2008–09 financial report

Avant

Avant Mutual Group Limited
ABN 58 123 154 898

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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 580 George Street, Sydney, NSW, Australia.

The financial report was authorised for issue by the Directors on 16 October 2009.
The Company has the power to amend and reissue the financial report.

directors' report

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 2009.

Directors

The following persons were Directors of the Company during the financial year ended 30 June 2009 and up to the date of this report:
Dr Stuart Boland (Chairman)
Dr Jonathan Burdon (Deputy Chairman)
Dr Rosemary Ayton
Dr Stephen Clarke
The Hon John Fahey
Dr Cherrell Hirst
Dr David McConnel
Mr Vyn Tozer
Assoc Prof Simon Willcock

Dr Neil Collier was a Director from the beginning of the financial year until his resignation on 27 November 2008.
Dr Russell Stitz was appointed as a Director on 28 July 2008 and resigned on 27 November 2008.

Principal activities

The principal activities of the Group during the year consisted of the protection, support and safeguarding of the character and interest of its members.

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 Group as well as the underwriting of medical and health malpractice and legal expenses insurance policies and undertakes investment activities related to its insurance activities.

Dividends paid or recommended

No dividend has been paid, proposed or declared since the start of the financial year.

Review of operations

The Group's result for the year ended 30 June 2009 is a net loss after tax of $8,017,000 (2008: net profit after tax of $56,697,000). The total members' accumulated equity as at 30 June 2009 is $544,519,000 (2008: $545,121,000).

In reviewing operations, the following points are noteworthy:

(a) Global financial crisis

The global financial crisis ("GFC") had a significant impact on world financial markets during the financial year. Whilst the Group's core mutual and underwriting activities continued to deliver strong results, the financial performance for the year ended 30 June 2009 has been impacted by a fall in the fair value of investment assets as a consequence of the GFC. Avant's robust investment strategy includes a diversified investment portfolio with defensive assets supporting insurance operations and suplus assets invested in a balanced growth portfolio. This investment strategy has and will serve the Group well over the long term.

(b) Impairment of "available-for-sale" investments

Assets classified as available-for-sale investments are revalued through equity in accordance with *AASB 139 Financial Instruments: Recognition and Measurement*. This standard also requires an annual review for impairment, with any cumulative losses on impaired assets previously recognised through equity to be removed from equity and recognised in the profit and loss. During the year ended 30 June 2009, cumulative losses of $8,631,000 (after tax) were transferred from equity to the profit and loss on impaired available-for-sale investments. Since 30 June 2009, the rebound in investment markets has seen the value of these impaired investments increase by $5,713,000 (after tax) to 30 September 2009. *AASB 139 Financial Instruments: Recognition and Measurement* requires that the reversal of the loss on impaired available-for-sale assets shall not be recognised through the profit and loss.

(c) Federal Government funding

Recoveries from the Commonwealth are made under the *Medical Indemnity Act (2002)*. The three medical indemnity insurance schemes, described in note 2(b), continue to have a positive impact on the Group's net profit.

Significant changes in the state of affairs

There were no significant changes in the state of affairs during the year.

Matters subsequent to the end of the financial year

No matters or circumstances have arisen since 30 June 2009 that have significantly affected or may significantly affect:

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

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

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

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.

Information on Directors

Dr Stuart Boland FRCS, FRACS, FACS, FAMA *Chairman*	
Experience and expertise	Dr Boland is the Chairman of the Board of Avant Mutual Group Limited and is a Director of Avant Insurance Limited. Dr Boland has served on the NSW State Committee of the Australian Association of Surgeons and the Board of the Australian Council of Healthcare Standards (ACHS). Dr Boland was a medical Representative on the NSW Council of Professions from 1993 to 1994. Dr Boland has held many senior positions within the NSW AMA including President from 1991 to 2002 and in 1996 was awarded the Fellowship of the AMA for outstanding service.
Other current Directorships	AMRAS Limited, Healthcare Risk Resources International Pty Ltd, MDU Australia Insurance Co Pty Limited, Professional Indemnity Insurance Company Australia Pty Limited, The Medical Defence Union Pty Ltd, United Medical Protection Limited, United Medical Protection of New South Wales Limited and The Medical Defence Association of Victoria Limited.
Former Directorships in last 3 years	The Medical Protection Society of New South Wales Limited.
Special responsibilities	Chairman of the Group Nominations, Performance & Remuneration Committee and Member of the Group Audit & Risk Committee.

Dr Jonathan Burdon MBBS, MD, M Hlth & Med Law, FRACP, FCCP, FACLM, FAICD *Deputy Chairman*	
Experience and expertise	Dr Burdon is the Deputy Chairman of the Board of Avant Mutual Group Limited and is also a Director of Avant Insurance Limited. Elected to the Council of MDAV in 1997 where he also served as President from 2001-2007. He is a past President of the Thoracic Society of Australia and New Zealand and is the current Deputy Chairman of the Medical Indemnity Industry Association of Australia. He has held many senior positions including being a Director of the Australian Lung Foundation from 2000 - 2004 and a Director of Professional Indemnity Insurance Company Australia Pty Limited.
Other current Directorships	AMRAS Limited, Healthcare Risk Resources International Pty Ltd, MDU Australia Insurance Co Pty Limited, Professional Indemnity Insurance Company Australia Pty Limited, The Medical Defence Association of Victoria Limited, The Medical Defence Union Pty Ltd, United Medical Protection Limited, United Medical Protection of New South Wales Limited and Deputy Chairman of the Medical Indemnity Industry Association of Australia.
Former Directorships in last 3 years	Professional Insurance Australia Pty Ltd and Chairman of the Medical Indemnity Industry Association of Australia.
Special responsibilities	Chairman of the Medical Advisory Council and Member of the Group Nominations, Performance & Remuneration Committee.

Dr Rosemary Ayton MBBS, MRCOG (UK), FRANZCOG, FAICD	
Experience and expertise	Dr Ayton is a Director of Avant Mutual Group Limited. She is a senior Gynaecologist at the Royal Womens' Hospital in Melbourne and a committee member of the Medico-Legal Society of Victoria. She was Vice-President of The Medical Defence Association of Victoria Limited from 2004 to 2007. Dr Ayton was a member of the Australian Drug Evaluation Committee (ADEC) from 1992 to 2001, acting as a Core member from 1993 to 1998. Dr Ayton is a Graduate and Fellow of the Australian Institute of Company Directors.
Other current Directorships	AMRAS Limited, Healthcare Risk Resources International Pty Ltd, The Medical Defence Union Pty Ltd, United Medical Protection Limited, United Medical Protection of New South Wales Limited and The Medical Defence Association of Victoria Limited.
Former Directorships in last 3 years	Nil
Special responsibilities	Member of the Group Nominations, Performance & Remuneration Committee.

Dr Stephen Clarke MBBS, FRACS, FAMA (VIC)	
Experience and expertise	Dr Clarke is a Director of Avant Mutual Group Limited. He is a former President of the AMA Victoria and representative on the Medicare Schedule Review Board, and a former member of the Federal Council of the AMA.
Other current Directorships	AMRAS Limited, Healthcare Risk Resources International Pty Ltd, The Medical Defence Association of Victoria Limited, United Medical Protection of New South Wales Limited, United Medical Protection Limited and The Medical Defence Union Pty Ltd.
Former Directorships in last 3 years	Nil
Special responsibilities	Member of the Group Investment Committee and Medical Advisory Council.

The Hon John Fahey AC	
Experience and expertise	The Hon John Fahey is a Director Avant Mutual Group Limited and also serves as a Director of Avant Insurance Limited. He was a member of the NSW Parliament between 1984 and 1996 serving as Premier for three years and as a minister in various portfolios. He was also Chairman of Sydney's successful bid for the 2000 Olympics. He moved to Federal Parliament and was Minister for Finance and Administration from 1996 until his retirement in 2001. Prior to Parliament, Mr Fahey practised law as a solicitor. He is currently a consultant and company director. In 2002 he was awarded the highest Australian honour, a Companion in the Order of Australia. In November 2007 Mr Fahey was appointed as President of the World Anti-Doping Authority.
Other current Directorships	MDU Australia Insurance Co Pty Limited, Professional Indemnity Insurance Company Australia Pty Limited, United Medical Protection Limited, United Medical Protection of New South Wales Limited, The Medical Defence Association of Victoria Limited, Assetinsure Pty Limited, Men of League Foundation Limited, Integral Energy Limited, Connector Motorways Pty Limited, Australian Rugby League Development Limited and Coasting Pty Limited (private trust company).
Former Directorships in last 3 years	Australian Council of the Royal Flying Doctor Service of Australia, Cumnock Coal Pty Limited, Resource Pacific Holdings Pty Limited, The Bradman Foundation and St. George Foundation Limited.
Special responsibilities	Member of the Group Investment Committee.

Dr Cherrell Hirst AO MBBS, BEdSt, D.Univ, FAICD	
Experience and expertise	Dr Hirst is a Director of the Board of Avant Mutual Group Limited and also serves as a Director and Deputy Chair of Avant Insurance Limited. She is a medical practitioner who was a leader in breast cancer diagnosis and screening. She was Chancellor of the Queensland University of Technology from 1994-2004 and was Queenslander of the Year in 1995.
Other current Directorships	MDU Australia Insurance Co Pty Limited, Professional Indemnity Insurance Company Australia Pty Limited, The Medical Defence Association of Victoria Limited, United Medical Protection Limited, United Medical Protection of New South Wales Limited, Peplin Inc., Suncorp Metway Limited, Queensland Biocapital Funds, Impedimed Limited, Xenome Limited, Tissue Therapies Limited, and various not-for-profit organisations.
Former Directorships in last 3 years	MBF Group Limited.
Special responsibilities	Member of the Group Audit & Risk Committee and Group Investment Committee.

