Avant mutual

by doctors for doctors

Financial Report
2018/2019

Avant Mutual Group Limited ABN 58 123 154 898

(A company limited by guarantee)

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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 6, Darling Park 3, 201 Sussex Street, Sydney, NSW 2000, Australia.

The financial report was authorised for issue by the Directors on 5 September 2019.

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

Directors' report

30 June 2019

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 2019.

Directors

The following persons were Directors of the Company during the financial year ended 30 June 2019 and up to the date of this report:

- Dr Beverley Rowbotham (Chair)[1]
- Mr Peter Beck
- Dr Jan Dudley
- The Hon John Fahey
- Dr William Glasson
- Dr Steven Hambleton
- Mr Peter Polson
- Dr Douglas Travis
- Professor Simon Willcock[2]

[1] Dr Beverley Rowbotham was appointed as Chair effective 1 July 2019.

[2] Professor Simon Willcock resigned as Chair effective 1 July 2019.

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 Business Package insurance products and undertakes investment activities related to its insurance activities.

The wholly owned controlled entity, Doctors Financial Services Pty Limited ('DFS'), allows the Company to provide its members and their employees and families with general and personal financial advice on life insurance (death cover, TPD, trauma and income protection and business expense), superannuation, deposits, managed investments, securities and standard margin lending facilities.

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 dividends under the Retirement Reward Plan (RRP) totalling $8,486,080 to eligible retiring members. These were the dividends determined under the RRP, and this marked the fourth time the Board has determined to pay franked dividends to members.

Review of operations

The Group's result for the year ended 30 June 2019 is a net profit after tax of $65,049,943 (2018: $94,957,465). The total members' accumulated equity as at 30 June 2019 is $1,251,402,709 (2018: $1,192,937,234).

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 $22,819,318 to the RRP in respect to the year ended 30 June 2018. This brings the total assets notionally allocated to the RRP of $345,085,123 as at 30 June 2018.

Directors' report

30 June 2019

Directors' report (continued)

Matters subsequent to the end of the financial year

Retirement Reward Plan

For the fifth consecutive year, having considered the financial position and projected outlook for Avant, the Board resolved to notionally contribute a further $24,523,750 to the RRP in respect of the year ended 30 June 2019.

In addition, at that meeting, the Board also resolved to determine dividends and authorise payments for Retirement Reward Dividends totalling $9,480,927 to eligible retiring members. These are the fifth 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.

Other than those described above, no other matter or circumstance has arisen since 30 June 2019 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 2019.

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 2019

Directors' report (continued)

Information on Directors

Dr Beverley Rowbotham MBBS (Hons 1), MD, FRACP, FRCPA, FAICD	
Experience and expertise	Dr Beverley Rowbotham was elected the Chair of Avant Mutual in July 2019 and is a Director of AGHL, AIL and DHF. She is a Director of Haematology and a member of the Executive Advisory Committee at Sullivan Nicolaides Pathology. In 2019, Dr Rowbotham was awarded Officer of the Order of Australia for her distinguished service to medicine through roles with professional associations, to pathology and to medical education. She is the Chair of the AMA Federal Council, 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 Fellow of the Australian Institute of Company Directors.
Avant Directorships	Avant Mutual Group Limited, Avant Group Holdings Limited, Avant Insurance Limited, Avant Foundation Limited, The Doctors' Health Fund Pty Ltd, The Medical Defence Association of Victoria Limited, Professional Insurance Australia Pty Limited, and United Medical Protection Limited (formerly UMP NSW).
Mr Peter Beck BSc, FIA, FIAA, FSA, FASFA	
Experience and expertise	Mr Peter Beck is a Director of AMGL, AGHL and AIL. Mr Beck is an actuary by profession and has over 40 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 and Professional Insurance Australia Pty Ltd.
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 is also a Director on the Royal Hospital for Women's Foundation Board. 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.
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. In 2017, John was appointed as the Chair of the Australian Building Code Board.
Avant Directorships	Avant Mutual Group Limited, Avant Group Holdings Limited, Avant Insurance Limited, The Doctors' Health Fund Pty Ltd (Chair), The Medical Defence Association of Victoria Limited, Professional Insurance Australia Pty Ltd, and United Medical Protection Limited (formerly UMP NSW).

Directors' report

30 June 2019

Directors' report (continued)

Information on Directors

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 (AMA) and was awarded the Gold Medal for his services in 2017. As AMA President he led the AMA Presidential Medical Indemnity Taskforce 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, AMA, Royal Australia and NZ College of Ophthalmologists Board and QLD Urban Indigenous Health.
Avant Directorships	Avant Mutual Group Limited and Avant Group Holdings Limited.
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 AMA. He is currently the Deputy Chair of the Medicare Benefits Schedule Review Taskforce and was the Deputy Chair of the My Health Record Expansion Program.
Avant Directorships	Avant Mutual Group Limited and Avant Group Holdings Limited.
Mr Peter Polson BCom, MBL, PMD	
Experience and expertise	Mr Peter 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 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 (Chair) and Professional Insurance Australia Pty Limited.
Dr Douglas Travis MBBS, FRACS, FAMA GAICD	
Experience and expertise	Dr Doug Travis is a Urological consultant practising in both the public and private health systems in Victoria. He currently holds the positions of Director of Surgery and Head of Urology at Melbourne's Western Health in parallel with working as a urological consultant at his own practice in Melbourne's western suburbs. 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. He holds various Board positions including being a Director of AMGL and AGHL and is a member of Avant's Medical Experts Committee. He is a Director of the EJ Whitten Foundation, a charity focusing on men's health awareness programs. Dr Travis held the position of AMA Victoria State President 2007-2009 and was Chair of the Federal AMA Audit Committee until 2012.
Avant Directorships	Avant Mutual Group Limited and Avant Group Holdings Limited.
Professor Simon Willcock MBBS (Hons 1), PhD, FRACGP, Dip. Obs., RANZCOG/RACGP, GAICD	
Experience and expertise	Professor Simon Willcock was the Chair of AMGL and AGHL between July 2014 and June 2019. Professor Willcock is a Director of AMGL, AGHL, 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., Professional Insurance Australia Pty Ltd and United Medical Protection Limited (formerly UMP NSW).

Directors' report

30 June 2019

Directors' report (continued)

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 2019, and the number of meetings attended by each Director are set out in the tables below.

	Avant Mutual Group Board		Group Audit Committee		Group Risk Committee	
	Full meeting		Full meeting		Full meeting	
	A	B	A	B	A	B
Dr Beverley Rowbotham (Chair)	6	6(c)	*	*	*	*
Mr Peter Beck	6	6	5	5(c)	5	5(c)
Dr Jan Dudley	6	6	*	*	*	*
The Hon John Fahey	5	6	*	*	*	*
Dr William Glasson	6	6	2	2	2	2
Dr Steven Hambleton	6	6	2	3	2	3
Mr Peter Polson	6	6	*	*	*	*
Mr Douglas Travis	6	6	4	5	4	5
Professor Simon Willcock	5	6	*	*	*	*

	Group Investment Committee		Remuneration Committee		Nominations Committee	
	Full meeting		Full meeting		Full meeting	
	A	B	A	B	A	B
Dr Beverley Rowbotham (Chair)	*	*	1	1	1	1
Mr Peter Beck	4	4	*	*	*	*
Dr Jan Dudley	2	2	5	6	1	1
The Hon John Fahey	4	4	5	6	*	*
Dr William Glasson	2	2	*	*	*	*
Dr Steven Hambleton	2	2	*	*	*	*
Mr Peter Polson	4	4(c)	6	6	2	2
Mr Douglas Travis	*	*	*	*	*	*
Professor Simon Willcock	*	*	5	6	2	2(c)

A = Number of meetings attended

B = Number of meetings held during the time the Director held office or was a member of the committee in the year.

*Not a member of the relevant committee

(c) = Chairman of the Board / Committee

Directors' report

30 June 2019

Directors' report (continued)

Company Secretary

Throughout the period, Mr Patrick Esplin served as the Group Company Secretary for all Avant group entities and continues in office as at the date of this report.

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

Deloitte Touche Tohmatsu was appointed as the Company's auditor in accordance with section 327 of the *Corporations Act 2001(Cth)* on 18 April 2019.

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 7.

Rounding of amounts

The Company is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with the instrument to the nearest dollar.

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

Beverley Rowbotham

Dr Beverley Rowbotham
Chair
Brisbane

5 September 2019

Deloitte.

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Board of Directors
Avant Mutual Group Limited
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Sydney NSW 2000

Dear Board Members

Auditor's Independence Declaration to Avant Mutual Group Limited

In accordance with Section 307C of the *Corporations Act 2001*, as the lead Audit Partner, I am pleased to provide the following declaration of independence to the Board of Directors of Avant Mutual Group Limited during the period.

For the audit of the financial report of Avant Mutual Group Limited for the period ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stuart Alexander
Partner
Chartered Accountant
5 September 2019

Consolidated statement of comprehensive income

For the year ended 30 June 2019

	Note	2019 $'million	2018 $'million
Gross written premium		360.2	346.7
Unearned premium movement		(3.0)	(19.5)
Gross earned premium		357.2	327.2
Outward reinsurance premium expense		(9.1)	(8.5)
Net earned premium (a)		348.1	318.7
Gross claims expense	4(b)	(307.7)	(233.4)
Reinsurance and other recoveries revenue	4(b)	39.7	24.6
Net claims incurred (b)	4(b)	(268.0)	(208.8)
Acquisition costs	4(i)	(31.1)	(27.5)
Other underwriting expenses	4(i)	(40.5)	(40.8)
Run-off Cover Scheme (ROCS) levy		(11.2)	(10.5)
Underwriting expenses (c)		(82.8)	(78.8)
Underwriting result (a) + (b) + (c)		**(2.7)**	**31.1**
Investment income – policyholders' funds	3(a)	23.0	12.3
Investment expenses – policyholders' funds	3(a)	(0.7)	(0.6)
Net investment income – policyholders' funds		22.3	11.7
Insurance profit		**19.6**	**42.8**
Other income	5(a)	28.5	21.9
Other operating expenses	4(i)	(24.2)	(16.7)
Net other income		4.3	5.2
Investment income – members' funds	3(a)	72.3	90.6
Investment expenses – members' funds	3(a)	(7.3)	(7.2)
Net investment income – members' funds		65.0	83.4
Amortisation of intangible assets	10	(0.6)	(0.6)
Profit before income tax		**88.3**	**130.8**
Income tax expense	8(a)	(23.3)	(35.9)
Profit after income tax		**65.0**	**94.9**
Other comprehensive income after income tax		-	-
Total comprehensive income after income tax		**65.0**	**94.9**
Total comprehensive income for the period attributable to:			
Owners of Avant Mutual Group Limited		65.3	94.9
Non-controlling interests		(0.3)	-
		65.0	**94.9**

