurance liability surplus (deficit)	26,160	22,174
Total equity	308,943	298,413
Less : APRA deductions	13,954	13,711
Total APRA capital base	**294,989**	**284,702**
APRA prudential capital requirement	**135,050**	**131,737**
APRA capital adequacy multiple	**2.18**	**2.16**

(ii) PIA

	2016	2015
	$'000	$'000
Eligible Tier 1 Capital as defined by APRA		
Contributed equity	7,510	7,510
Retained profits[1]	11,329	10,662
Insurance liability surplus / (deficit)	2,379	2,361
Total equity	21,218	20,533
Less : APRA deductions	115	239
Total APRA capital base	**21,103**	**20,294**
APRA prudential capital requirement	**5,000**	**5,000**
APRA capital adequacy multiple	**4.22**	**4.06**

[1]Retained profits are in accordance with APRA Prudential Standards.

Notes to the financial statements

30 June 2016

Note 30. Capital Management (continued)

Insurance Liability Surplus

The value of the insurance liabilities for outstanding claims required by GPS 210 for capital adequacy purposes differs from accounting purposes for the following reasons:

(i) GPS 210 requires a prudential margin with a probability of sufficiency of 75% (the level adopted by the Company for accounting purposes is 85% (2015: 85%) for AIL and 99.5% (2015: 99.5%) for PIA ; and

(ii) GPS 210 requires an assessment of premium liability (unearned premium less deferred acquisition costs, deferred reinsurance expense and ROCS levy is used for accounting purposes). The surplus between the premium liabilities per APRA requirements and premium liabilities per AASB1023 Premium Liabilities is included in Tier 1 capital.

b) APRA Solvency Requirement

The Group's private health insurance subsidiary, DHF was regulated by PHIAC up until 30 June 2015 (APRA has assumed supervising responsibility from 1 July 2015). Solvency and capital adequacy standards are established under the Private Health Insurance Act 2007, (the Act), and are an integral component of the prudential reporting and management regime for private health insurers. In September 2013 PHIAC released the new capital adequacy and solvency standards which came into effect in stages from 31 March 2014 to 1 July 2014. The Company was/has been compliant with the standards throughout the period/year.

Whilst the purpose of the APRA prudential standards is to prescribe the minimum capital requirement, the Company maintains a target level of surplus capital in excess of that minimum. This is to ensure that under a range of adverse circumstances, the Company would be expected to be in a position to meet its existing and future obligations to members and other creditors, in the context of a viable ongoing operation.

The following table shows the capital adequacy calculated in accordance with the APRA prudential standards.

	2016[1]	**2015**
	$'000	**$'000**
Total assets	52,406	48,428
Total liabilities	34,212	28,834
Net assets[1]	**18,194**	**19,594**
APRA capital adequacy reserve	**8,450**	**7,390**
APRA capital adequacy multiple	**2.15**	**2.65**

[1]Net assets as at June 2016 have been impacted by the $5.5m dividend declared during the year. In the absence of this declaration the capital adequacy multiple would be 2.75.

Notes to the financial statements

30 June 2016

Note 31. Events occurring after the reporting date

a) Retirement reward plan

For the second consecutive year, having considered the financial position and projected outlook for Avant, the Board resolved to notionally contribute a further $19,296,767 to the RRP in respect of the year ended 30 June 2016.

In addition, at that meeting, the Board also resolved to determine dividends and authorise payments for Retirement Reward Dividends totalling $6,623,908 to eligible retiring members. These are the second dividends determined under the RRP, and this historically continues the tradition of being the first medical defence organisation in Australia to pay fully franked dividends to members.

b) Investment in NobleOak

On 18 July 2016, AGHL and NOL entered into a Binding Share Subscription Term Sheet ("BSSTS") and a Binding Proposal. Pursuant to the terms of the BSSTS, AGHL subscribed for 14.99% of the shares in NOL at a price of $1.045 for total consideration of $6,231,916. The shares were issued to AGHL on 12 August 2016. The Binding Proposal sets out the headline terms for AGHL's further acquisition of shares in NOL which are subject to regulatory and NOL shareholder approval. Under the terms of Binding Proposal, once regulatory approval is received, AGHL will subscribe for a further 5% of the shares in NOL at a price of $1.045 per share to take its shareholding in NOL to 19.99%. If NOL shareholder approval is received, then AGHL will also make an offer to existing NOL shareholders to acquire up to a maximum of 10,000 shares from each shareholder for a minimum price of $1.00 per share and subject up to a cap of 30.99% of shares in NOL.

c) Other

Other than those described above, no other matter or circumstance has arisen since 30 June 2016 that has significantly affected or may significantly affect:

(i) the operations of the Group in future financial years, or

(ii) the results of those operations in future financial years, or

(iii) the state of affairs of the Group in future financial years.

Directors' Declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 11 to 63 are in accordance with the Corporations Act 2001, including:

  (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

  (ii) giving a true and fair view of the Company's and Group's financial position as at 30 June 2016 and of their performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the Directors.

Professor Simon Willcock
Chairman
Sydney
22 September 2016

Independent auditor's report to the members of Avant Mutual Group Limited

Report on the financial report

We have audited the accompanying financial report of Avant Mutual Group Limited (the company), which comprises the balance sheets as at 30 June 2016, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Avant Mutual Group Limited and Avant Mutual Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

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pwc

Auditor's opinion

In our opinion:

(a) the financial report of Avant Mutual Group Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2016 and of their performance for the year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

PricewaterhouseCoopers

PricewaterhouseCoopers

SK Fergusson
Partner

Sydney
22 September 2016

Avant mutual
by doctors for doctors

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Avant Mutual Group Limited
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