Dr David McConnel MBBS (QLD), FRCA, FANZCA	
Experience and expertise	Dr McConnel is a Director of Avant Mutual Group Limited and is a specialist anaesthetist in private practice. He is a former senior visiting anaesthetist at Royal Brisbane Hospital and clinical associate professor of anaesthesia at the University of Queensland. Dr McConnel has held many appointments including council member of the Australian and New Zealand College of Anaesthetists and Chair of the Final Examination Committee. Dr McConnel is also a former federal President of the Australian Society of Anaesthetists.
Other current Directorships	The Medical Defence Association of Victoria Limited, United Medical Protection Limited and United Medical Protection of New South Wales Limited.
Former Directorships in last 3 years	Nil
Special responsibilities	Member of the Group Nominations, Performance & Remuneration Committee.

Mr Vyn Tozer BCom, D.Bus.S (accy), FCPA	
Experience and expertise	Mr Tozer is a Director of Avant Mutual Group Limited and also serves as the Chairman of Avant Insurance Limited. He has a strong background in finance, accounting and insurance.
Other current Directorships	MDU Australia Insurance Co Pty Limited, Professional Insurance Australia Pty Limited, Professional Indemnity Insurance Company Australia Pty Limited, Australian Health Services Alliance Limited (Chairman), and RACT Insurance Pty Limited (Chairman).
Former Directorships in last 3 years	Managing Director of Fortis Australia Limited. Director of the Insurance Council of Australia and Insurance Statistics Australia, Medical indemnity Industry Association of Australia and Elders Financial Services Group Pty Limited.
Special responsibilities	Member of the Group Audit & Risk Committee and Group Nominations, Performance & Remuneration Committee.

Assoc Prof Simon Willcock MBBS (Hons), PhD, FRACGP, Dip. Obs. RACOG/RACGP	
Experience and expertise	Assoc Prof Willcock is a Director of Avant Mutual Group Limited. He is a general practitioner and Associate Dean (Postgraduate Medical Education and Training) at the University of Sydney Medical Program. Assoc Prof Willcock is involved in clinical practice and in the education and training of junior medical practitioners, and undertakes research in this area.
Other current Directorships	The Medical Defence Association of Victoria Limited, United Medical Protection Limited, United Medical Protection of New South Wales Limited, Chairman of General Practice Education and Training (GPET) and Director of the NSW Institute of Medical Education and Training (IMET).
Former Directorships in last 3 years	Nil
Special responsibilities	Member of the Group Audit & Risk Committee.

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 2009, and the number of meetings attended by each Director are set out in the tables below.

	Avant Mutual Board Full meeting		Special meeting[1]	
	A	B	A	B
Dr Stuart Boland (Chairman)	11	11	1	1
Dr Jonathan Burdon (Deputy Chairman)	10	11	1	1
Dr Rosemary Ayton	11	11	1	1
Dr Stephen Clarke	10	11	1	1
Dr Neil Collier (resigned 27 November 2008)	4	5	**	**
The Hon John Fahey	7	11	**	**
Dr Cherrell Hirst	10	11	**	**
Dr David McConnel	11	11	1	1
Dr Russell Stitz (appointed 28 July 2008, resigned 27 November 2008)	4	4	**	**
Mr Vyn Tozer	9	11	**	**
Assoc Prof Simon Willcock	10	11	1	1

	Group Audit and Risk Committee		Group Investment Committee		Nominations, Performance and Remuneration Committee	
	A	B	A	B	A	B
Dr Stuart Boland (Chairman)	6	8	*	*	4	4
Dr Jonathan Burdon (Deputy Chairman)	*	*	*	*	3	4
Dr Rosemary Ayton	*	*	*	*	4	4
Dr Stephen Clarke	*	*	4	4	*	*
Dr Neil Collier (resigned 27 November 2008)	*	*	*	*	*	*
The Hon John Fahey	*	*	8	8	*	*
Dr Cherrell Hirst	8	8	3	4	2	2
Dr David McConnel	*	*	*	*	2	2
Dr Russell Stitz (appointed 28 July 2008, resigned 27 November 2008)	*	*	*	*	*	*
Mr Vyn Tozer	8	8	3	4	3	3
Assoc Prof Simon Willcock	3	3	4	4	*	*

A = Number of meetings attended
B = Number of meetings held during the time the Director held office or was a member of the committee during the year.
[1] Member Directors only
[*] Not a member of the relevant committee
[**] Non-member Director

Company Secretary

Fraser MacLennan-Pike LLB, GAICD was appointed as General Counsel and Company Secretary on 15 June 2009. Fraser MacLennan-Pike previously held legal and company secretarial roles at other insurance companies. Michael Handley LL.B, LLM, ACII, ACIS was appointed as Company Secretary on 13 March 2009. Michael Handley has worked for AIL and its predecessor organisations for the past ten years and has previously worked for The Medical Defence Union in London.

Alex Mathey resigned as Company Secretary on 13 March 2009.

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

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

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

Stuart L Boland

Dr Stuart Boland
Chairman
Sydney
16th October 2009

auditor's independence declaration

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Auditor's independence declaration

As lead auditor for the audit of Avant Mutual Group Limited for the year ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been:

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

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

This declaration is in respect of Avant Mutual Group Limited and the entities it controlled during the period.

S J Hadfield
Partner
PricewaterhouseCoopers

Sydney
16 October 2009

income statements

for the year ended 30 June 2009

	Notes	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	COMPANY 2009 $'000	COMPANY 2008 $'000
Gross written premium		169,998	179,277	-	-
Movement in unearned premiums		(1,791)	4,476	-	-
Gross premium revenue		168,207	183,753	-	-
Reinsurance premium expense		(15,206)	(16,627)	-	-
Net premium revenue		**153,001**	**167,126**	**-**	**-**
Gross claims expense	4	(101,508)	(38,008)	-	-
Reinsurance and other recoveries revenue	4	13,986	11,146	-	-
Net claims incurred	4	**(87,522)**	**(26,862)**	**-**	**-**
Acquisition costs		(10,470)	(10,859)	-	-
Run-off Cover Scheme (ROCS) levy		(9,468)	(14,177)	-	-
Policyholder reward payment		-	(10,000)	-	-
Other underwriting expenses	5	(32,359)	(32,324)	-	-
Underwriting expenses		**(52,297)**	**(67,360)**	**-**	**-**
Underwriting result		**13,182**	**72,904**	**-**	**-**
Share of net profit / (loss) of associate accounted for using the equity method	28	1,831	(286)	-	-
Investment (loss) / income	6	(37,104)	(1,249)	170	61
Other income	7	9,159	10,727	7,397	4,853
Other operating expenses	5	(5,682)	(8,650)	(3,548)	(3,995)
(Loss) / profit before income tax		**(18,614)**	**73,446**	**4,019**	**919**
Income tax benefit / (expense)	8(a)	10,597	(16,749)	(34)	(5)
(Loss) / profit for the year		**(8,017)**	**56,697**	**3,985**	**914**

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

balance sheets

As at 30 June 2009

		CONSOLIDATED		COMPANY	
	Notes	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets					
Cash and cash equivalents	9	131,297	74,562	8,021	2,617
Receivables	10	55,322	45,060	975	37,222
Financial assets	11	70,617	91,981	-	-
Reinsurance and other recoveries	13	65,863	79,466	-	-
Current tax assets		1,427	-	1,427	-
Deferred expenses	14	13,178	13,704	-	-
Total current assets		**337,704**	**304,773**	**10,423**	**39,839**
Non-current assets					
Property, plant and equipment	15	2,623	7,738	-	-
Intangible assets	16	1,200	1,350	-	-
Financial assets	11	654,589	721,486	508,602	508,602
Investment property	12	-	3,200	-	-
Reinsurance and other recoveries	13	347,696	379,359	-	-
Deferred tax assets	8(f)	52,912	45,250	10,891	-
Total non-current assets		**1,059,020**	**1,158,383**	**519,493**	**508,602**
TOTAL ASSETS		**1,396,724**	**1,463,156**	**529,916**	**548,441**
Current liabilities					
Payables	17	24,773	33,179	13,033	194
Current tax liabilities		-	35,433	-	35,589
Outstanding claims liabilities	18	122,944	119,409	-	-
Provisions	19	7,150	20,352	-	-
Unearned income	20	74,760	72,730	3,382	3,142
Total current liabilities		**229,627**	**281,103**	**16,415**	**38,925**
Non-current liabilities					
Outstanding claims liabilities	18	611,353	623,753	-	-
Provisions	19	11,225	13,179	-	-
Total non-current liabilities		**622,578**	**636,932**	**-**	**-**
TOTAL LIABILITIES		**852,205**	**918,035**	**16,415**	**38,925**
NET ASSETS		**544,519**	**545,121**	**513,501**	**509,516**
Equity					
Reserves	22(a)	54,695	49,080	508,602	508,602
Retained profits	22(b)	489,824	496,041	4,899	914
TOTAL EQUITY		**544,519**	**545,121**	**513,501**	**509,516**

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

statements of changes in equity

For the year ended 30 June 2009

CONSOLIDATED	Notes	Reserves $'000	Retained profits $'000	Total $'000
At 1 July 2007		**5,460**	**439,344**	**444,804**
Change in fair value of financial assets net of tax		(12,778)	-	(12,778)
Revaluation of land and buildings		1,800	-	1,800
Reserve arising from business combinations		54,598	-	54,598
Profit for the year		-	56,697	56,697
At 30 June 2008		**49,080**	**496,041**	**545,121**
Change in fair value of financial assets net of tax		(1,216)	-	(1,216)
Impairment of available-for-sale investments net of tax		8,631	-	8,631
Asset revaluation reserve transferred to retained earnings on disposal of owner occupied property		(1,800)	1,800	-
Loss for the year		-	(8,017)	(8,017)
At 30 June 2009		**54,695**	**489,824**	**544,519**
COMPANY				
At 1 July 2007		**-**	**-**	**-**
Reserve arising from business combinations		508,602	-	508,602
Profit for the year		-	914	914
At 30 June 2008		**508,602**	**914**	**509,516**
Profit for the year		-	3,985	3,985
At 30 June 2009		**508,602**	**4,899**	**513,501**