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

Consolidated balance sheet

As at 30 June 2019

	Note	2019 $'million	2018 $'million
Assets:			
Cash and cash equivalents	3(b)	39.2	85.3
Trade and other receivables	5(b)	115.3	103.2
Investments	3(c)	1,919.8	1,788.0
Reinsurance and other recoveries	4(e)	278.0	280.3
Current tax assets	8(d)	4.2	-
Deferred expenses	4(h)	20.1	19.5
Deferred tax assets (net)	8(c)	-	3.0
Property and equipment	9	15.9	16.4
Intangible assets	10	9.1	3.9
TOTAL ASSETS		**2,401.6**	**2,299.6**
Liabilities:			
Trade and other payables	5(c)	80.0	71.1
Current tax liabilities	8(d)	-	23.6
Unearned income	4(g)	228.5	215.7
Insurance contract liabilities	4(d)	824.3	787.0
Employee-related provisions	5(e)	8.4	7.7
Other provisions	5(d)	1.6	1.6
Deferred tax liabilities (net)	8(c)	7.4	-
TOTAL LIABILITIES		**1,150.2**	**1,106.7**
NET ASSETS		**1,251.4**	**1,192.9**
Equity:			
Reserves	11(a)	54.6	54.6
Accumulated surpluses	11(b)	1,195.1	1,138.3
Capital and reserves attributable to owners of Avant Mutual Group Limited		1,249.7	1,192.9
Non-controlling interests		1.7	-
TOTAL EQUITY		**1,251.4**	**1,192.9**

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

Consolidated statement of changes in equity

For the year ended 30 June 2019

		Attributable to owners of Avant Mutual Group Limited				
	Note	**Reserves $'million**	**Accumulated surpluses $'million**	**Total $'million**	**Non-controlling interests $'million**	**Total $'million**
Balance as at 30 June 2017	**11**	**54.6**	**1,051.0**	**1,105.6**	**-**	**1,105.6**
Profit for the year		-	94.9	94.9	-	94.9
Other comprehensive income		-	-	-	-	-
Total comprehensive income for the year		-	94.9	94.9	-	94.9
Retirement reward dividend/payments		-	(7.6)	(7.6)	-	(7.6)
Transaction with owners in their capacity as owners		-	(7.6)	(7.6)	-	(7.6)
Balance as at 30 June 2018	**11**	**54.6**	**1,138.3**	**1,192.9**	**-**	**1,192.9**
Profit for the year		-	65.3	65.3	(0.3)	65.0
Other comprehensive income		-	-	-	-	-
Total comprehensive income for the year		-	65.3	65.3	(0.3)	65.0
Non-controlling interest on acquisition of subsidiary		-	-	-	2.0	2.0
Retirement reward dividend/payments		-	(8.5)	(8.5)	-	(8.5)
Transaction with owners in their capacity as owners		-	(8.5)	(8.5)	2.0	(6.5)
Balance as at 30 June 2019	**11**	**54.6**	**1,195.1**	**1,249.7**	**1.7**	**1,251.4**

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

Consolidated statement of cash flows

For the year ended 30 June 2019

	Note	2019 $'million	2018 $'million
Cash flows from operating activities:			
Premium and subscription income received		381.1	357.7
Reinsurance premium paid		(9.4)	(8.7)
Claims paid	4(d)	(270.4)	(217.1)
Reinsurance and other recoveries received	4(d)	42.0	41.4
Run-off Cover Scheme paid		(11.1)	(10.7)
Interest received		25.8	28.1
Sundry income		8.7	5.7
Income tax paid		(37.8)	(14.8)
Underwriting and administrative expenses paid		(96.0)	(86.3)
Net cash inflows from operating activities	**2**	**32.9**	**95.3**
Cash flows from investing activities:			
Purchase of investments		(474.8)	(285.9)
Proceeds from sale of investments		354.8	130.3
Dividends and distributions received		57.6	68.4
Acquisition of a subsidiary, net of cash acquired	20(b)	(2.2)	-
Purchase of fixed assets and intangibles		(4.1)	(7.8)
Payments for shares acquired		(1.8)	(4.5)
Net cash (outflows) from investing activities		**(70.5)**	**(99.5)**
Cash flows from financing activities:			
Retirement reward dividend payment		(8.5)	(7.6)
Net cash (outflows) from financing activities		**(8.5)**	**(7.6)**
Net movement in cash and cash equivalents:		**(46.1)**	**(11.8)**
Cash and cash equivalents at the beginning of the year		85.3	97.1
Cash and cash equivalents at the end of the year	**3(b)**	**39.2**	**85.3**

The above consolidated statement of cash inflows should be read in conjunction with the accompanying notes.

Notes to the financial statements

30 June 2019

Note 1. About this report

a) Basis of preparation

This Financial Report is a general purpose financial report which:

i. has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB), International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the *Corporations Act 2001(Cth)*. The financial statements are for the Group consisting of the Company and its subsidiaries. The Company is a for-profit entity for the purpose of preparing the financial statements;

ii. has been prepared on a historical cost basis as modified by certain exceptions, the most significant of which are the measurement of investments and derivatives at fair value and the measurement of the net outstanding claims liability at present value;

iii. has required the use of certain critical accounting estimates and management judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where judgements and estimates are significant to the financial statements have been disclosed in the relevant note under critical estimates and judgements;

iv. includes comparative amounts. Those amounts have been reclassified during the year.

- Software of $1.8m was reclassified from property and equipment to intangible assets in the consolidated balance sheet;
- the consolidated statement of cash flows was reclassified as follows:
  - Premium and subscription income received in the cash flows from operating activities was previously presented as gross of GST of $19.3m and Stamp Duty of $8.0m and was reclassified and presented on a net basis during the year. This resulted to premium and subscription income received of $357.7m from $385.0m, goods and services tax paid to $nil from $19.3m and underwriting and administrative expenses to $86.3m from $94.3m;
  - Payments for shares acquired were reclassified from cash flow from financing activities to cash flows from investing activities; and
  - Dividends and distributions received were reclassified from cash flows from operating activities to cash flows from investing activities.

v. is in Australian dollars which is the Group's functional and presentation currency; and

vi. is presented with values rounded to the nearest million dollars, or in certain cases, to the nearest thousand dollars in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

The financial statements are for the Group consisting of the Company and the entities it controlled during the year. A list of entities controlled by the Company at year end is contained in note 18. The financial statements of controlled entities are prepared for the same reporting period as the ultimate parent entity.

In preparing the consolidated financial statements all transactions between controlled entities are eliminated in full. Where control of an entity commences or ceases during a financial year, the results are included for the part of the year during which control existed.

Notes to the financial statements (continued)

30 June 2019

Note 1. About this report (continued)

b) Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out in the note to which they pertain. These policies have been consistently applied to all years presented.

i. New and amended accounting standards adopted by the Group

The Group adopted the following new or revised accounting standards which became effective for the annual reporting period commencing on 1 July 2018:

Standard/amendment	
AASB 15	Revenue from Contracts with Customers and related amending Standards
AASB 2016-6	Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts
AASB 2017-3	Amendments to Australian Accounting Standards Clarifications to AASB 4

None of the amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2018 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

ii. New and amended accounting standards not yet adopted by the Group

Standard/amendment	
AASB 9	Financial Instruments and related amending Standards*

*AASB 9 was issued during 2014 and replaces AASB 139 Financial Recognition and Measurement. This standard is effective for annual reporting periods beginning on or after 1 January 2018. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss ('ECL') model for calculation of impairment on financial assets. It also carries forward guidance on recognition and derecognition of financial instruments from AASB 139.

The Group has not yet adopted this standard as it elected to apply the option of temporary exemption from AASB 9 that was provided in AASB 2016-6.

AASB 2016-6 was published in October 2016, which provides an option of temporary exemption from AASB 9 for entities that meet certain requirements (applied at the reporting entity level) and this was followed by the issuance of AASB 2017-3 which amends AASB 4 to ensure that the relief available in AASB 2016-6 can be applied by entities who meet the qualifying criteria.

The Group has assessed the applicability of the exemption and concluded that it meets the necessary requirements to defer the adoption of AASB 9 to 1 January 2021 at the latest. During the year, AASB 17 has an Exposure Draft open for comment proposing to extend the date of initial application by one year to annual periods beginning on or after January 2022. As such, AASB 9 will be adopted together with AASB 17 on the latter's effective date.

The adoption of AASB 9 changes the Group's accounting for impairment losses for financial assets by replacing AASB 139's incurred loss approach with a forward-looking ECL approach. AASB 9 requires an allowance to be recognised for ECLs on other debt financial assets not held at fair value through profit or loss ('FVTPL'). ECLs are based on the difference between the contractual cash flows due in accordance with the contract and the cash flows that are expected to be received. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

The Group has undertaken an assessment of the impact to classification and measurement and the accounting for impairment losses under the new standard below:

- The Group's investments, except investments in controlled entities and associates, are currently designated as at fair value through profit or loss on initial recognition and are subsequently measured to fair value at each reporting date, reflecting the business model applied by the Group to manage and evaluate its investment portfolio. Under this business model, the adoption of AASB 9 is not expected to result in significant changes to accounting for investments;
- The Group's other financial instruments (i.e receivables and payables) are held at amortised cost. Under the current business model, the adoption of AASB 9 does not materially change the accounting for other financial instruments;
- For Trade and other receivables, the Group will adopt the simplified approach to calculate ECLs based on lifetime expected credit losses. A provision model will be established based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. There is currently no indication that a material lifetime expected credit loss would be recognised upon initial adoption of the standard.

Notes to the financial statements

30 June 2019

Note 1. About this report (continued)

b) Accounting policies (continued)

iii. New accounting standards and amendments issued but not yet effective

Standard/amendment		Effective for annual reporting periods beginning on or after
AASB 16	*Leases*	1 January 2019**
AASB 17	*Insurance Contracts*	1 January 2021***
AASB 2014-10	*Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate [AASB 10 and AASB 128], AASM 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and AASB 2017-5 – Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 Editorial Corrections*	1 January 2022 (Editorial corrections in AASB 2017-5 apply from 1 January 2018)
AASB 2017-7	*Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures*	1 January 2019
AASB 2018-1	*Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle*	1 January 2019
AASB 2018-3	*Amendments to Australian Accounting Standards – Reduced Disclosure Requirements*	1 January 2019
AASB 2018-6	*Amendments to Australian Accounting Standards – Definition of a Business*	1 January 2020
AASB 2018-7	*Amendments to Australian Accounting Standards – Definition of Material*	1 January 2020
AASB 2019-1	*Amendments to Australian Accounting Standards – References to the Conceptual Framework*	1 January 2020

****AASB 16 Leases**

This standard was issued on February 2016. Under the new standard, an asset (the right to use the leased item) and financial liability to pay rentals are recognised in the balance sheet. The only exceptions are short-term and low-value leases.