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

cash flow statements

For the year ended 30 June 2009

	Notes	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	COMPANY 2009 $'000	COMPANY 2008 $'000
Cash flows from operating activities					
Premium and subscription income received		184,045	196,906	8,297	7,690
Receipts from members		-	440	-	-
Reinsurance premium paid		(18,066)	(19,718)	-	-
Claims paid		(147,234)	(148,227)	-	-
Reinsurance and other recoveries received		82,334	80,011	-	-
Run-off Cover Scheme cost		(16,230)	(13,066)	-	-
Dividends and distributions received		35,043	45,443	-	-
Interest received		25,209	35,646	170	61
Sundry (expenses) / income		(2,620)	-	43	7
Receipts from / (payments to) related parties		-	-	13,512	(1,359)
Income tax paid		(34,077)	(27,291)	(12,355)	-
Underwriting and administrative expenses paid		(47,032)	(54,656)	(3,528)	(3,994)
Payments made to Government under UMP support payment scheme		-	(81)	-	-
Policyholder reward payment		(3,265)	(6,229)	-	-
Goods and services tax paid / (refunded)		(8,041)	(11,499)	(735)	212
Net cash inflow from operating activities	33	**50,066**	**77,679**	**5,404**	**2,617**
Cash flows from investing activities					
Purchase of investments		(304,850)	(367,094)	-	-
Proceeds from sale of investments		304,830	292,679	-	-
Purchase of fixed assets		(1,311)	(1,087)	-	-
Proceeds from sale of land and buildings		8,000	-	-	-
Net cash inflow / (outflow) from investing activities		**6,669**	**(75,502)**	**-**	**-**
Cash flows from financing activities					
Cash acquired in business combinations (MDUAIL and PIICA)		-	22,801	-	-
Net cash inflow from financing activities		**-**	**22,801**	**-**	**-**
Net increase in cash held		56,735	24,978	5,404	2,617
Cash and cash equivalents at the beginning of the year		74,562	49,584	2,617	-
Cash and cash equivalents at the end of the year	9	**131,297**	**74,562**	**8,021**	**2,617**

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

notes to the financial statements

30 June 2009

Note 1. Summary of significant accounting policies

(a) Basis of preparation
The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. The financial report includes separate financial statements for the Company as an individual entity and the Group consisting of the Company and its subsidiaries.

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS's), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group interpretations approved by the International Accounting Standards Board (IASB) and the *Corporations Act 2001*.

Compliance with IFRS
Compliance with AIFRS ensures that the consolidated financial statements and notes of the Company comply with International Financial Reporting Standards (IFRS).

Historical cost convention
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment property and certain classes of property, plant and equipment.

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

New accounting standards and interpretations
Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2009 reporting periods. The Group's and the Company's assessment of the impact of these new standards and interpretations is set out below:

(i) Revised AASB 101 *Presentation of Financial Statements* and AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101* (effective from 1 January 2009).
The September 2007 revised AASB 101 requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Company will apply the revised standard from 1 July 2009.

(ii) Revised AASB 3 *Business Combinations*, AASB 127 *Consolidated and Separate Financial Statements* and AASB 2008-3 Amendments to *Australian Accounting Standards arising from AASB 3 and AASB 127* (effective 1 July 2009).
The revised AASB 3 continues to apply the acquisition method to business combinations, but with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate

share of the acquiree's net assets. All acquisition-related costs must be expensed. This is different to the Group's current policy which is set out in note 1(v) below.

The revised AASB 127 requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses, see note 1(b). The standard also specifies the accounting when control is lost. Any remaining interest in the entity is measured to fair value, and a gain or loss is recognised in profit or loss. Under the Group's current accounting policy, the retained interest in the carrying amount of the former subsidiary's assets and liabilities becomes the cost of investment. If the investment is accounted for as an available-for-sale financial asset, it is subsequently revalued to fair value; however, any revaluation gain or loss is recognised in the available-for-sale reserve.

The Group will apply the revised standards prospectively to all business combinations and transactions with non-controlling interests from 1 July 2009.

(iii) AASB 2008-5 and 2008-6 *Amendments to the Australian Accounting Standards arising from the Annual Improvements Project* (effective from 1 January 2009 and 1 July 2009).
The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part 1 deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact.

AASB 2008-5 is the first omnibus of amendments issued by the IASB arising from the Annual Improvements Project and it is expected that going forward, such improvements will be issued annually to remove inconsistencies and clarify wording in the standards.

The AASB issued these amendments in two separate amending standards; one dealing with the accounting changes effective from 1 January 2009 (AASB 2008-5) and the other dealing with amendments to AASB 5, which will be applicable from 1 July 2009 (AASB 2008-6).

The initial application of these amendments to the standards is not expected to materially impact the financial results of the Company.

(iv) AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (effective 1 July 2009).
In July 2008, the AASB approved amendments to AASB 1 *First-Time Adoption of International Financial Reporting Standards* and AASB 127 *Consolidated and Separate Financial Statements*. The Group will apply the revised rules prospectively from 1 July 2009. After that date, all dividends received from investments in subsidiaries, jointly controlled entities or associates will be recognised as revenue, even if they are paid out of pre-acquisition profits, but the investments may need to be tested for impairment as a result of the dividend payment. Under the entity's current policy, these dividends are deducted from the cost of investment. Furthermore, when a new intermediate parent entity is created in internal reorganisations it will measure its investment in subsidiaries at the carrying amounts of the net assets of the subsidiary rather than the subsidiary's fair value.

(v) AASB 2008-8 *Amendment to IAS 39 Financial Instruments: Recognition and Measurement* (effective 1 July 2009).
AASB 2008-8 amends AASB 139 *Financial Instruments: Recognition and Measurement* and must be applied retrospectively

in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in one-sided hedged risk when designating options as hedges. It is not expected to have a material impact on the Company's financial statements.

(vi) AASB 2009-2 *Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments* (effective from 1 January 2009).
The main amendment to AASB 7 requires fair value measurements to be disclosed by the source of inputs, using the following three-level hierarchy: quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

These amendments arise from the issuance of *Improving Disclosures about Financial Instruments (Amendments to IFRS 7)* by the IASB in March 2009.

The amendments to AASB 4, AASB 1023 and AASB 1038 comprise editorial changes resulting from the amendments to AASB 7.

(b) Principles of consolidation
Subsidiaries
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2009 and the results of all subsidiaries for the year then ended. The Company and its subsidiaries together are referred to in this financial report as the Group.

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

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

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

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

Associates
Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Premium revenue

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

Run-off Cover Scheme

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

Premium Support Subsidy

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

(d) Subscription revenue

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

(e) Liability adequacy test

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

(f) Outwards reinsurance

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

(g) Outstanding claims liabilities

The provision for outstanding claims is measured as the central estimate of the present value of expected future claims payments. 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); and anticipated claims handling costs.

Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can only be indirectly associated with individual claims, such as claims administration costs.

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

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

(h) Reinsurance and other recoveries

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

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

(i) Acquisition costs

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

(j) Financial assets

Classification

The Group classifies its investments in the following categories; financial assets at fair value through profit or loss and available-for-sale financial assets, except for investments in subsidiaries which are accounted for at cost. The classification depends on the purpose for which the investments were acquired. AASB 139 establishes specific categories into which all financial assets must be classified. The classification of financial instruments dictates how these assets and liabilities are subsequently measured.

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

(ii) Available-for-sale financial assets
All investments, other than those backing insurance liabilities as described above and those in controlled entities, are recognised initially at cost and subsequently valued at fair value, with any resultant gains or losses recognised directly in equity.

Recognition and derecogntion
Regular 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 that are designated as fair value through profit or loss are recognised initially at cost and subsequently at fair value, with any resultant gains or losses recognised in the income statement. 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. When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Subsequent measurement
Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within investment revenue in the period in which they arise and gains or losses arising from changes in the fair value of `available-for-sale financial assets' are recognised in equity. Investment revenue is brought to account on an accruals basis. Dividends on quoted shares are deemed to accrue when the relevant shareholding becomes "ex-dividend". Distributions from unit trusts are brought to account when the Company becomes entitled to the income. Interest income is recognised on an effective interest method.

Fair Value
The fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the Group approximates to the carrying value.

The fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

Unitised trusts are measured at fair value using the unit redemption price at the balance sheet date.

Non-traded equity investments are measured at cost.

Impairment
The Group assesses at each balance date whether there is objective evidence that a financial asset or group of assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is 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 or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

The Company and its controlled entities United Medical Protection Limited ("United"), The Medical Defence Association of Victoria Limited ("MDAV") and United Medical Protection of New South Wales Limited ("UMP NSW"), are limited by guarantee and operate for the mutual benefit of their members. These entities have been treated as mutuals 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 United, 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.

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

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

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

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

(l) Property, plant and equipment

Land and buildings are held at fair value based on periodic valuation by external independent valuers. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The portion of land and buildings rented to external parties is treated as an investment property. Changes in fair value are recorded in the income statement. That portion of land and buildings used by the Group is treated as property, plant and equipment.   Changes in fair value for this portion are recognised in the asset revaluation reserve.

Land is not depreciated. Depreciation on the other assets is calculated using the straight-line method so as to write off the net cost of each item over its expected useful life to the Group, or for leasehold improvements, over the unexpired period of the lease, if this is shorter. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives of the assets are as follows:

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

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

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

(m) Intangible assets

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

(n) 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.

(o) 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.

(p) Employee benefits

Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within twelve months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Long service leave

A liability for long service leave is recognised and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity that match, as close as possible, the estimated future cash outflows.

Superannuation

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

(q) Goods and services tax (GST)

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

(i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
(ii) for receivables and payables which are recognised inclusive of GST.