The Group has reviewed all its leasing agreements in light of the new lease accounting rules in AASB 16 and the result of the review are as follows:

As at the reporting date, the Group has non-cancellable operating lease commitments of $40.0m (see note 14). For the remaining lease commitments the Group expects to recognise on 1 July 2019 right-of-use assets of approximately $41.4m, lease liabilities of $39.6m (after adjustments for prepayments recognised as at 30 June 2019) and deferred tax assets of $0.2m. Overall net assets will be approximately higher by $1.8m.

The Group expects that the net profit after tax will decrease by approximately $0.9m for financial year ending 30 June 2020 as a result of adopting the new rules.

Operating cash flows will increase and financing cash flows decrease by approximately $6.3m as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Group will apply the standard from 1 July 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition equal to the liability with adjustment on provision for restoration.

*****AASB 17 Insurance Contracts**

AASB has an Exposure Draft open for comment proposing to extend the date of initial application by one year to annual periods beginning on or after January 2022. The Group has not formally assessed the impact of AASB 17 as at 30 June 2019 but it is anticipated that an initial assessment of the effects of AASB 17 will be undertaken during the next financial year.

The Australian accounting standards and amendments detailed in the previous table are not mandatory for the Group until the operative dates stated above, although early adoption is permitted. The Group has not early adopted.

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 (continued)

30 June 2019

Note 2. Reconciliation of profit after income tax to net cash inflows from operating activities

Overview

AASB 1054 *Australian Additional Disclosures* requires a reconciliation of profit and loss after income tax to cash flows from operating activities.

	2019 $'million	2018 $'million
Profit after income tax	**65.0**	**94.9**
Depreciation, amortisation and impairment loss	4.5	4.1
Change in fair value of investments held at fair value through profit or loss	(27.2)	(3.5)
Dividends and distributions received net of franking credits	(40.4)	(70.2)
Write down of fixed assets	0.2	0.1
Decrease/(increase) in:		
Receivables	(14.2)	(8.6)
Reinsurance and other recoveries	2.3	16.8
Deferred expenses	(0.6)	(1.5)
Deferred tax assets/liabilities	10.4	(2.6)
Increase/(decrease) in:		
Reinsurance premiums payable	-	0.2
Insurance contract liabilities	37.3	16.3
Unearned income	13.5	21.1
Income tax payable	(27.8)	21.3
Employee related and other provisions	0.7	-
Other operating liabilities	9.2	6.9
Net cash inflows from operating activities	**32.9**	**95.3**

Notes to the financial statements (continued)

30 June 2019

Note 3. Investing activities

Overview

AASB 139 Financial Instruments: Recognition and measurement specifies how an entity should classify and measure its financial assets and liabilities. Financial assets are measured either at amortised cost or fair value.

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

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).

How we account for the numbers

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, 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.

Investments

Measurement of investments held at cost

Both at initial recognition, and subsequently at each balance sheet date, the Group measures its investments in associates at cost.

Measurement of investments at fair value through profit or loss ('FVTPL')

Both at initial recognition, and subsequently at each balance sheet date, the Group measures its investments classified as financial asset at FVTPL at its 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).

Measurement of fair value

The fair value of financial instruments is measured and disclosed as per requirements of AASB 13 Fair Value Measurement, which uses a hierarchy of inputs for the determination of fair value. Level 1 financial instruments are those traded in active markets (such as trading securities), and fair value 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.

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. The Group values unlisted unit trusts using pricing provided by the responsible entity or management company of the trust. 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.

Notes to the financial statements (continued)

30 June 2019

Note 3. Investing activities (continued)

How we account for the numbers (continued)

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.

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 at cost 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.

Critical accounting estimates and judgements

The Directors have reviewed all of the Group's existing financial assets in line with the requirements of AASB 139 and have assessed that all financial assets are measured at fair value through profit and loss.

a) Investment income and expenses

	2019 $'million	2018 $'million
Investment income:		
Interest	25.9	27.8
Distributions from unit trusts	37.9	67.8
Dividends from equities	4.3	3.8
	68.1	99.4
Change in fair value of investments	27.2	3.5
Total investment income	**95.3**	**102.9**
Investment income – policyholders' funds	23.0	12.3
Investment income – members' funds	72.3	90.6
Total investment income	**95.3**	**102.9**
Investment expenses – policyholders' funds	(0.7)	(0.6)
Investment expenses – members' funds	(7.3)	(7.2)
Total investment expenses	**(8.0)**	**(7.8)**

b) Cash and cash equivalents

	2019 $'million	2018 $'million
Cash at bank and in hand	**39.2**	**85.3**
	39.2	**85.3**

Notes to the financial statements (continued)

30 June 2019

Note 3. Investing activities (continued)

c) Investments

The following tables represent the Group's assets measured and recognised at fair value, by level of fair value measurement hierarchy:

As at 30 June 2019	Level 1 $'million	Level 2 $'million	Level 3 $'million	Total $'million
Investments at fair value through profit or loss:				
Fixed interest securities	57.2	597.4	-	654.6
Unit trusts	8.9	1,173.3	-	1,182.2
Equities	67.9	-	-	67.9
	134.0	**1,770.7**	**-**	**1,904.7**
Investments at cost:				
Equities				15.1
				15.1
Total investments				**1,919.8**
Current investments				229.4
Non-current investments				1,690.4
				1,919.8

As at 30 June 2018	Level 1 $'million	Level 2 $'million	Level 3 $'million	Total $'million
Investments at fair value through profit or loss:				
Fixed interest securities	87.7	658.4	-	746.1
Unit trusts	6.8	958.4	-	965.2
Equities	63.5	-	-	63.5
	158.0	**1,616.8**	**-**	**1,774.8**
Investments at cost:				
Equities				13.2
				13.2
Total investments				**1,788.0**
Current investments				243.0
Non-current investments				1,545.0
				1,788.0

There were no investments valued within the level 3 fair value hierarchy as at 30 June 2019 and 30 June 2018.

Notes to the financial statements (continued)

30 June 2019

Note 4. Underwriting activities

a) Insurance contract revenue

How we account for the numbers

Premium revenue

Premium revenue charged to policyholders excludes 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.

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 levy is a percentage of premiums received by the insurer during the contribution year. The levy 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 balance sheet as receivables and presented as part of premium and subscription debtors in note 5(b).

Reinsurance service expenses

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.

Notes to the financial statements (continued)

30 June 2019

Note 4. Underwriting activities (continued)

b) Net claims incurred

Overview

Net claims expense is shown below split between undiscounted claims expense (insurance service expenses offset by reinsurance contract revenue) and the movement in discount on outstanding claims and reinsurance provisions.

How we account for the numbers

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.

	2019			2018		
	Current period $'million	Prior periods $'million	Total $'million	Current period $'million	Prior periods $'million	Total $'million
Undiscounted claims expense:						
Gross claims expense	346.4	(68.3)	278.1	316.9	(82.6)	234.3
Reinsurance and other recoveries	(47.5)	22.8	(24.7)	(53.8)	29.8	(24.0)
Net claims expense	298.9	(45.5)	253.4	263.1	(52.8)	210.3
Discount movement:						
Gross claims expense	(10.4)	40.0	29.6	(16.3)	15.4	(0.9)
Reinsurance and other recoveries	3.4	(18.4)	(15.0)	6.4	(7.0)	(0.6)
Net discount movement	(7.0)	21.6	14.6	(9.9)	8.4	(1.5)
Discounted claims expense:						
Gross claims expense	336.0	(28.3)	307.7	300.6	(67.2)	233.4
Reinsurance and other recoveries	(44.1)	4.4	(39.7)	(47.4)	22.8	(24.6)
Net discounted claims expense	**291.9**	**(23.9)**	**268.0**	**253.2**	**(44.4)**	**208.8**

Notes to the financial statements (continued)

30 June 2019

Note 4. Underwriting activities (continued)

c) Insurance risk

Overview

Accounting standard AASB 1023 General Insurance Contracts requires that an insurance group disclose the nature and extent of insurance risks that it is exposed to, and provide a sensitivity analysis for the effect on profit and loss for risk variables.

Insurance risk means risk, other than financial risk, transferred from the holder of a contract to the issuer.

Key drivers of insurance risk include concentration (credit) risk, underwriting and pricing of insurance contracts, claims payment and reserving, and reinsurance.

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). 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.

Concentration/credit risk

Credit and concentration risk exposure arises because the Group's business is exclusively sourced from health industry participants and is 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.

Underwriting risk

Underwriting risk is managed by appropriately setting and adjusting underwriting strategy, risk selection and pricing practices throughout the underwriting cycle.

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 dates of the portfolio. Premium rating is determined with regard to type of specialisation and state of practice, level of billings and other actuarial variables. The projection of future claims costs is performed by the Appointed 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 payment and reserving risk

Claims payment and reserving risk includes the risks that inappropriate claims are paid and that an insufficient amount is reserved for claims incurred.

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.

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

Reinsurance risk

Reinsurance risk includes credit risk regarding the reinsurance company used.

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 & Poor's A-.

Notes to the financial statements (continued)

30 June 2019

Note 4. Underwriting activities (continued)

c) Insurance risk (continued)

Sensitivity analysis of changes to actuarial assumptions

How we account for the numbers

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 in note 4(d).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 additional 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.

Impact of changes in key variables		**Financial impact***			
	Movement in variable %	**Profit/(loss) 2019 $'million**	**Equity 2019 $'million**	**Profit/(loss) 2018 $'million**	**Equity 2018 $'million**
Inflation and superimposed inflation rates	1% +	(14.3)	(14.3)	(11.9)	(11.9)
	1% -	14.1	14.1	11.2	11.2
Discount rates	1% +	11.7	11.7	9.7	9.7
	1% -	(12.7)	(12.7)	(10.4)	(10.4)

* The above effects are net of the Group's prima facie income tax rate of 30%.

d) Insurance contract liabilities

Overview

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

How we account for the numbers

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 reported (IBNR); claims incurred but not enough reported (IBNER); anticipated claims handling costs and allowances for the Risk Equalisation Special Account for health insurance outstanding claims liabilities. 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.

Notes to the financial statements (continued)

30 June 2019

Note 4. Underwriting activities (continued)

d) Insurance contract liabilities (continued)

How we account for the numbers (continued)

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.

Critical accounting estimates and judgements

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 sensitive to a number of factors, including the ultimate number of claims, average claim cost, inflation rates, discount factors, and 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 requirement of the industry regulator APRA. The effect of such a margin is to increase the probability that the booked liability will be adequate.

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

	2019	**2018**
Normal inflation rate	2.5%	2.5%
Superimposed inflation	2.00%	2.00%
Average weighted discount rate	1.19%	2.32%
Average weighted term to settlement – known claims	3.4 years	3.2 years
Average weighted term to settlement – IBNR claims	4.7 years	4.5 years
Estimated ultimate number of claims	3,383	3,761
Claims handling expense percentage	7.00%	7.00%

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 over $1,500,000 in June 2011 dollars), medium claims (estimate cost to have exceeded $300,000 adjusted for inflation since June 2011 dollars), small claims and infant claims. Civil claims are separated into different state-based jurisdictions. Since 2016, the valuation methodology has been updated to separate infant claims by state and into small, medium and large claims.