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

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

(r) Cash and cash equivalents
For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

(s) Receivables
Receivables are initially recognised at fair value, being the amounts due. They are subsequently measured at amortised cost.

Collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off. A provision for impairment is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the income statement.

The carrying amount of the assets is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement within underwriting expenses. When a receivable is uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other underwriting expenses in the income statement.

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

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

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

(v) Business combinations
The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in equity.

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

(x) Rounding of amounts
The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Note 2. Critical accounting estimates and judgments

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

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

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

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

The assessment of the anticipated claims liability is particularly sensitive to a number of factors, including:
- Conversion ratio of notifications into civil claims
- Average claim cost
- Inflation rates and discount factors
- Changes in the medico-legal environment

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

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

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

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

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

Recoveries due under Government schemes are included within note 13 and comprise recoveries on paid claims and on known and IBNR outstanding claims.

The Government schemes were introduced in response to the difficulties faced by the participants in the medical indemnity industry in Australia in meeting claims expenses and at the same time maintaining professional indemnity premiums at a sustainable level. The first of the schemes was introduced in 2002 and the most recent in July 2004.

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

The position is continually monitored and given the recent introduction and continued refinement of the schemes and the industry's reliance on them to maintain premium levels at rates acceptable to medical practitioners, it is unlikely the Government will withdraw the schemes in the foreseeable future.

If the schemes were withdrawn, the responsibility for funding the claims subject to the schemes would revert to the Group. Without the Government recoveries the claims would require to be funded out of retained earnings or future premium revenues.

Note 3. Insurance risk and actuarial assumptions

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

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

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

The RMS and REMS is subject to at least an annual review by the internal auditors. The internal auditors are independent of the day to day operational management of the Company and its consolidated entities. They prepare a report on compliance with the procedures outlined in the RMS and REMS.

(a) Insurance risk

(i) Terms and conditions of insurance business

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

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

(ii) Risk management of insurance business

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

Insurance risk

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

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

Insurance premiums are determined on an annual basis to coincide with the renewal date of the portfolio. Premium rating is determined with regard to type of specialisation and state of practice and level of billings. The pricing model reflects historical claims analysis and is subject to external actuarial review.

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 Group insurance portfolio comprises a single class of risk and is not exposed to the traditional form of external catastrophe risk.

There is a possibility that changes may occur in the estimate of obligations at the end of a contract period. The tables in note 18(d) show the estimates of total claims outstanding for each underwriting year at successive year ends.

Reinsurance risk

The Group provides insurance on a claims made basis. As a mono-line insurance group, the Group does not benefit from the diversification of insurance risks available to general insurers with multiple lines of business.

Professional indemnity is a long tail class of business and as a result claims reserves will typically display greater variations between initial claim estimates and final claim costs because of the greater degree of difficulty in estimating claims reserves for the long tail class of business. As a way of moderating the insurance risk, the Group purchases reinsurance. Any potential exposure of the reinsurance program is managed by seeking a diversified portfolio of reinsurers operating in different reinsurance markets, where the maximum potential exposure of any one reinsurer to the total program is limited.

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

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

Interest rate risk
The insurance contracts are not exposed to interest rate risk.

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

	2009	2008
Normal inflation rate	3.75%	4.5%
Superimposed inflation	2.0 - 4.0%	2.0 - 4.0%
Average weighted discount rate	5.1%	6.4%
Average weighted term to settlement – known claims	2.90 years	3.90 years
Average weighted term to settlement – IBNR claims	8.60 years	8.30 years
Estimated ultimate number of claims	2,272	1,603
Claims handling expense percentage	7.0%	7.0%

(ii) Process used to determine assumptions

Methodology
Incidents and claims are separated into books of claims to take account of different reinsurance arrangements. These are further separated into five claim groups; legal expenses and insurance policy claims, dental claims, other non-civil claims, small civil claims (estimated ultimate cost less than $0.5m) and claims with an estimated cost of $0.5m or more. Notifications and claims whose cost is expected to be indemnified are excluded for the purposes of the actuarial assessment.

Number of incidents notified and estimated ultimate numbers of claims
The estimated ultimate number of civil claims and "conversion" ratios are calculated by the estimated number of civil claims divided by the number of incidents notified.

Inflation and discount rates
Normal inflation is based on average weekly earnings as reported by an independent economics consultancy. Superimposed inflation is modeled 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 notification and payment patterns.

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

Variable	Impact of movement in variable
Inflation and superimposed inflation rates	Expected future payments are inflated to take account of inflationary increases. In addition to the general economic inflation rate an amount is superimposed to take account of non-economic inflationary factors, such as increases in court awards. Such rates of superimposed inflation are specific to the model adopted. An increase or decrease in the assumed levels of either the economic or superimposed inflation would have a corresponding impact on claims expense, with particular reference to longer tail business.
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.
Ultimate number of claims for incidents notified	The long tail nature of the business means that the development of claims during and in the years immediately following the notification year may not be indicative of the actual claims experience for that year. An increase or decrease in the assumed ultimate number of claims would have a corresponding impact on claims expense.

(ii) Impact of changes in key variables

		PROFIT / (LOSS) AFTER TAX		EQUITY
		Gross of reinsurance $000	Net of reinsurance $000	$000
Variable	Movement in variable	Adjusted amounts		
Inflation rate	1%	(25,794)	(9,333)	(9,333)
	-1%	23,905	8,790	8,790
Superimposed inflation	2%	(57,867)	(20,507)	(20,507)
	-2%	34,397	12,874	12,874
Discount rates	1%	22,027	7,581	7,581
	-1%	(24,091)	(8,173)	(8,173)
Ultimate number of claims for incidents notified	10%	(21,995)	(10,917)	(10,917)
	-10%	21,826	10,737	10,737

Note 4. Net claims incurred

2009	CONSOLIDATED Current period $'000	Prior periods $'000	Total $'000	COMPANY Current period $'000	Prior periods $'000	Total $'000
Undiscounted claims incurred:						
Gross claims incurred	155,998	(161,733)	(5,735)	-	-	-
Reinsurance recoveries	(41,687)	94,320	52,633	-	-	-
Net claims incurred	114,311	(67,413)	46,898	-	-	-
Discount movement:						
Gross claims incurred	(33,055)	140,298	107,243	-	-	-
Reinsurance recoveries	15,180	(81,799)	(66,619)	-	-	-
Net discount movement	(17,875)	58,499	40,624	-	-	-
Net discounted claims	**96,436**	**(8,914)**	**87,522**	**-**	**-**	**-**
Discounted claims expense:						
Gross claims expense	122,943	(21,435)	101,508	-	-	-
Reinsurance recoveries	(26,507)	12,521	(13,986)	-	-	-
Net discounted claims expense	**96,436**	**(8,914)**	**87,522**	**-**	**-**	**-**

2008	CONSOLIDATED Current period $'000	Prior periods $'000	Total $'000	COMPANY Current period $'000	Prior periods $'000	Total $'000
Undiscounted claims incurred:						
Gross claims incurred	175,521	(108,872)	66,649	-	-	-
Reinsurance recoveries	(60,259)	53,532	(6,727)	-	-	-
Net claims incurred	115,262	(55,340)	59,922	-	-	-
Discount movement:						
Gross claims incurred	(50,580)	21,939	(28,641)	-	-	-
Reinsurance recoveries	25,081	(29,500)	(4,419)	-	-	-
Net discount movement	(25,499)	(7,561)	(33,060)	-	-	-
Net discounted claims	**89,763**	**(62,901)**	**26,862**	**-**	**-**	**-**
Discounted claims expense:						
Gross claims expense	124,941	(86,933)	38,008	-	-	-
Reinsurance recoveries	(35,178)	24,032	(11,146)	-	-	-
Net discounted claims expense	**89,763**	**(62,901)**	**26,862**	**-**	**-**	**-**

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.

Note 5. Other expenses

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	COMPANY 2009 $'000	COMPANY 2008 $'000
Employee related costs	(28,706)	(27,834)	-	-
Director related costs	(666)	(948)	-	-
Rental expense relating to operating leases	(2,089)	(2,165)	-	-
Other rent related outgoings	(465)	(393)	-	-
Depreciation and amortisation	(1,077)	(2,303)	-	-
General & administration expenses	(2,463)	(3,512)	(691)	(661)
Management fees paid	(1,404)	(1,578)	(2,825)	(3,334)
Loss on disposal of property, plant & equipment	(762)	-	-	-
Merger expenses	-	(3,077)	-	-
Reversal of provision for impairment	(409)	836	(32)	-
	(38,041)	**(40,974)**	**(3,548)**	**(3,995)**
Other underwriting expenses	(32,359)	(32,324)	-	-
Other operating expenses	(5,682)	(8,650)	(3,548)	(3,995)
	(38,041)	**(40,974)**	**(3,548)**	**(3,995)**

Note 6. Investment (loss)/income

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	COMPANY 2009 $'000	COMPANY 2008 $'000
Interest	25,211	35,389	170	61
Dividends and distributions from unit trusts	34,647	44,974	-	-
Other	564	468	-	-
	60,422	80,831	170	61
Change in fair value of investments held at fair value through profit or loss	(85,195)	(82,080)	-	-
Impairment of available-for-sale investments	(12,331)	-	-	-
	(37,104)	**(1,249)**	**170**	**61**

Note 7. Other income

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	COMPANY 2009 $'000	COMPANY 2008 $'000
Membership subscription revenue	7,354	7,536	7,354	4,846
Premium Support Scheme Fee income	1,143	1,144	-	-
Gain on revaluation of investment property	-	1,200	-	-
Other income	662	847	43	7
	9,159	**10,727**	**7,397**	**4,853**

Note 8. Income tax

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	COMPANY 2009 $'000	COMPANY 2008 $'000
(a) Income tax benefit / (expense)				
Current tax expense	(846)	(44,748)	(34)	(5)
Deferred tax benefit	12,005	26,686	-	-
(Under) / over provision in prior years	(562)	1,313	-	-
Income tax benefit / (expense) attributable to (loss) / profit from continuing operations	**10,597**	**(16,749)**	**(34)**	**(5)**
(b) Numerical reconciliation of income tax benefit/(expense) to prima facie tax payable				
(Loss)/profit from continuing operations before income tax	**(18,614)**	**73,446**	**4,019**	**919**
Tax at Australian tax rate of 30% (2008 : 30%)	5,584	(22,034)	(1,206)	(276)
Net mutual income - non assessable	4,373	1,694	-	271
Other permanent differences	(36)	(117)	1,172	-
Adjustment due to merger	-	1,855	-	-
Recognition of previously unrecognised timing differences	-	(684)	-	-
Effect of excess franking offset converted to tax loss	1,603	-	-	-
Effect of franking credits	(481)	1,147	-	-
Benefit of tax losses of prior years recouped	116	77	-	-
Current year income tax benefit / (expense)	11,159	(18,062)	(34)	(5)
(Under) / over provision in prior year	(562)	1,313	-	-
Income tax benefit / (expense)	**10,597**	**(16,749)**	**(34)**	**(5)**
(c) Amounts recognised directly in equity				
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity	(3,177)	4,172	-	-
Net deferred tax - charged directly to equity	**(3,177)**	**4,172**	**-**	**-**

	CONSOLIDATED		COMPANY	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
(d) Deferred tax assets				
The balance comprises temporary differences attributable to:				
Amounts recognised in the profit or loss:				
Accruals and provisions	13,427	13,014	-	-
Financial assets	29,278	33,125	-	-
Investments	75	75	-	-
	42,780	46,214	-	-
Deferred tax recognised on losses	11,010	64	10,891	-
Total deferred tax assets	**53,790**	**46,278**	**10,891**	**-**
Movements:				
Opening balance at the beginning of the year	46,278	13,796	-	-
Acquisitions on business combination	-	6,474	-	-
Prior year (over) / under provision	(318)	-	-	-
Credited / (charged) to the income statement	11,855	20,814	-	-
Credited / (charged) to equity	(3,177)	5,194	-	-
Amounts (payable to) / receivable from Group members under tax sharing and funding agreement	(848)	-	10,891	-
Closing balance at the end of the year	**53,790**	**46,278**	**10,891**	**-**
(e) Deferred tax liabilities				
Financial assets	329	1,027	-	-
Interest receivable	-	1	-	-
Investment in subsidiary	549	-	-	-
Total deferred tax liabilities	**878**	**1,028**	**-**	**-**
Movements:				
Opening balance at the beginning of the year	1,028	4,626	-	-
Acquisitions on business combination	-	1,251	-	-
(Credited) / charged to the income statement	(150)	(5,872)	-	-
(Credited) / charged to equity	-	1,023	-	-
Closing balance at the end of the year	**878**	**1,028**	**-**	**-**
(f) Set-off of deferred tax balances				
Set-off of deferred tax assets against deferred tax liabilities pursuant to set-off provisions:				
Deferred tax assets	53,790	46,278	10,891	-
Deferred tax liabilities	(878)	(1,028)	-	-
Total deferred tax asset after set-off	**52,912**	**45,250**	**10,891**	**-**
(g) Franking credits				
Franking credits available for the subsequent financial years based on a tax rate of 30% (2008: 30%)	**132,588**	**93,708**	**132,588**	**93,708**

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

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

The amounts receivable/payable under the tax funding agreement are 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 installments. The funding amounts are recognised as current intercompany receivables or payables (see note 26).

Note 9. Cash and cash equivalents

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	COMPANY 2009 $'000	COMPANY 2008 $'000
Cash at bank and in hand	131,297	74,562	8,021	2,617
	131,297	**74,562**	**8,021**	**2,617**

(a) Reconciliation to cash at the end of the year

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

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	COMPANY 2009 $'000	COMPANY 2008 $'000
Balances as above	131,297	74,562	8,021	2,617
Balances per statement of cash flows	**131,297**	**74,562**	**8,021**	**2,617**

(b) Cash at bank and on hand

Cash in hand is non interest bearing.
Cash at bank is bearing floating interest rates between 2.54% and 7.64% (2008: 5.25% and 7.62%).

Note 10. Receivables

	CONSOLIDATED		COMPANY	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Premium and subscription debtors	49,424	43,379	212	171
Provision for impairment	(476)	(308)	(29)	-
Net premium and subscription revenue debtors	48,948	43,071	183	171
Sundry debtors	6,374	1,504	-	-
Receivable from related entity	-	-	792	37,051
Support payment (UMPSP) debtor	-	485	-	-
Net receivables	**55,322**	**45,060**	**975**	**37,222**

All receivables past due and impaired are provided for in full.

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

(b) Risk
The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables. Detail regarding credit risk exposure is disclosed in note 21.

Note 11. Financial assets

	Notes	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	COMPANY 2009 $'000	COMPANY 2008 $'000
Investments held at fair value through profit or loss					
Short duration interest bearing securities		96,077	98,427	-	-
Fixed interest securities		414,288	450,811	-	-
Units in unlisted equity trusts		121,816	171,888	-	-
Units in unlisted property trusts		24,225	30,727	-	-
		656,406	**751,853**	**-**	**-**
Available-for-sale investments					
Units in unlisted equity trusts		45,030	41,192	-	-
Units in unlisted property trusts		8,939	7,422	-	-
		53,969	**48,614**	**-**	**-**
Investments held at cost					
Investments in controlled entities	27	-	-	508,602	508,602
		-	**-**	**508,602**	**508,602**
Equity accounted investments					
Investments in associates	28	14,831	13,000	-	-
		14,831	**13,000**	**-**	**-**
		725,206	**813,467**	**508,602**	**508,602**
Current financial assets		70,617	91,981	-	-
Non-current financial assets		654,589	721,486	508,602	508,602
		725,206	**813,467**	**508,602**	**508,602**

Note 12. Investment property

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	COMPANY 2009 $'000	COMPANY 2008 $'000
At fair value				
At the beginning of the year	3,200	-	-	-
Assets acquired on business combination	-	2,000	-	-
Revaluation impact	-	1,200	-	-
Disposals	(3,200)	-	-	-
At the end of the year	**-**	**3,200**	**-**	**-**

Note 13. Reinsurance and other recoveries

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	COMPANY 2009 $'000	COMPANY 2008 $'000
Expected future reinsurance recoveries undiscounted				
– on paid claims	76,360	102,610	-	-
– on outstanding claims	497,610	654,225	-	-
	573,970	756,835	-	-
Discount to present value	(116,135)	(246,670)	-	-
Provision for impairment of reinsurance assets and other recoveries	(44,276)	(51,340)	-	-
Reinsurance and other recoveries on claims	**413,559**	**458,825**	**-**	**-**
Reinsurance and other recoveries receivable - current	90,892	107,323	-	-
Less: Provision for impairment of reinsurance assets	(25,029)	(27,857)	-	-
	65,863	**79,466**	**-**	**-**
Reinsurance and other recoveries receivable - non current	366,943	402,841	-	-
Less: Provision for impairment of reinsurance assets	(19,247)	(23,482)	-	-
	347,696	**379,359**	**-**	**-**
	413,559	**458,825**	**-**	**-**

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

Reinsurance adjustment premiums payable to HIH of $13,777,000 in respect of these recoveries have been offset against the recoveries as at 30 June 2009. The provision for impairment against our net exposure is consistent with the liquidation proceedings. Reinsurance adjustment premiums payable to HIH of $13,184,000 in the prior year were reported as a reinsurance adjustment provision.

The Group's estimate of its exposure to HIH including prudential margins is $56,106,647 at 30 June 2009 (2008: $62,090,000). A $44,038,795 (2008: $51,340,000) provision against this balance is recognised in these financial statements. The provision has been made on the best information available to 30 June 2009 from a range of sources including the liquidator of HIH and reflects the expected liquidation dividend to be paid by the individual companies within HIH. Depending on from which HIH company the recovery is due, provisions of between 45.0% and 77.5% have been made (2008: 60.0%-92.5%).

Note 14. Deferred expenses

	CONSOLIDATED		COMPANY	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Deferred reinsurance premiums	6,378	6,075	-	-
Deferred ROCS expense	3,256	4,085	-	-
Deferred acquisition costs	3,544	3,544	-	-
	13,178	**13,704**	**-**	**-**

Note 15. Property, plant and equipment

	CONSOLIDATED		COMPANY	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Gross carrying amount				
At the beginning of the year	13,067	4,086	-	-
Additions	1,311	1,086	-	-
Assets acquired on business combination	-	7,895	-	-
Disposals	(4,986)	-	-	-
Written off in the year	(2,931)	-	-	-
At the end of the year	**6,461**	**13,067**	**-**	**-**
Accumulated depreciation				
At the beginning of the year	(5,329)	(2,333)	-	-
Acquired on business combination	-	(1,825)	-	-
On disposals	2	-	-	-
Written off in the year	2,416	-	-	-
Depreciation expense for the year	(927)	(1,171)	-	-
At the end of the year	**(3,838)**	**(5,329)**	**-**	**-**
Net carrying value at the end of the year	**2,623**	**7,738**	**-**	**-**

Reconciliations

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

	Office furniture & fittings $'000	Office equipment $'000	Computer equipment $'000	Land & Buildings $'000	Capital Improve-ments $'000	Leasehold Improve-ments $'000	Total $'000
Consolidated							
Net carrying value at 1 July 2008	827	481	1,338	4,800	292	-	7,738
Additions	884	50	306	-	-	71	1,311
Disposals	(29)	(36)	(119)	(4,800)	-	-	(4,984)
Assets written off in the year	(231)	-	-	-	(284)	-	(515)
Depreciation	(112)	(160)	(646)	-	(8)	(1)	(927)
Net carrying value at 30 June 2009	**1,339**	**335**	**879**	**-**	**-**	**70**	**2,623**
Company							
Net carrying value at 1 July 2008 and 30 June 2009	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Note 16. Intangible assets

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	COMPANY 2009 $'000	COMPANY 2008 $'000
Gross carrying value				
At the beginning of the year	2,482	382	-	-
Additions	-	2,100	-	-
At the end of the year	**2,482**	**2,482**	**-**	**-**
Accumulated amortisation				
At the beginning of the year	(1,132)	-	-	-
Amortisation charge	(150)	(1,132)	-	-
At the end of the year	**(1,282)**	**(1,132)**	**-**	**-**
Net carrying value at the end of the year	**1,200**	**1,350**	**-**	**-**

Reconciliations

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

	Value of Customer Relationships	Total
Consolidated		
Net carrying value at 1 July 2008	1,350	1,350
Amortisation*	(150)	(150)
Net carrying value at 30 June 2009	**1,200**	**1,200**

*Amortisation of $150,000 (2008: $150,000) is included in depreciation and amortisation expense in the income statement.