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 (continued)

30 June 2019

Note 4. Underwriting activities (continued)

d) Insurance contract liabilities (continued)

	2019 $'million	2018 $'million
Insurance contract liabilities:		
Central estimate	683.8	679.8
Discount to present value	(29.5)	(52.4)
	654.3	627.4
Risk margin discounted	170.0	159.6
Gross outstanding claims liabilities discounted	**824.3**	**787.0**
Current outstanding claims liabilities	190.0	189.5
Non-current outstanding claims liabilities	634.3	597.5
	824.3	**787.0**
Gross outstanding claims undiscounted central	683.8	679.8
Risk margin undiscounted	179.2	175.5
Total gross claims undiscounted	**863.0**	**855.3**

The following table reconciles opening to closing insurance contract liabilities:

	2019			2018		
	Gross $'million	Reinsurance $'million	Net $'million	Gross $'million	Reinsurance $'million	Net $'million
Opening balance	787.0	(280.3)	506.7	770.7	(297.1)	473.6
Current year claims expense/(recovery)	336.0	(44.1)	291.9	300.6	(47.4)	253.2
Prior year claims development	(28.3)	4.4	(23.9)	(67.2)	22.8	(44.4)
(Claim payments)/recoveries during the year	(270.4)	42.0	(228.4)	(217.1)	41.4	(175.7)
Closing balance	**824.3**	**(278.0)**	**546.3**	**787.0**	**(280.3)**	**506.7**

Risk margin

The probability of adequacy at 30 June 2019 is 85% (2018: 85%) for AIL, AGHL, Medical Defence Association of Victoria Limited ('MDAV') and DHF and 99.5% for Professional Insurance Australia Pty Limited ('PIA') (2018: 99.5%).

The discounted risk margin included in gross outstanding claims at 30 June 2019 is 26.0% (2018: 25.4%). The discounted risk margin included on net outstanding claims at 30 June 2019 is 20.1% (2018: 20.1%).

Notes to the financial statements (continued)

30 June 2019

Note 4. Underwriting activities (continued)

e) Reinsurance and other recoveries

How we account for the numbers

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. 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:

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

Critical accounting estimates and judgements

The Group works on the assumptions that the schemes will not be withdrawn (in whole or in part with retrospective effect).

	2019 $'million	2018 $'million
Expected future reinsurance and other recoveries undiscounted on:		
Paid claims	19.4	14.7
Outstanding claims	275.6	297.6
	295.0	312.3
Discount to present value	(17.0)	(32.0)
Reinsurance contract and other recoveries asset	**278.0**	**280.3**
Amounts receivable:		
Within 12 months	48.8	47.6
After more than 12 months	229.2	232.7
	278.0	**280.3**

Notes to the financial statements (continued)

30 June 2019

Note 4. Underwriting activities (continued)

f) Claims development tables

Overview

The ultimate claims cost for any particular accident year is not known until all claims payments have been finalised. Most of the covers issued by the Avant Group are long tail classes of business for which claims payments may not be finalised for many years into the future.

The claims development tables show how the estimate of this final figure changes over time for the 10 most recent years. In accordance with AASB1023 General Insurance Contracts there are two tables showing this both on a gross, and net of reinsurance, basis. This table therefore illustrates the variability and inherent uncertainty in calculating the central estimate each year.

Each table shows within it a reconciliation from the current estimate of ultimate undiscounted claims cost to gross and net outstanding claims liability as shown in note 4(d).

Claims development in the year represents the movement in undiscounted claims for the year, and does not include any aspect of claims handling costs, movement in discounting or the movement in risk margin. At the end of the tables is a reconciliation to show how the claims development reconciles to the claims cost (gross and net) shown in the consolidated balance sheet.

Information for the consolidated claims development tables is shown on a financial year basis and is extracted from claims administration systems and actuarial models. IBNR liabilities have been included in the '2009 and prior' column.

GROSS $'million	**FY of notification of incident ending 30 June**											
	2009 and prior	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
Gross ultimate claims incurred												
Original estimate		126.4	185.2	183.2	196.8	214.4	212.0	236.6	224.8	256.3	274.8	
1 year later		135.6	169.3	184.3	194.5	215.6	209.1	232.4	222.0	249.4		
2 years later		101.0	166.8	170.1	182.3	201.6	187.7	233.5	215.9			
3 years later		95.2	171.7	168.4	178.3	196.2	191.5	249.0				
4 years later		90.6	167.4	164.7	175.2	194.3	191.9					
5 years later		93.1	165.4	177.1	172.6	192.3						
6 years later	1,731.5	87.4	169.6	168.2	172.6							
7 years later	1,704.6	92.6	165.7	165.3								
8 years later	1,672.8	93.5	166.8									
9 years later	1,753.5	92.1										
10 years later	1,711.6											
Central estimate of ultimate undiscounted claims cost	1,711.6	92.1	166.8	165.3	172.6	192.3	191.9	249.0	215.9	249.4	274.8	3,681.7
Less: cumulative payments to date	(1,657.3)	(83.4)	(157.3)	(149.0)	(153.4)	(163.4)	(153.1)	(170.3)	(134.2)	(131.1)	(101.0)	(3,053.5)
Central estimate of undiscounted outstanding claims liability	54.3	8.7	9.5	16.3	19.2	28.9	38.8	78.7	81.7	118.3	173.8	628.2
Discount (for all notification years combined)												(27.1)
Claims handling expenses (for all notification years combined)												42.0
Risk margin (for all notification years combined)												169.2
GST												12.0
Gross discounted outstanding claims provision including claims handling expenses and risk margin												**824.3**
Claims development in the year	**(41.9)**	**(1.4)**	**1.1**	**(2.9)**	**-**	**(2.0)**	**0.4**	**15.5**	**(6.1)**	**(6.9)**	**274.8**	**230.6**

Notes to the financial statements (continued)

30 June 2019

Note 4. Underwriting activities (continued)

f) Claims development tables (continued)

NET $'million	FY of notification of incident ending 30 June											
	2009 and prior	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Net ultimate claims incurred												
Original estimate	2.3	82.0	126.8	137.2	147.1	170.7	175.3	196.6	189.0	221.9	245.2	
1 year later	1.9	84.0	130.0	138.0	148.8	169.4	173.3	190.1	186.7	213.8		
2 years later	2.4	76.4	122.5	129.9	139.8	161.9	159.1	187.3	182.4			
3 years later	1.9	72.1	125.0	128.7	137.7	160.7	161.0	197.0				
4 years later	1.7	70.3	120.9	124.1	137.3	159.2	161.1					
5 years later	2.3	72.5	118.9	129.9	135.3	157.7						
6 years later	1,383.4	69.3	122.8	126.6	135.6							
7 years later	1,361.6	72.4	120.1	125.2								
8 years later	1,336.7	70.5	118.6									
9 years later	1,420.5	69.3										
10 years later	1,410.3											
Central estimate of ultimate undiscounted claims cost	1,410.3	69.3	118.6	125.2	135.6	157.7	161.1	197.0	182.4	213.8	245.2	3,016.2
Less: cumulative payments to date	(1,404.5)	(65.0)	(112.3)	(115.4)	(123.4)	(139.9)	(135.0)	(143.7)	(121.5)	(125.0)	(99.5)	(2,585.2)
Central estimate of undiscounted outstanding claims liability	5.8	4.3	6.3	9.8	12.2	17.8	26.1	53.3	60.9	88.8	145.7	431.0
Discount (for all notification years combined)												(16.9)
Claims handling expenses (for all notification years combined)												39.0
Risk margin (for all notification years combined)												93.2
Net discounted outstanding claims provision including claims handling expenses and risk margin												**546.3**
Reconciliation to the consolidated balance sheet:												
Gross outstanding claims liabilities												824.3
Reinsurance and other recoveries												(278.0)
Net outstanding claims liabilities												**546.3**
Claims development in the year	**(10.2)**	**(1.2)**	**(1.5)**	**(1.4)**	**0.3**	**(1.5)**	**0.1**	**9.7**	**(4.3)**	**(8.1)**	**245.2**	**227.1**

The following table reconciles from claims development in the year (shown in the above two claims development tables) to gross claims expense and recoveries revenue as disclosed in the consolidated statement of comprehensive income:

	Gross $'million	Reinsurance $'million	Net $'million
Development tables claims movement	230.6	(3.5)	227.1
Adjusted for the effect of:			
Movement in discounting on claims	104.8	(36.9)	67.9
Movement in discounted risk margin	(10.3)	1.2	(9.1)
Discounted cost of claims handling	(17.4)	(0.5)	(17.9)
Gross claims	**307.7**	**(39.7)**	**268.0**

Notes to the financial statements (continued)

30 June 2019

Note 4. Underwriting activities (continued)

g) Unearned income

How we account for the numbers

Unearned premiums

Gross written premium is earned in profit or loss in accordance with the pattern of incidence of risk. The unearned premium liability is that portion of gross written premium that has not yet been earned in the profit or loss, and is calculated based on the coverage period of the insurance and in accordance with the expected pattern of incidence of risk.

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.

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 and is also the basis required for reporting to APRA.

Unearned subscriptions/member service fee

Subscription revenue is earned in profit or loss over the subscription period. The unearned subscription is that portion of subscription revenue that has not yet been earned in the profit or loss, and is calculated based on the period covered by the subscription fees.

Critical accounting estimates and judgements

The application of the liability adequacy test in respect of the net premium liabilities identified a surplus at 30 June 2019 and 2018.

	2019 $'million	2018 $'million
Unearned subscriptions/member service fee	21.4	13.2
Unearned premiums	207.1	202.5
	228.5	**215.7**
Unearned premium liability at the beginning of the year	202.5	182.5
Deferral of premiums on contracts written in the period	207.1	202.5
Earnings of premiums written in previous periods	(202.5)	(182.5)
Unearned premium liability at the end of the year	**207.1**	**202.5**

Notes to the financial statements (continued)

30 June 2019

Note 4. Underwriting activities (continued)

h) Deferred expenses

How we account for the numbers

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.

	2019 $'million	2018 $'million
Deferred reinsurance premiums	4.5	4.4
Deferred ROCS expense	7.7	7.7
Deferred acquisition costs	7.9	7.4
	20.1	**19.5**

All deferred expenses are classified as current assets.

i) Acquisition and other expenses

How we account for the numbers

Acquisition costs consist of the expenses incurred by the Group that are directly related to the acquisition of new business or renewal of existing business.

Other underwriting expenses consist of the expenses incurred by the Group that are related to the insurance business other than acquisition costs.

Other operating expenses consist of the expenses incurred by the Group that are not related to the insurance business.

	2019 $'million	2018 $'million
Employee-related costs	66.7	58.7
Director-related costs	2.1	2.1
Depreciation and amortisations	4.5	4.1
Other general and administrative expenses	22.5	20.1
	95.8	**85.0**
Acquisition costs	31.1	27.5
Other underwriting expenses	40.5	40.8
Other operating expenses	24.2	16.7
	95.8	**85.0**

Notes to the financial statements (continued)

30 June 2019

Note 5. Other operating activities

a) Other income

Overview

Other income mainly relates to the earned membership subscription revenues and fees received by the Group.

How we account for the numbers

Membership subscription revenues and fees

Subscription revenues and fees are the amounts charged to members, excluding taxes collected on behalf of third parties, and are recognised over the period of membership, being 12 months from 1 January or 1 July each year. The portion of subscription revenues and fees received or receivable not earned in the statement of comprehensive income at the reporting date is recognised in the balance sheet as an unearned income.

Other

This relates to all the revenues of the entities in the Group excluding premiums, membership subscription revenues and fees.

	2019 $'million	2018 $'million
Membership subscription revenues and fees	19.8	16.2
Other income	8.7	5.7
Other income	**28.5**	**21.9**

Notes to the financial statements (continued)

30 June 2019

Note 5. Other operating activities (continued)

How we account for the numbers

Trade and other receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost 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, and a provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. Due to the short-term nature of these receivables, the carrying value is assumed to be an approximation to the fair value.

Any change in the amount of the impairment loss is recognised in profit or loss within other underwriting expenses if it relates to premium receivable, or within other operating expenses if it relates to other categories of receivables.

Trade and other 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.

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.

b) Trade and other payables

	2019 $'million	2018 $'million
Premium and subscription debtors	106.9	97.3
Other	8.8	6.9
Provision for impairment of receivables	(0.4)	(1.0)
Receivables – current	**115.3**	**103.2**

Notes to the financial statements (continued)

30 June 2019

Note 5. Other operating activities (continued)

c) Trade and other payables

	2019 $'million	2018 $'million
Sundry creditors and accruals	30.3	23.0
Reinsurance premiums payable	3.0	3.0
ROCS levy payable	6.6	6.5
Lease incentive liability	12.1	12.3
GST payable	15.3	13.9
Stamp duty payable	12.7	12.4
	80.0	**71.1**
Current payables	70.0	60.7
Non-current payables	10.0	10.4
	80.0	**71.1**

d) Other provisions

Overview

Other provision relates to restoration provision and provision for reinsurance premium payable.

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

The provision for reinsurance premiums payable represents the adjustment premiums payable in respect of the 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 items.

Movement in other provisions	**Current restoration provision $'million**	**Current reinsurance premiums $'million**	**Total current $'million**	**Non-current restoration provision $'million**	**Total other provisions $'million**
Value as at 1 July 2017	0.2	0.7	0.9	1.4	2.3
Payments	(0.2)	0.4	0.2	-	0.2
Increase from remeasurement	(0.1)	(0.6)	(0.7)	(0.2)	(0.9)
Transfer to current	0.3	-	0.3	(0.3)	-
Value as at 30 June 2018	**0.2**	**0.5**	**0.7**	**0.9**	**1.6**
Additional provisions recognised	-	-	-	0.4	0.4
(Payments)/receipts	(0.1)	-	(0.1)	-	(0.1)
Release from provisions	(0.1)	(0.2)	(0.3)	-	(0.3)
Transfer to current	0.2	-	0.2	(0.2)	-
Value as at 30 June 2019	**0.2**	**0.3**	**0.5**	**1.1**	**1.6**

Notes to the financial statements (continued)

30 June 2019

Note 5. Other operating activities (continued)

e) Employee-related provisions

Overview

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

How we account for the numbers

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 12 months after the reporting period, regardless of when the actual settlement is expected to occur.

Current provision includes all annual leave balances and all long service leave balances where employees have completed the required period of service, 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 amounts included as current, but where leave is not to be expected to be taken or paid within the next 12 months are disclosed below.

Where employees have not completed the required period of service for long service leave, provisions are considered to be non-current 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.

Critical accounting estimates and judgements

In calculating non-current long service leave provisions, 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.

	Current $'million	Non-current $'million	Total $'million
Value as at 1 July 2017	4.5	2.5	7.0
Additional provisions recognised	9.2	0.2	9.4
Payments	(8.9)	-	(8.9)
Reclassification	0.3	(0.3)	-
Increase from remeasurement	0.2	-	0.2
Value as at 30 June 2018	**5.3**	**2.4**	**7.7**
Additional provisions recognised	10.0	0.3	10.3
Payments	(9.9)	-	(9.9)
Reclassification	0.1	(0.1)	-
Increase from remeasurement	0.2	0.1	0.3
Value as at 30 June 2019	**5.7**	**2.7**	**8.4**

	2019 $'million	2018 $'million
Current leave obligation expected to be settled after 12 months	2.5	2.3

Notes to the financial statements (continued)

30 June 2019

Note 6. Financial risk management

Overview

A financial asset is any asset which is cash, an equity instrument of another entity, or a contractual right to receive cash or another financial asset from another entity.

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity.

AASB 7 Financial Instruments: Disclosures requires disclosure of the risks associated with financial instruments (assets and liabilities), numerical information around the quantum of the exposures to each risk and the management approach to mitigating those risks. AASB 1023 General Insurance Contracts specifically requires assets and liabilities arising from insurance contracts to be included within that disclosure.

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.

The Group has the following financial assets and liabilities at the balance sheet date:

	2019 $'million	2018 $'million
Financial assets:		
Cash and cash equivalents	39.2	85.3
Trade and other receivables	115.3	103.2
Investments	1,919.8	1,788.0
Reinsurance and other recoveries	278.0	280.3
	2,352.3	**2,256.8**
Financial liabilities:		
Trade and other payables	80.0	71.1
Insurance contract liabilities	824.3	787.0
Provisions (employee related and other)	10.0	9.3
	914.3	**867.4**
Net financial assets	**1,438.0**	**1,389.4**

Notes to the financial statements (continued)

30 June 2019

Note 6. Financial risk management (continued)

a) Credit risk

Overview

Credit risk is the risk of not recovering money owed to Avant by third parties as well as the loss of value of assets due to deterioration in credit quality, and is managed on a Group basis.

Credit risk arises from deposits with banks and financial institutions, reinsurance recovery exposures as well as credit exposures to customers, including outstanding premium receivables.

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

a) 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.

b) 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.

c) 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 & Poor's rating of A-.

A provision for impairment of receivables was raised on debts that are more than 90 days past due with the exception of the corporate and personal debts that are under scheduled payment plan and identified by management as fully recoverable. Provision for impairment of receivables is disclosed in note 5(b).

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. The 'Not rated' investment category includes unlisted unit trusts as at 30 June 2019 of $1,182.2m (30 June 2018: $965.2m).

As at 30 June 2019	CREDIT RATING					
	AAA $'million	AA $'million	A $'million	BBB $'million	Not rated $'million	Total $'million
Cash at bank and short-term bank deposits	-	37.9	1.3	-	-	39.2
Receivables	-	-	-	-	115.3	115.3
Investments	243.6	252.7	104.6	36.3	1,282.6	1,919.8
Reinsurance and other recoveries	256.4	9.4	9.7	-	2.5	278.0
	500.0	**300.0**	**115.6**	**36.3**	**1,400.4**	**2,352.3**

As at 30 June 2018	CREDIT RATING					
	AAA $'million	AA $'million	A $'million	BBB $'million	Not rated $'million	Total $'million
Cash at bank and short-term bank deposits	-	84.2	1.1	-	-	85.3
Receivables	-	-	-	-	103.2	103.2
Investments	346.5	197.0	112.0	48.8	1,083.7	1,788.0
Reinsurance and other recoveries	256.1	11.8	9.6	-	2.8	280.3
	602.6	**293.0**	**122.7**	**48.8**	**1,189.7**	**2,256.8**

Notes to the financial statements (continued)

30 June 2019

Note 6. Financial risk management (continued)

b) Market risk

Overview

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

Overview

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 of interest rate fluctuations can, to a large extent, be offset.

Net outstanding claims liabilities are non-interest bearing financial liabilities for the purpose of this note. The net central estimate of outstanding claims liabilities are discounted to present value by reference to risk-free interest rates. This therefore exposes the Group to underwriting result volatility as a result of interest rate movements. Refer to note 4(c) for the sensitivity analysis.

Exposure to interest rate risk and the weighted average interest rate by maturity period is set out in the following table:

2019		Fixed interest maturing in:				
	Floating interest rate $'million	1 year or less $'million	1 to 5 years $'million	Over 5 years $'million	Non-interest bearing $'million	Total $'million
Financial assets:						
Cash and cash equivalents	39.2	-	-	-	-	39.2
Receivables	-	-	-	-	115.3	115.3
Investments	18.2	210.6	250.6	173.8	1,266.6	1,919.8
Reinsurance and other recoveries	-	-	-	-	278.0	278.0
Total financial assets	**57.4**	**210.6**	**250.6**	**173.8**	**1,659.9**	**2,352.3**
Financial liabilities:						
Trade and other payables	-	-	-	-	80.0	80.0
Provisions	-	-	-	-	10.0	10.0
Outstanding claims liabilities	-	-	-	-	824.3	824.3
Total financial liabilities	**-**	**-**	**-**	**-**	**914.3**	**914.3**
Net financial assets	**57.4**	**210.6**	**250.6**	**173.8**	**745.6**	**1,438.0**
Weighted average interest rate	0.89%	4.48%	3.97%	3.98%		

Notes to the financial statements (continued)

30 June 2019

Note 6. Financial risk management (continued)

b) Market risk (continued)

i. Interest rate risk (continued)

2018	Floating interest rate $'million	Fixed interest maturing in: 1 year or less $'million	1 to 5 years $'million	Over 5 years $'million	Non-interest bearing $'million	Total $'million
Financial assets:						
Cash and cash equivalents	85.3	-	-	-	-	85.3
Receivables	-	-	-	-	103.2	103.2
Investments	96.3	184.7	311.8	155.6	1,039.6	1,788.0
Reinsurance and other recoveries	-	-	-	-	280.3	280.3
Total financial assets	**181.6**	**184.7**	**311.8**	**155.6**	**1,423.1**	**2,256.8**
Financial liabilities:						
Trade and other payables	-	-	-	-	71.1	71.1
Provisions	-	-	-	-	9.3	9.3
Outstanding claims liabilities	-	-	-	-	787.0	787.0
Total financial liabilities	**-**	**-**	**-**	**-**	**867.4**	**867.4**
Net financial assets	**181.6**	**184.7**	**311.8**	**155.6**	**555.7**	**1,389.4**
Weighted average interest rate	1.22%	3.66%	4.42%	3.71%		

Reconciliation of net financial assets to net assets

	2019 $'million	2018 $'million
Net financial assets as above:		
Interest bearing	692.4	833.7
Non-interest bearing	745.6	555.7
Net financial assets	1,438.0	1,389.4
Net non-financial liabilities	(186.6)	(196.5)
Net assets	**1,251.4**	**1,192.9**

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:

	Movement in variable %	Financial impact* Profit/(loss) 2019 $'million	Equity 2019 $'million	Profit/(loss) 2018 $'million	Equity 2018 $'million
Interest rate movement	100 bpt+	(4.3)	(4.3)	(4.9)	(4.9)
Interest-bearing financial assets	100 bpt-	4.3	4.3	4.9	4.9

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

Notes to the financial statements (continued)

30 June 2019

Note 6. Financial risk management (continued)

b) Market risk (continued)

ii. Price risk

Overview

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 due to 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:

		Financial impact*			
	Movement in variable %	**Profit/(loss) 2019 $'million**	**Equity 2019 $'million**	**Profit/(loss) 2018 $'million**	**Equity 2018 $'million**
Unit trusts	20% +	165.5	165.5	135.1	135.1
	20% -	(165.5)	(165.5)	(135.1)	(135.1)
Equities	20% +	11.6	11.6	10.7	10.7
	20% -	(11.6)	(11.6)	(10.7)	(10.7)

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

Notes to the financial statements (continued)

30 June 2019

Note 6. Financial risk management (continued)

c) Liquidity risk

Overview

Liquidity risk is the risk that the Group will be unable to meet its financial obligations as they fall due, or only be able to achieve the required level of liquidity at excessive cost. In the Avant Group, this risk arises due to the nature of insurance activities where the timing and amount of cash outflows are uncertain.