Note 17. Payables

	CONSOLIDATED		COMPANY	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Sundry creditors and accruals	17,817	18,838	89	86
Reinsurance premiums payable	4,316	4,110	-	-
ROCS levy payable	2,640	10,231	-	-
Payable to related entity	-	-	12,944	108
	24,773	**33,179**	**13,033**	**194**

Note 18. Outstanding claims liabilities

	CONSOLIDATED		COMPANY	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
(a) Outstanding claims liabilities				
Central estimate	815,909	953,999	-	-
Discount to present value	(200,344)	(344,135)	-	-
	615,565	609,864	-	-
Risk margin	118,732	133,298	-	-
Gross outstanding claims liabilities - discounted	**734,297**	**743,162**	**-**	**-**
Current outstanding claims liabilities	122,944	119,409	-	-
Non-current outstanding claims liabilities	611,353	623,753	-	-
	734,297	**743,162**	**-**	**-**
Gross claims outstanding – undiscounted	**934,641**	**1,087,297**	**-**	**-**

(b) Risk margin

The process used to determine the risk margin is explained in note 3. The probability of adequacy at 30 June 2009 is 80% (2008: 80%).

The risk margin included in gross outstanding claims at 30 June 2009 is 14.5% (2008: 13.9%) on a weighted average basis to the underlying liabilities.

(c) Reconciliation of movement in discounted outstanding claims liability

Consolidated	2009			2008		
	Gross $'000	Reinsurance $'000	Net $'000	Gross $'000	Reinsurance $'000	Net $'000
Brought forward	743,162	(398,793)	344,369	577,866	(372,592)	205,274
Outstanding claims / recoveries acquired on business combination	-	-	-	228,320	(69,670)	158,650
Effect of changes in assumptions	(21,435)	12,521	(8,914)	(86,933)	24,032	(62,901)
Increase in claims incurred / Recoveries anticipated over the year	159,804	(72,186)	87,618	172,136	(60,574)	111,562
Claim payments / recoveries during the year	(147,234)	82,334	(64,900)	(148,227)	80,011	(68,216)
Carried forward	**734,297**	**(376,124)**	**358,173**	**743,162**	**(398,793)**	**344,369**

(d) Claims development table

Information for the claims development tables is extracted from policy administration systems and actuarial models. These systems are not set up to provide consolidated group wide data by accident year. The following tables show the development of gross and net undiscounted outstanding claims for the Company's insurance subsidiary, AIL and for the Company's combined mutual entities.

Insurance subsidiary

i) Gross	2002 and prior $'000	2003 $'000	2004 $'000	2005 $'000	2006 $'000	2007 $'000	2008 $'000	2009 $'000	Total $'000
Estimate of ultimate claims cost									
At end of accident year	542,054	21,086	20,246	36,954	32,815	*50,601	*60,372	***61,764**	
One year later	508,466	38,965	45,984	67,709	*91,777	*106,065	***117,502**		
Two years later	469,608	33,393	47,033	*84,331	*80,098	***96,524**			
Three years later	417,979	37,432	*88,621	*63,164	***79,818**				
Four years later	377,686	*47,495	*71,625	***76,646**					
Five years later	*479,691	*49,033	***66,900**						
Six years later	*506,238	***45,827**							
Seven years later	***501,454**								
Current estimate of cumulative claims cost	501,454	45,827	66,900	76,646	79,818	96,524	117,502	61,764	1,046,435
Cumulative payments	(404,063)	(29,790)	(38,941)	(41,685)	(20,692)	(19,768)	(11,827)	(607)	(567,373)
Outstanding claims-undiscounted	97,391	16,037	27,959	34,961	59,126	76,756	105,675	61,157	479,062
Discount									(94,538)
Claims handling expense									28,774
Risk margin									74,094
Total gross outstanding claims									**487,392**

ii) Net	2002 and prior $'000	2003 $'000	2004 $'000	2005 $'000	2006 $'000	2007 $'000	2008 $'000	2009 $'000	Total $'000
Estimate of ultimate claims cost									
At end of accident year	235,749	19,271	16,814	27,435	24,185	*39,522	*44,690	***43,353**	
One year later	217,287	34,057	35,483	49,428	*70,040	*73,121	***87,281**		
Two years later	177,424	30,244	35,490	*59,134	*58,004	***69,504**			
Three years later	128,311	28,478	*58,073	*46,902	***57,130**				
Four years later	89,252	*38,058	*49,625	***48,882**					
Five years later	*166,278	*36,968	***45,419**						
Six years later	*169,046	***33,720**							
Seven years later	***153,768**								
Current estimate of cumulative claims cost	153,768	33,720	45,419	48,882	57,130	69,504	87,281	43,353	539,057
Cumulative payments	(123,821)	(29,248)	(32,450)	(30,680)	(20,263)	(19,193)	(12,867)	(1,378)	(269,900)
Outstanding claims-undiscounted	29,947	4,472	12,969	18,202	36,867	50,311	74,414	41,975	269,157
Discount									(39,355)
Claims handling expense									27,689
Risk margin									45,544
Total net outstanding claims									**303,035**

For periods up to and including 30 June 2006, the claims shown relate to the liabilities of AIL only, prior to the merger with PIICA. The claims position at 30 June 2007, 30 June 2008 and 30 June 2009 (*the last three diagonals shown in the table) relate to the liabilities of AIL following the merger with PIICA. This accounts for the significant increase in claims as at 30 June 2007.

Combined mutual entities

i) Gross	2002 and prior $'000	2003 $'000	2004 $'000	2005 $'000	2006 $'000	2007 $'000	2008 $'000	2009 $'000	Total $'000
Estimate of ultimate claims cost									
At end of accident year	1,118,734	42,376	19,919	10,929	7,239	*14,780	*8,619	***6,449**	
One year later	938,566	53,267	26,101	22,235	*27,906	*32,768	***12,555**		
Two years later	686,491	43,373	17,847	*22,869	*26,883	***26,997**			
Three years later	505,732	43,373	*59,221	*35,718	***22,394**				
Four years later	423,534	*81,993	*44,483	***29,118**					
Five years later	*598,441	*76,831	***36,915**						
Six years later	*583,328	***72,603**							
Seven years later	***530,995**								
Current estimate of cumulative claims cost	530,995	72,603	36,915	29,118	22,394	26,997	12,555	6,449	738,026
Cumulative payments	(320,442)	(51,569)	(28,702)	(18,529)	(6,473)	(8,771)	(231)	(26)	(434,743)
Outstanding claims – undiscounted	210,553	21,034	8,213	10,589	15,921	18,226	12,324	6,423	303,283
Discount									(92,750)
Claims handling expenses									14,410
Risk margin									48,846
Total gross outstanding claims									**273,789**

ii) Net	2002 and prior $'000	2003 $'000	2004 $'000	2005 $'000	2006 $'000	2007 $'000	2008 $'000	2009 $'000	Total $'000
Estimate of ultimate claims cost									
At end of accident year	109,387	-	-	-	-	*2,627	*947	***669**	
One year later	54,037	-	-	-	*8,001	*6,406	***3,302**		
Two years later	36,240	-	-	*8,210	*8,049	***3,898**			
Three years later	22,408	-	*25,587	*7,725	***4,711**				
Four years later	16,198	*33,021	*19,902	***6,064**					
Five years later	*123,163	*35,071	***17,528**						
Six years later	*126,152	***28,746**							
Seven years later	***115,920**								
Current estimate of cumulative claims cost	115,920	28,746	17,528	6,064	4,711	3,898	3,302	669	180,838
Cumulative payments	(83,866)	(24,847)	(14,027)	(5,545)	(2,743)	(2,438)	(61)	(11)	(133,538)
Outstanding claims – undiscounted	32,054	3,899	3,501	519	1,968	1,460	3,241	658	47,300
Discount									(9,384)
Claims handling expenses									6,926
Risk margin									10,296
Total net outstanding claims									**55,138**

For periods up to and including 30 June 2006, the claims shown relate to the liabilities of UMP only, prior to the merger with MDAV. The claims position at 30 June 2007, 30 June 2008 and 30 June 2009 (*the last three diagonals shown in the table) relate to the liabilities of UMP and MDAV following the merger. This accounts for the significant increase in claims as at 30 June 2007.

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

Note 19. Provisions

	CONSOLIDATED		COMPANY	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Provision for restoration of leased premises	396	396	-	-
Employee entitlements	3,268	2,715	-	-
Reinsurance premiums payable	14,711	30,420	-	-
	18,375	**33,531**	**-**	**-**
Current provision	7,150	20,352	-	-
Non-current provision	11,225	13,179	-	-
	18,375	**33,531**	**-**	**-**
Numbers of employees at reporting date	241	233	-	-

The provision for restoration relates to the expected costs of restoring the current premises to its original condition. The lease on the current Sydney office is due to expire in May 2016.