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

a) The Group manages liquidity risk by maintaining sufficient cash and marketable securities.

b) 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 summarise 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, except in the case of outstanding claims liabilities (disclosed undiscounted below).

As at 30 June 2019	**1-3 months $'million**	**3-6 months $'million**	**6-12 months $'million**	**1-2 years $'million**	**Over 2 years $'million**	**Total $'million**
Trade and other payables	68.4	0.5	1.1	2.1	7.9	80.0
Provisions	-	-	3.7	2.4	3.9	10.0
Gross outstanding claims undiscounted	57.4	49.3	86.2	163.3	506.8	863.0
	125.8	**49.8**	**91.0**	**167.8**	**518.6**	**953.0**

As at 30 June 2018	**1-3 months $'million**	**3-6 months $'million**	**6-12 months $'million**	**1-2 years $'million**	**Over 2 years $'million**	**Total $'million**
Trade and other payables	59.3	0.5	1.0	1.9	8.4	71.1
Provisions	-	-	3.9	2.3	3.1	9.3
Gross outstanding claims undiscounted	56.5	49.0	88.4	167.1	494.3	855.3
	115.8	**49.5**	**93.3**	**171.3**	**505.8**	**935.7**

Notes to the financial statements (continued)

30 June 2019

Note 7. Capital management

Overview

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

The Group has 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.

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 2019 and its basis for determination is summarised in section (a) on the next page.

b) Capital in DHF held to meet APRA regulatory and target surplus capital requirements within the entity. The amount of capital at 30 June 2019 and its basis for determination is summarised in section (b) on page 42.

c) Intercompany undertakings: As part of a Group-wide initiative to centrally manage capital, the Company agreed to support capital undertakings from AGHL to AIL of $102,000,000 and to DHF of $7,000,000 in the event that the entities' regulatory capital adequacy multiple falls below a minimum ratio of 1.5. An additional $20,000,000 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 has 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 as at 30 June 2019 are allocated to the above objectives as follows:

	$'million
APRA-regulated MDO capital base	378.1
APRA-regulated health fund capital base	29.1
Intercompany capital undertakings	129.0
Other capital reserves equivalent to notional RRP assets	345.1
Other capital reserves	370.1
Total	**1,251.4**

Notes to the financial statements (continued)

30 June 2019

Note 7. Capital management (continued)

a) APRA Capital Adequacy Multiple

Overview

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 following table.

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 ('Risk Appetite Statement') including the capital boundary;
- 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	**2019 $'million**	**2018 $'million**
Eligible tier 1 capital as defined by APRA:		
Contributed equity	215.6	215.6
Retained profits[1]	137.1	109.2
Insurance liability surplus	30.3	34.1
Total equity	383.0	358.9
Less: APRA deductions	(16.5)	(20.6)
APRA capital base	**366.5**	**338.3**
Asset risk charge	67.5	42.2
Insurance risk charge	101.7	94.0
Insurance concentration risk charge	24.2	24.2
Operational risk charge	17.4	16.1
Aggregation benefit	(39.1)	(27.2)
APRA prudential capital requirement	**171.7**	**149.3**
APRA capital adequacy multiple	**2.13**	**2.27**

[1] Retained profits are in accordance with APRA prudential standards.

Notes to the financial statements (continued)

30 June 2019

Note 7. Capital management (continued)

a) APRA Capital Adequacy Multiple (continued)

ii) PIA	2019 $'million	2018 $'million
Eligible tier 1 capital as defined by APRA:		
Contributed equity	7.5	7.5
Retained profits[1]	1.8	1.6
Insurance liability surplus	2.4	2.4
Total equity	11.7	11.5
Less: APRA deductions	(0.1)	(0.1)
APRA capital base	**11.6**	**11.4**
APRA prudential capital requirement	**5.0**	**5.0**
APRA capital adequacy multiple	**2.32**	**2.28**

[1] Retained profits are in accordance with APRA prudential standards.

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% (2018: 85%) for AIL and 99.5% (2018: 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 AASB 1023 Premium Liabilities is included in tier 1 capital.

b) APRA Capital Adequacy and Solvency requirements – DHF

Overview

The Group's private health insurance subsidiary, DHF has been regulated by APRA since 1 July 2015 (PHIAC was the regulator up until 30 June 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:

	2019 $'million	2018 $'million
Total assets	77.7	66.6
Total liabilities	48.6	45.2
Net assets	**29.1**	**21.4**
APRA capital adequacy reserve	**11.3**	**9.7**
APRA capital adequacy multiple	**2.58**	**2.21**

Notes to the financial statements (continued)

30 June 2019

Note 8. Income tax

Overview

The income tax expense or revenue for the period is the tax payable/receivable 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.

The Company and its controlled entities AGHL and MDAV 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 standalone 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.

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.

How we account for the numbers

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.

Deferred income tax

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 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.

Notes to the financial statements (continued)

30 June 2019

Note 8. Income tax (continued)

a) Income tax expense	2019 $'million	2018 $'million
Current tax expense	14.2	40.0
Deferred tax (benefit)/expense	10.2	(2.8)
Over provision in prior years	(1.1)	(1.3)
Income tax expense attributable to profit from continuing operations	**23.3**	**35.9**

b) Numerical reconciliation of income tax expense to prima facie tax payable	2019 $'million	2018 $'million
Profit from continuing operations before income tax	88.3	130.8
Tax at Australian tax rate of 30% (2018: 30%)	26.5	39.2
Net mutual income – non assessable	(2.1)	(2.0)
Other permanent differences	1.8	1.4
Effect of franking credits	(1.8)	(1.4)
Current year income tax expense	**24.4**	**37.2**
Over provision in prior years	(1.1)	(1.3)
Income tax expense	**23.3**	**35.9**

c) **Deferred tax*** The balance comprises temporary differences attributable to:	2019 $'million	2018 $'million
Deferred tax assets:		
Accruals and provisions	23.5	21.6
Other	-	0.4
Total deferred tax assets before application of set-off	**23.5**	**22.0**
Set-off against deferred tax liabilities	(23.5)	(19.0)
Total deferred tax assets after set-off	**-**	**3.0**
Deferred tax liabilities:		
Financial assets	29.4	17.5
Investment in associates	1.5	1.5
Total deferred tax liabilities before application of set-off	**30.9**	**19.0**
Set-off against deferred tax assets	(23.5)	(19.0)
Total deferred tax liabilities after set-off	**7.4**	**-**
Net deferred tax asset movements:		
Opening balance at the beginning of the year	3.0	0.4
Prior year over provision	(1.1)	(0.2)
Charged to the income statement	(10.2)	2.8
Closing balance at the end of the year	**(7.4)**	**3.0**

*Deferred tax assets/(liabilities) are classified as non-current.

Notes to the financial statements (continued)

30 June 2019

Note 8. Income tax (continued)

d) Current tax liabilities

	2019 $'million	2018 $'million
Opening balance at the beginning of the year	(23.6)	(2.3)
Payment of the prior year tax liabilities	22.3	0.8
Payment of current year tax liabilities	16.6	15.0
Over provision	1.3	1.5
Effect of franking credits	1.8	1.4
Current year provision	(14.2)	(40.0)
Closing balance at the end of the year	**4.2**	**(23.6)**

e) Franking credits

	2019 $'million	2018 $'million
Franking credits available for the subsequent financial years based on a tax rate of 30% (2018: 30%)	354.0	316.0

f) Tax consolidation legislation

The Company and its wholly-owned Australian-controlled entities implemented the tax consolidation legislation from 1 July 2007.

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 amount 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.

Notes to the financial statements (continued)

30 June 2019

Note 9. Property and equipment

Overview

The Group uses property and equipment to assist in carrying out its primary operating activities. Assets are classified by the Group as office furniture and fittings, office computer equipment and leasehold improvements.

How we account for the numbers

Property and equipment are recognised 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. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

When items are sold, the proceeds of the sale are compared with the carrying amount to determine if there is a gain or loss, which is then included in the statement of comprehensive income.

Critical accounting estimates and judgements

To calculate depreciation, we use an estimate of how long the assets will be held for. The expected useful lives of the assets are as follows:

Leasehold improvements	6-10 years
Office furniture and fittings	10-13 years
Office and computer equipment	3-4 years

2019	**Office furniture and fittings $'million**	**Office and computer equipment $'million**	**Leasehold improvements $'million**	**Total $'million**
Cost:				
At the beginning of the year	0.7	4.9	18.8	24.4
Additions	-	0.7	2.1	2.8
Written off in the year	-	(0.4)	(0.6)	(1.0)
At the end of the year	**0.7**	**5.2**	**20.3**	**26.2**
Depreciation:				
At the beginning of the year	0.6	3.5	3.9	8.0
Written off in the year	-	(0.3)	(0.5)	(0.8)
Depreciation expense for the year	-	0.6	2.5	3.1
At the end of the year	**0.6**	**3.8**	**5.9**	**10.3**
Net carrying value at 30 June 2019	**0.1**	**1.4**	**14.4**	**15.9**

Notes to the financial statements (continued)

30 June 2019

Note 9. Property and equipment (continued)

2018	Office furniture and fittings $'million	Office and computer equipment $'million	Leasehold improvements $'million	Total $'million
Cost:				
At the beginning of the year	0.8	3.8	13.6	18.2
Additions	-	1.1	5.4	6.5
Written off in the year	(0.1)	-	(0.2)	(0.3)
At the end of the year	**0.7**	**4.9**	**18.8**	**24.4**
Depreciation:				
At the beginning of the year	0.6	3.1	1.6	5.3
Written off in the year	(0.1)	-	(0.1)	(0.2)
Depreciation expense for the year	0.1	0.4	2.4	2.9
At the end of the year	**0.6**	**3.5**	**3.9**	**8.0**
Net carrying value at 30 June 2018	**0.1**	**1.4**	**14.9**	**16.4**

Note 10. Intangible assets

Overview

Intangible assets are identifiable non-physical assets which have expected future economic benefits that will flow to the entity and can be reliably measured. The fact that it is identifiable distinguishes it from goodwill.

The Group holds four types of intangible assets which are:

Customer relationships

Customer relationships comprise of the capitalisation of future profits relating to insurance contracts acquired, and the expected renewal of those contracts. It also includes the value of the distribution networks and agency relationships. Customer relationships are amortised over the remaining period of estimated useful life.

Brands

Brands represent the revenue generating ability of acquired brands. The brand recognised in this set of financial statements relates to DHF, a registered private health insurer purchased by the Avant Group in 2012. This has been fully amortised as at 30 June 2019.

Software

Software represents both the acquired and internally developed software which is not integral or closely related to an item of hardware.

Goodwill

This represents the future economic benefits arising from assets acquired in the acquisition of Darjack Pty Limited and JRB Technologies Pty Ltd that are not individually identified and separately recognised.

Notes to the financial statements (continued)

30 June 2019

Note 10. Intangible assets (continued)

How we account for the numbers

Customer relationships

Customer relationships are measured at their fair value at the date of acquisition less accumulated amortisation. They are amortised based on the timing of projected cash flows that will emerge from the block of in-force business and business expected to be renewed from this block of business, over its estimated useful life of 10 years on a straight line basis.

Brands

Brands which are purchased as part of an acquisition are measured using the replacement cost approach and are recognised at its fair value at the date of acquisition less accumulated amortisation since that date. Amortisation is calculated over its estimated useful life of 5 years on a straight line basis.

All intangible assets are reviewed at least annually for indicators of impairment, which could include either fair value at that date, or estimated remaining useful life.

Software

Software is recognised at cost less accumulated amortisation and impairment. The cost includes expenditure that is directly attributable to the acquisition or development of the asset. 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.

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

Goodwill

Goodwill is measured as the excess of the cost of acquisition incurred by the purchasing entity over the fair value of the identifiable net assets. Goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

Critical accounting estimates and judgements

Intangible assets held by the Group are deemed to have a finite useful life.

Management has reviewed the finite useful life at year end and deemed that there has been no change in the expected pattern of consumption of future economic benefits. In addition, Management expects that the consumption will continue to occur in an even straight line pattern.

The expected useful lives of intangible assets are as follows:

Customer relationships	10 years
Brands	5 years
Software	3-5 years

Notes to the financial statements (continued)

30 June 2019

Note 10. Intangible assets (continued)

	Brand $'million	Value of customer relationships $'million	Software $'million	Goodwill $'million	Total $'million
Cost:					
As at 30 June 2017	0.8	5.2	6.0	-	12.0
Additions	0.1	-	1.3	-	1.4
Written off in the year	(0.4)	-	-	-	(0.4)
As at 30 June 2018	0.5	5.2	7.3	-	13.0
Additions	0.1	-	1.3	5.2	6.6
Written off in the year	(0.6)	-	(0.3)	-	(0.9)
As at 30 June 2019	**-**	**5.2**	**8.3**	**5.2**	**18.7**
Accumulated amortisation:					
As at 30 June 2017	0.8	2.6	4.9	-	8.3
Written off in the year	(0.4)	-	-	-	(0.4)
Amortisation expense for year ended 30 June 2018	0.1	0.5	0.6	-	1.2
As at 30 June 2018	0.5	3.1	5.5	-	9.1
Written off in the year	(0.6)	-	(0.3)	-	(0.9)
Amortisation expense for year ended 30 June 2019	0.1	0.5	0.8	-	1.4
As at 30 June 2019	**-**	**3.6**	**6.0**	**-**	**9.6**
Net carrying value at:					
30 June 2018	-	2.1	1.8	-	3.9
30 June 2019	**-**	**1.6**	**2.3**	**5.2**	**9.1**
Remaining years useful life at:					
30 June 2018	-	4	3 to 5 years		
30 June 2019	**-**	**3**	**3 to 5 years**		

Reconciliation of amortisation expense to the statement of comprehensive income

	30 June 2019	30 June 2018
Total amortisation expense for the year	1.4	1.2
Less: Amortisation expense – Software which is included in other underwriting expenses	(0.8)	(0.6)
Amortisation of intangible assets presented in the statement of comprehensive income	**0.6**	**0.6**

Notes to the financial statements (continued)

30 June 2019

Note 11. Equity

Overview

AMGL is a mutual company, whose ownership base is made up of its members. As such, the Company does not have share capital, but rather accumulated surpluses to which the members have a joint entitlement to.

The Board of AMGL has determined that the best method of returning surpluses to members is through the discretionary payment of dividends. The Company is the first medical defence organisation in Australia to pay fully franked dividends to members.

How we account for the numbers

Business combination reserve

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 MDAV prior to the merger of AGHL and MDAV in 2007.

Accumulated surpluses

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 PIA. The Group has franking credits that would only be available for distributions from accumulated surpluses derived from mutual but taxable activities.

a) Reserves	2019 $'million	2018 $'million
Business combination reserve		
At the beginning and at the end of the year	**54.6**	**54.6**

b) Accumulated surpluses to owners of Avant Mutual Group Limited		
At the beginning of the year:		
Mutual – Tax exempt	231.4	222.8
Mutual – Taxable	906.9	828.2
	1,138.3	1,051.0
Total comprehensive income for the year:		
Mutual – Tax exempt	7.8	9.2
Mutual – Taxable	57.5	85.7
	65.3	94.9
Dividends paid in the year:		
Mutual – Tax exempt	(0.6)	(0.6)
Mutual – Taxable	(7.9)	(7.0)
	(8.5)	(7.6)
At the end of the year:		
Mutual – Tax exempt	238.6	231.4
Mutual – Taxable	956.5	906.9
	1,195.1	**1,138.3**

Notes to the financial statements (continued)

30 June 2019

Note 12. Remuneration of key management personnel

Overview

AASB 124 Related Party Disclosures requires disclosure of the compensation of Directors (executive and non-executive) and those persons having authority and responsibility for planning, directing and controlling the activities of the Group (collectively defined as key management personnel ('KMP').

ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 requires the amounts to be disclosed rounded to the nearest $'000.

How we account for the numbers

Directors' remuneration is paid to all Directors of the Group.

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.

Critical accounting estimates and judgements

The key management personnel include the Company Directors, the Managing Director (MD) and those executives that report solely and directly to the MD.

Details of the remuneration of the KMP of the Group are shown below:

	2019 $'000	2018 $'000
Short-term employee benefits:		
Cash salary and fees	9,666	8,955
Post-employment benefits:		
Superannuation	425	452
Termination benefits	317	265
Total remuneration	**10,408**	**9,672**

Notes to the financial statements (continued)

30 June 2019

Note 13. Remuneration of auditors

Overview

Details of audit remuneration are required under AASB 1054 Australian Additional Disclosures. These are required to be disclosed rounded to the nearest $'000 as per ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191.

	2019 $'000	2018 $'000
Audit services		
Deloitte Touche Tohmatsu (FY18:PwC):		
Audit of financial reports	415	593
Other assurance and non-assurance services		
Deloitte Touche Tohmatsu (FY18:PwC):		
Audit of regulatory returns	75	80
Other non-assurance services	272	27
	762	**700**

Note 14. Commitments for expenditure

Overview

The purpose of this note is to outline the measurement and recognition of items which create a reasonable expectation of future expenditure for the receipt of economic benefits.

A lease is an example of an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to an asset for an agreed period time. The Group has lease arrangements in place for premises and other items of property from time to time.

How we account for the numbers

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

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.

Operating leases

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	2019 $'million	2018 $'million
Within one year	7.0	6.4
Later than one year but not later than five years	26.7	24.5
Later than five years	6.3	8.6
	40.0	**39.5**
Lease payments recognised in the statement of comprehensive income	**4.6**	**4.6**

Notes to the financial statements (continued)

30 June 2019

Note 15. Events occurring after the reporting period

Overview

AASB 110 Events after the Reporting Period summarises the disclosures required when events occur after the balance date, which require changes to the recognition and measurement, disclosure or otherwise change the view of going concern.

Critical accounting estimates and judgements

The Group carefully considers material events which occur after the balance date. No other matter or circumstance has arisen since 30 June 2019 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

other than those discussed below.

The following events occurred after the reporting period did not require the financial statements to be adjusted:

Retirement Reward Plan

For the fifth consecutive year, having considered the financial position and projected outlook for Avant, the Board resolved to notionally contribute a further $24.5 million to the RRP in respect of the year ended 30 June 2019.

In addition, at that meeting, the Board also resolved to determine dividends and authorise payments for Retirement Reward Dividends totalling $9.5 million to eligible retiring members. These are the fifth 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.

Note 16. Contingent liabilities

Overview

Contingent liabilities are disclosed when the possibility of a future settlement of economic benefits is considered to be less than probable but more likely than remote. If the expected settlement of the liability becomes probable, a provision is recognised.

In the normal course of business, the Group is exposed to contingent liabilities in relation to claims litigation arising out of its insurance transactions, and may be exposed to the possibility of contingent liabilities in relation to non-insurance litigation. Where items of this nature are known to exist, a provision would be made for amounts that are both probable and quantifiable. At year end, no material items of this nature are known to exist.

At the request of the Group, Westpac Banking Corporation Limited has undertaken to pay on demand amounts up to $7.2 million (2018: $7.3 million) in respect of lease payments payable. This bank guarantee is secured by a fixed charge over the Group's cash deposits.

Notes to the financial statements (continued)

30 June 2019

Note 17. Summarised financial data of the ultimate parent entity

Overview

The *Corporations Act 2001 (Cth)* requires the disclosure of summarised financial information for the ultimate parent entity, Avant Mutual Group Limited.

Statement of comprehensive income:	**2019 $'million**	**2018 $'million**
Earned membership subscription revenues and fees	19.8	16.2
Interest income	0.1	0.2
Dividends from subsidiary	8.5	7.8
Director-related costs	(1.0)	(1.0)
General and administration expenses	(17.6)	(11.5)
Other income	4.0	3.1
Profit before income tax	**13.8**	**14.8**
Income tax expense	-	-
Profit for the year	**13.8**	**14.8**
Other comprehensive income for the year	-	-
Total comprehensive income for the year	**13.8**	**14.8**
Balance sheet		
Current assets:		
Cash and cash equivalents	0.6	1.7
Receivables from related entity	28.6	55.4
Other receivables	7.3	0.1
Other investments	-	3.0
Current tax assets	4.3	-
Total current assets	**40.8**	**60.2**
Non-current assets:		
Investments in controlled entities	528.6	508.6
Total non-current assets	**528.6**	**508.6**
Current liabilities:		
Current tax liabilities	-	23.6
Payables to related entity	10.6	1.5
Other payables	2.6	1.0
Unearned income	21.4	13.2
Total current liabilities	**34.6**	**39.3**
Net assets	**534.8**	**529.5**
Equity:		
Reserves	508.6	508.6
Accumulated surpluses	26.2	20.9
Total equity	**534.8**	**529.5**

Notes to the financial statements (continued)

30 June 2019

Note 18. Investments in controlled entities

Overview

This section lists all of the Group's controlled entities. The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the Company as at 30 June 2019 and the results for the financial year then ended, or for the period during which control existed if the entity was acquired or disposed of during the financial year.