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

At 30 June 2008, reinsurance adjustment premiums payable to HIH of $13,184,000 in respect of reinsurance recoveries were reported as a reinsurance adjustment provision. At 30 June 2009, the reinsurance adjustment premium payable to HIH of $13,777,000 has been offset against the recoveries before providing default consistent with the liquidation proceedings.

	Employee benefits Current $'000	Reinsurance Adjustment Provision Current $'000	Employee benefits Non-current $'000	Restoration provision Non-current $'000	Reinsurance Adjustment Provision Non-current $'000	Total $'000
Carrying value 1 July 2008	1,575	18,381	1,140	396	12,039	33,531
Additional provisions recognised	142	-	294	-	-	436
Payments	-	(2,957)	-	-	-	(2,957)
Increase / (reductions) from remeasurement	-	(9,991)	117	-	(2,761)	(12,635)
Carrying value 30 June 2009	**1,717**	**5,433**	**1,551**	**396**	**9,278**	**18,375**

Note 20. Unearned income

	CONSOLIDATED		COMPANY	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Unearned subscriptions	3,382	3,142	3,382	3,142
Unearned premiums	71,378	69,588	-	-
	74,760	**72,730**	**3,382**	**3,142**
Unearned premium liability at the beginning of the year	69,588	61,011	-	-
Acquired on business combination	-	42,807	-	-
Deferral of premiums on contracts written in the period	71,378	69,588	-	-
Earnings of premiums written in previous periods	(69,588)	(103,818)	-	-
Unearned premium liability at the beginning of the year	**71,378**	**69,588**	**-**	**-**

The application of the liability adequacy test in respect of the net premium liabilities identified a surplus at 30 June 2009 and 2008.

Note 21. Financial risk management

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

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

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

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

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

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

(a) Market risk

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

(i) Interest rate risk

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

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

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

2009		Fixed interest maturing in:				
	Floating interest rate	1 year or less	1 to 5 years	More than 5 years	Non-interest bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets						
Cash and cash equivalents	131,297	-	-	-	-	131,297
Receivables	-	-	-	-	55,322	55,322
Reinsurance and other recoveries	-	-	-	-	413,559	413,559
Investments	76,185	62,921	183,298	77,602	325,200	725,206
Total financial assets	**207,482**	**62,921**	**183,298**	**77,602**	**794,081**	**1,325,384**
Weighted average interest rate	4.54%	6.37%	5.89%	5.66%		
Financial liabilities						
Payables	-	-	-	-	24,774	24,774
Provisions	-	-	-	-	18,375	18,375
Outstanding claims liabilities	-	-	-	-	734,297	734,297
Total financial liabilities	**-**	**-**	**-**	**-**	**777,446**	**777,446**
Net financial assets	**207,482**	**62,921**	**183,298**	**77,602**	**16,635**	**547,938**

2008	Fixed interest maturing in:					
	Floating interest rate	1 year or less	1 to 5 years	More than 5 years	Non-interest bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets						
Cash and cash equivalents	74,562	-	-	-	-	74,562
Receivables	-	-	-	-	45,060	45,060
Reinsurance and other recoveries	-	-	-	-	458,825	458,825
Investments	42,571	44,663	206,411	59,499	460,323	813,467
Total financial assets	**117,133**	**44,663**	**206,411**	**59,499**	**964,208**	**1,391,914**
Weighted average interest rate	5.90%	7.42%	6.34%	6.17%		
Financial liabilities						
Payables	-	-	-	-	33,179	33,179
Provisions	-	-	-	-	33,531	33,531
Outstanding claims liabilities	-	-	-	-	743,162	743,162
Total financial liabilities	**-**	**-**	**-**	**-**	**809,872**	**809,872**
Net financial assets	**117,133**	**44,663**	**206,411**	**59,499**	**154,336**	**582,042**

Reconciliation of net financial assets to net assets	2009	2008
	$'000	$'000
Net financial assets as above		
Interest bearing	531,303	427,706
Non-Interest bearing	16,635	154,336
Net financial assets	547,938	582,042
Net non-financial liabilities	(3,419)	(36,921)
Net assets	**544,519**	**545,121**

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

		FINANCIAL IMPACT*			
	Movement in variable	Profit / (Loss) 2009	Equity** 2009	Profit / (Loss) 2008	Equity** 2008
	%	$'000	$'000	$'000	$'000
Interest rate movement – interest bearing financial assets	100bpt +	(7,021)	-	(6,769)	-
	100bpt -	7,027	-	6,774	-

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

*** impact on other components of equity* *(ii) Price Risk*

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

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

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

The potential impact of movements in the market value of unlisted trusts on the Group's income statement and balance sheet is shown in the sensitivity analysis below. The analysis is based on the assumption that the value had increased/decreased by 20% (2008: 5%) with all other variables held constant.

		FINANCIAL IMPACT*			
	Movement in variable %	Profit / (Loss) 2009 $'000	Equity** 2009 $'000	Profit / (Loss) 2008 $'000	Equity** 2008 $'000
	20% +	35,752	7,481	-	-
	5% +	-	-	13,462	1,601
Unit trusts					
	20% -	(36,104)	(7,605)	-	-
	5% -	-	-	(14,281)	(1,791)

** Net of taxation at the prima facie rate of 30%.*
*** impact on other components of equity*

Post-tax profit for the year would increase/decrease as a result of the gains/losses on trusts classified as fair value through profit or loss. Other components of equity would increase or decrease as a result of gains or losses on trusts classified as available-for-sale. As the fair value of the available-for-sale assets was below cost, impairment loss was recognised in the income statement.

(b) Credit risk

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

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

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

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

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

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

As at 30 June 2009	CREDIT RATING					
	AAA $'000	AA $'000	A $'000	BBB $'000	Not rated $'000	TOTAL $'000
Cash at bank and short-term bank deposits	-	131,297	-	-	-	131,297
Receivables	-	-	-	-	55,322	55,322
Financial assets	262,833	129,193	19,393	18,182	295,605	725,206
Reinsurance and other recoveries	340,546	18,921	33,831	-	20,261	413,559
As at 30 June 2008	**CREDIT RATING**					
	AAA $'000	**AA $'000**	**A $'000**	**BBB $'000**	**Not rated $'000**	**TOTAL $'000**
Cash at bank and short-term bank deposits	-	74,562	-	-	-	74,562
Receivables	-	-	-	-	45,060	45,060
Financial assets	267,277	40,543	3,014	-	502,633	813,467
Reinsurance and other recoveries	352,519	32,969	20,650	18,845	33,842	458,825

(c) Liquidity risk

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

The tables below summarise the maturity profile of certain financial liabilities of the Group based on the remaining undiscounted contractual obligations.

As at 30 June 2009	1-3 months $'000	3-6 months $'000	6-12 months $'000	Between 1-2 years $'000	Over 2 years $'000	TOTAL $'000
Payables	24,774	-	-	-	-	24,774
Provisions	-	-	7,150	10,829	396	18,375

As at 30 June 2008	1-3 months $'000	3-6 months $'000	6-12 months $'000	Between 1-2 years $'000	Over 2 years $'000	TOTAL $'000
Payables	33,179	-	-	-	-	33,179
Provisions	-	-	20,352	12,783	396	33,531

(d) Net fair value of financial assets and liabilities

The aggregate carrying values of financial assets and financial liabilities approximate their net fair values. The methods used to determine the carrying values of financial assets and financial liabilities are included in the summary of significant accounting policies in note 1.

Note 22. Equity

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	COMPANY 2009 $'000	COMPANY 2008 $'000
(a) Reserves				
Available-for-sale reserve				
At the beginning of the year	(7,318)	5,460	-	-
Change in fair value of financial assets net of tax	(1,216)	(12,778)	-	-
Impairment of available-for-sale investments net of tax	8,631	-	-	-
At the end of the year	**97**	**(7,318)**	**-**	**-**
Asset revaluation reserve				
At the beginning of the year	1,800	-	-	-
Change in fair value of property and equipment	-	1,800	-	-
Tax effect of changes in fair value	-	-	-	-
Release of reserve on disposal of property and equipment	(1,800)	-	-	-
At the end of the year	**-**	**1,800**	**-**	**-**
Business combination reserve				
At the beginning and at the end of the year	**54,598**	**54,598**	**508,602**	**508,602**
	54,695	**49,080**	**508,602**	**508,602**
(b) Retained profits				
At the beginning of the year	496,041	439,344	914	-
Asset revaluation reserve transferred to retained earnings on disposal of owner occupied property	1,800	-	-	-
(Loss) / profit for the year	(8,017)	56,697	3,985	914
At the end of the year	**489,824**	**496,041**	**4,899**	**914**

(c) Capital risk management

The Group and the Company's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide benefits for stakeholders, including members, and to meet its obligations to policyholders. In order to maintain or adjust the capital structure, the Group may pay members, return capital to members, or sell assets to reduce debt.

Consistent with others in the industry, the Group and the Company monitor capital on regular basis and for Avant Insurance Limited ("AIL"), on the basis of the Minimum Capital Requirement (MCR). This ratio is calculated in accordance with the prescribed APRA Prudential Standards.

Note 23. Remuneration of key management personnel

	CONSOLIDATED		COMPANY	
	2009 $	2008 $	2009 $	2008 $
Short-term employee benefits				
Cash salary and fees	3,988,603	3,805,750	721,157	802,682
Post-employment benefits				
Superannuation	693,615	679,942	313,060	339,266
Termination benefits	154,463	-	-	-
Total remuneration	**4,836,681**	**4,485,692**	**1,034,217**	**1,141,948**

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

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

Directors do not receive termination benefits.