How we account for the numbers

Control exists when the Group is exposed, or has rights to variable returns from its involvement with an entity and has the ability to affect those returns through its power over it. All transactions between controlled entities are eliminated in full.

Where control of an entity commences during a financial year, its results are included in the consolidated statement of comprehensive income from the date on which control is obtained. Where control of an entity ceases during a financial year, its results are included for that part of the year during which the control existed.

A change in ownership of a controlled entity without the gain or loss of control is accounted for as an equity transaction.

	Country of	Class	Ownership interest	
Name of entity	**incorporation**	**of shares**	**2019 %**	**2018 %**
Avant Group Holdings Limited	Australia	Ordinary	100	100
The Medical Defence Association of Victoria Limited	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 Ltd	Australia	Ordinary	100	100
The Medical Defence Union Pty Ltd	Australia	Ordinary	100	100
United Medical Protection Pty Limited*	Australia	-	-	-
Doctors Financial Services Pty Limited	Australia	Ordinary	100	100
Avant Services Co. Pty Limited	Australia	Ordinary	100	100
MyPracticeManual Pty Ltd	Australia	Ordinary	100	100
Avant Foundation Limited**	Australia	-	-	-
Investments in controlled entities of MyPracticeManual Pty Ltd				
Darjack Pty Limited	Australia	Ordinary	60	-
JRB Technologies Pty Ltd	Australia	Ordinary	55	-
Investments in controlled entities of Avant Insurance Limited				
Avant Law Pty Limited	Australia	Ordinary	100	100
Investments in controlled entities of Avant Law Pty Limited				
Avant Law (SA) Pty Limited	Australia	Ordinary	100	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.

**Avant Group Holdings Limited have 100% voting control.

Notes to the financial statements (continued)

30 June 2019

Note 19. Related parties

Key management personnel

In addition to the Directors (as detailed in the Directors Report on page 1), the Managing Director (MD) and those executives that report solely and directly to the MD are deemed key management personnel.

Remuneration

Information on remuneration of key management personnel is disclosed in note 12.

Transactions with Directors

For the year ended 30 June 2019, 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 2019, the ultimate Australian parent entity within the Group was Avant Mutual Group Limited. Refer to note 18 for the details and ownership interests of the controlled entities of the Company up to 30 June 2019.

Intercompany capital undertakings

Information on intercompany capital undertakings is disclosed in note 7.

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

b) The provision of management services by the controlled entity, AIL, for the Company with management fees of $10,897,242 (2018: $6,696,831) paid to the controlled entity.

c) At 30 June 2019, AIL is due to receive $1,120,430 (2018: pay $4,323,741) from Avant Law Pty Limited ('Avant Law') for the settlement of inter-company transactions.

d) At 30 June 2019, AIL is due to pay $1,376,491 (2018: pay $954,389) to Avant Law (SA) Pty Limited ('Avant Law SA') for the settlement of inter-company transactions.

e) At 30 June 2019, AIL is due to pay $13,086 (2018: receive $526,187) to The Medical Defence Association of Victoria Limited ('MDAV') for the settlement of inter-company transactions.

f) At 30 June 2019, AIL is due to receive $2,759,562 (2018: receive $1,808,356) from AGHL for the settlement of inter-company transactions.

g) At 30 June 2019, AIL is due to receive $8,560,460 (2018: pay $14,486,879) from the Company for the settlement of inter-company transactions.

h) At 30 June 2019, AIL is due to receive $nil (2018: receive $20,591) from Professional Insurance Australia Pty Ltd ('PIA') for the settlement of inter-company transactions.

i) At 30 June 2019, AIL is due to receive $753,509 (2018: receive $544,865) from DHF for the settlement of inter-company transactions.

j) At 30 June 2019, AIL is due to receive $654,739 (2018: receive $589,817) from DFS for the settlement of inter-company transactions.

k) At 30 June 2019, AIL is due to receive $1,845,621 (2018: receive $171,593) from MyPracticeManual Pty Ltd ('MPM') for the settlement of inter-company transactions.

Notes to the financial statements (continued)

30 June 2019

Note 19. Related parties (continued)

l) At 30 June 2019, AIL is due to receive $358,243 (2018: receive $nil) from JRB Technologies Pty Ltd ('MBP') for the settlement of inter-company transactions.

m) At 30 June 2019, AGHL is due to pay $1,377 (2018: receive $121) to MDAV; due to pay $84,550 (2018: pay $84,550) to United Medical Protection Pty Limited ('UMP'); due to pay $2,792,301 (2018: pay $2,792,301) to The Medical Defence Union Pty Ltd ('MDU'); due to pay $4,810,378 (2018: pay $500,000) to MPM; due to pay $2,117,796 (2018: pay $1,196,316) to DFS for the settlement of inter-company transactions; due to pay $344,750 (2018: pay $nil) to Avant Foundation for the settlement of inter-company transactions; due to pay $3,000,000 (2018: pay $nil) to DHF for the settlement of capital injections.

n) As at 30 June 2019, the Company is due to receive $2,927 (2018: pay $90,322) from DHF; due to pay $949,368 (2018: pay $182,734) to MPM; due to receive $58,301 (2018: receive $50,105) from PIA; due to receive $376 (2018: receive $376) from UMP; due to pay $306,586 (2018: pay $510,673) to Avant Law; due to pay $773,488 (2018: pay $694,634) to DFS; due to receive $28,101,961 (2018: receive $40,610,881) from AGHL; due to receive $3,110 (2018: receive $3,107) from MDU; due to receive $412,947 (2018: receive $286,317) from Avant Law SA for the settlement of inter-company transactions.

o) During the year, Avant Law declared and paid a dividend amounting $9,850,000 (2018: $7,100,000) to AIL.

p) During the year, Avant Law SA declared $900,000 (2018: $nil) dividend payable to Avant Law.

q) During the year, AGHL declared and paid a dividend amounting $8,500,000 (2018: $7,800,000) to the Company.

r) During the year, DHF declared and paid a dividend amounting $3,000,000 (2018: $5,000,000) to AGHL.

Others

Peter Aroney, CEO of DHF is also a Director of HAMBS. HAMBS provides the main software that supports DHF operations.

Martin Edwards, CEO of MPM, is also a Director of Noble Oak Life Limited (an associate), Darjack Pty Limited and JRB Technologies Pty Ltd (subsidiaries of MPM).

Notes to the financial statements (continued)

30 June 2019

Note 20. Business combination

How we account for the numbers

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the:

- consideration transferred, and
- amount of any non-controlling interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gain or losses arising from such remeasurement is recognised in profit or loss.

a) Summary of acquisition

On 15 November 2018, MyPracticeManual Pty Ltd acquired 55% of the issued share capital of JRB Technologies Pty Ltd.

On 18 March 2019, MyPracticeManual Pty Ltd acquired 60% of the issued share capital of Darjack Pty Limited.

The acquisition of both entities is expected to provide enhancements to the existing products of the MyPracticeManual business by supporting and expanding the current technology stack, the new user interfaces, and significant back-end enhancements. This provides us the foundations for the Group's anticipated future growth, through greater scalability and the ability to plug new applications, including those provided by third parties.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	JRB Technologies Pty Ltd $'million	Darjack Pty Limited $'million	Total $'million
Purchase consideration refer to note (b) on next page:			
Cash paid	2.5	2.8	5.3
Contingent consideration	2.2	-	2.2
Total purchase consideration	**4.7**	**2.8**	**7.5**

Notes to the financial statements (continued)

30 June 2019

Note 20. Business combination (continued)

a) Summary of acquisition (continued)

The assets and liabilities (at fair value) recognised as a result of the acquisition are as follows:

	$'million	$'million	Total $'million
Cash and cash equivalents	2.4	0.7	3.1
Receivables	-	0.4	0.4
Other assets	-	0.3	0.3
Contingent receivable	1.5	-	1.5
Other liabilities	-	(0.2)	(0.2)
Employee benefits payable	-	(0.1)	(0.1)
Unearned subscription income	-	(0.7)	(0.7)
Net identifiable assets acquired	3.9	0.4	4.3
Less: non-controlling interests	(1.8)	(0.2)	(2.0)
Add: goodwill*	2.6	2.6	5.2
Net assets acquired	**4.7**	**2.8**	**7.5**

There were no acquisitions in the year ending 30 June 2018.

b) Purchase consideration – cash outflow

	$'million	$'million	Total $'million
Outflow of cash to acquire subsidiary, net of cash acquired:			
Cash consideration	2.5	2.8	5.3
Less: cash balances acquired	2.4	0.7	3.1
Net outflow of cash – investing activities	**0.1**	**2.1**	**2.2**

*The goodwill is attributable to the access to customers, software and associated technology, and synergies with the current technology stack, and this will provide future growth to the Group. It will not be deductible for tax purposes.

Significant estimate: contingent consideration

In the event that a certain pre-determined revenue or pre-determined number of subscribers of the messaging application are achieved by the subsidiary, JRB Technologies Pty Ltd ('MyBeepr'), for the next two years, additional consideration of up to $4.8m will be payable in cash by MyPractice Manual Pty Ltd.

The expected undiscounted amount payable under the agreement is between $0-$2.5m. The fair value of the contingent consideration of $2.2m was estimated by calculating the present value of the future expected cash flows. The estimate was based on the discount rate of 7% and assumed probability-adjusted revenue or number of subscribers of MyBeepr of between $1.9m-$2.5m.

A contingent consideration of $2.2m was recognised at acquisition with the first $0.7m payable to the Founders and other shareholders of MyBeepr and $1.5m payable to MyBeepr.

Acquisition-related costs

Acquisition-related costs of $0.2m that were not directly attributable to the issue of shares are included in other expenses in profit or loss and in operating cash flows in the statement of cash flows.

Directors' declaration

In the Directors' opinion:

a) the financial statements and notes set out on pages 12 to 59 are in accordance with the *Corporations Act 2001 (Cth)*, 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 2019 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.

Beverley Rowbotham

Dr Beverley Rowbotham
Chair
Brisbane

5 September 2019

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Independent Auditor's Report to the Members of Avant Mutual Group Limited

Opinion

We have audited the financial report of Avant Mutual Group Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated balance sheet as at 30 June 2019, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

(i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Directors' Report included in the annual financial report for the year ended 30 June 2019 but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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

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

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

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt

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on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stuart Alexander
Partner
Chartered Accountant
Sydney, 5 September 2019

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