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

Note 24. Remuneration of auditors

	CONSOLIDATED		COMPANY	
	2009 $	2008 $	2009 $	2008 $
Audit services				
PricewaterhouseCoopers Australian Firm:				
Audit of financial reports	582,250	665,000	58,225	66,500
Other assurance services				
PricewaterhouseCoopers Australian Firm:				
Audit of regulatory returns	102,750	130,000	10,275	13,000
Other services				
PricewaterhouseCoopers Australian Firm:				
Accounting advice	17,500	35,000	-	-
Taxation services	18,200	51,700	-	-
Actuarial services	50,000	60,400	-	-
Other	-	5,000	-	-
	770,700	**947,100**	**68,500**	**79,500**

Note 25. Commitments for expenditure

	CONSOLIDATED		COMPANY	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Operating leases				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	2,971	2,333	-	-
Later than one year but not later than five years	9,181	9,105	-	-
Later than five years	3,447	3,707	-	-
	15,599	**15,145**	**-**	**-**

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

The lease payments recognised in the Income Statement of the controlled entity were $2,291,007 (2008: $2,015,847).

Note 26. Related parties

The names of the persons who were Directors of the Company at any time during the year are listed below:

Dr Stuart Boland (*Chairman*)
Dr Jonathan Burdon (*Deputy Chairman*)
Dr Rosemary Ayton
Dr Stephen Clarke
Dr Neil Collier
The Hon John Fahey
Dr Cherrell Hirst
Dr David McConnel
Mr Vyn Tozer
Assoc Prof Simon Willcock
Dr Russell Stitz (resigned 27 November 2008)

Key management personnel

In addition to the Directors, the Chief Executive Officer (CEO) and those executives that report directly to the CEO are deemed key management personnel.

Remuneration

Information on remuneration of key management personnel is disclosed in note 23.

Transactions with Directors

For the year ended 30 June 2009, 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.

Group structure
Up to 30 June 2009, the ultimate Australian parent entity within the Group was Avant Mutual Group Limited. Refer to note 27 for the details and ownership interests of the controlled entities of the Company up to 30 June 2009.

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

(a) A decrease in insurance recoveries received or receivable from AIL for the period 1 July 2008 to 30 June 2009 of $6,505,000 (2008: increase of $172,000) in respect of claims arising from the indemnity risks insured by AIL. Included in outstanding claims liabilities (note 18) is an amount payable to United of $8,861,000 (2008: $15,366,000).

(b) The provision of management services by the controlled entity, AIL, to the Company, with management fees of $2,825,248 (2008: $1,804,385) paid to the controlled entity.

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

(d) Included in the reinsurance and other recoveries (note 13) is an amount receivable from United to AIL of $4,814,000 (2008: $4,940,000).

(e) At 30 June 2009, AIL is due to receive $4,396,168 (2008: $8,307,057) from United for the settlement of inter-company transactions.

(f) At 30 June 2009, AIL is due to receive $78,612 (2008: $22,420) from The Medical Defence Union Pty Limited ('MDU') for the settlement of inter-company transactions.

(g) At 30 June 2009, AIL is due to receive $nil (2008: $3,604,274) from the Company for the settlement of inter-company transactions.

(h) At 30 June 2009, AIL is due to pay $2,539,304 (2008: $3,201,343) to United for the settlement of inter-company transactions.

(i) At 30 June 2009, MDAV is due to receive $42,055 (2008: $492,673) from AIL for the settlement of inter-company transactions.

(j) At 30 June 2009, United is due to receive $nil (2008: $9,038,944) from MDU for the settlement of inter-company transactions.

(k) At 30 June 2009, the Company is due to receive $nil (2008: $4,963,493) from United for the settlement of inter-company transactions.

(l) At 30 June 2009, United is due to receive $8,605 (2008: $187,608) from MDAV for the settlement of inter-company transactions.

(m) At 30 June 2009, MDU is due to receive $7,843 (2008: $nil) from MDAV for the settlement of inter-company transactions.

(n) The Company is due to receive $742,413 (2008: pay $108,127) from MDU and $49,121 (2008: $84,482) from UMP NSW in respect of the controlled entities' income tax liabilities, and due to pay $10,712,927 to AIL (2008: receive $35,780,930) and $2,230,946 to UMP (2008: $173,281) in respect of the controlled entities' income tax receivables.

Note 27. Investments in controlled entities

Name of Entity	Country of incorporation	Class of shares	Ownership Interest 2009 %	2008 %
United Medical Protection Limited	Australia	Ordinary	100	100
The Medical Defence Association of Victoria	Australia	Ordinary	100	100
Investments in controlled entities of United Medical Protection Limited				
Avant Insurance Limited	Australia	Ordinary	100	100
The Medical Defence Union Pty Ltd	Australia	Ordinary	100	100
United Medical Protection of New South Wales Limited*	Australia	-	-	-
AMRAS	Australia	Ordinary	100	100
Investments in controlled entities of Avant Insurance Limited				
Healthcare Risk Resources International Pty Ltd ("HRRI")	Australia	Ordinary	100	100

*United Medical Protection 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 United Medical Protection sitting on the Board of this entity.

Note 28. Investments in associates

	OWNERSHIP INTEREST		CONSOLIDATED CARRYING AMOUNT	
	2009 %	2008 %	2009 $'000	2008 $'000
Equity accounted investment				
Professional Insurance Australia Pty Ltd ("PIA")	67	67	14,831	13,000
			14,831	**13,000**

PIA is a company that provides insurance to medical defence organisations and undertakes related investment activities. Its activities have been in run-off since 1 July 2003.

	CONSOLIDATED	
	2009 $'000	2008 $'000
Movements		
At the beginning of the year	13,000	-
Acquired on business combination	-	13,286
Share of net profit/(loss)	1,831	(286)
Balance at the end of the year	**14,831**	**13,000**
Share of associates' profit		
Profit/(loss) before tax	2,587	(440)
Income tax (expense)/benefit	(756)	154
Net profit/(loss)	1,831	(286)
Less: dividends received/receivable	-	-
	1,831	**(286)**
Summarised financial information of associates		
Revenues	4,657	3,792
Net profit/(loss)	2,750	(430)
Assets	43,802	48,118
Liabilities	(21,322)	(28,309)

Note 29. Business combination

Consolidated

(a) Summary of acquisition

On 1 July 2007, the Company commenced operation following the merger between United and MDAV. The Company is the ultimate holding company of United, MDAV, AIL and PIICA. On 1 July 2007, the members of United and MDAV transferred their membership to the Company.

Under the terms of AASB3 *Business Combinations*, United was deemed to be the acquirer of the MDAV Group in this business combination.

(b) Assets and liabilities acquired

	2009		2008	
	Acquiree's carrying amount $'000	Fair value $'000	Acquiree's carrying amount $'000	Fair value $'000
Current assets				
Cash and cash equivalents	-	-	22,801	22,801
Receivables	-	-	2,685	2,685
Investments	-	-	72,664	72,664
Reinsurance and other recoveries receivable	-	-	16,834	16,834
Total current assets	-	-	114,984	114,984
Non-current assets				
Reinsurance and other recoveries receivable	-	-	52,836	52,836
Investments	-	-	123,961	123,961
Investment property	-	-	2,000	2,000
Property, plant and equipment	-	-	4,243	4,243
Investment in associates	-	-	13,286	13,286
Intangible assets	-	-	-	1,350
Deferred tax assets	-	-	5,760	5,760
Total non-current assets	-	-	202,086	203,436
Total assets	**-**	**-**	**317,070**	**318,420**
Current liabilities				
Payables	-	-	9,195	9,195
Provisions	-	-	368	368
Tax payable	-	-	4,834	4,834
Outstanding claims liabilities	-	-	59,530	59,530
Unearned premiums	-	-	20,105	20,105
Other liabilities	-	-	902	902
Total current liabilities	-	-	94,934	94,934
Non-current liabilities				
Provisions	-	-	98	98
Outstanding claims liabilities	-	-	168,790	168,790
Total non-current liabilities	-	-	168,888	168,888
Total liabilities	**-**	**-**	**263,822**	**263,822**
Net assets acquired	**-**	**-**	**53,248**	**54,598**

(c) Business combination reserve

	2009 $'000	2008 $'000
At the beginning of the year	54,598	-
Net assets acquired - MDAV Group	-	54,598
Consideration paid	-	-
At the end of the year	**54,598**	**54,598**

Company

(a) Summary of acquisition

On 1 July 2007 the Company became the sole member of both United and MDAV.

(b) Business combination reserve

	2009 $'000	2008 $'000
At the beginning of the year	508,602	-
Investment in United	-	454,004
Investment in MDAV	-	54,598
	508,602	508,602
Consideration paid	-	-
At the end of the year	**508,602**	**508,602**

Note 30. Contingent liabilities

At the request of the Group, Westpac Banking Corporation Limited has undertaken to pay on demand amounts up to $Nil (2008: $2,275,000) in respect of reinsurance premiums payable and $1,206,889 (2008: $928,810) in respect of lease payments payable. These bank guarantees are secured by a fixed charge over the Group's cash deposits.

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

Note 31. Segment information

The Group operates predominantly in a single industry and geographical region. Its revenue is largely derived from the underwriting of professional indemnity insurance, legal expenses insurance and from investment activities.

The Group's gross premiums and gross claims arise predominantly in Australia.

Note 32. Events occurring after the reporting date

No matters or circumstances have arisen since 30 June 2009 that have significantly affected or may significantly affect:

(a) the operations of the Group in future financial years, or
(b) the results of those operations in future financial years, or
(c) the state of affairs of the Group in future financial years.

Note 33. Reconciliation of (loss) / profit from continuing operations after income tax to net cash inflow from operating activities

	CONSOLIDATED		COMPANY	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
(Loss)/profit from continuing operations after income tax	**(8,017)**	**56,697**	**3,985**	**914**
Depreciation and amortisation	1,076	2,303	-	-
Realised losses on investments	60,538	9,158	-	-
Change in fair value of investments held at fair value through profit or loss	36,988	72,923	-	-
Loss on disposal of property, plant & equipment	700	-	-	-
Fair value adjustment to investment in property	-	(1,200)	-	-
Share in net (loss) / profit or losses of associates	(1,831)	286	-	-
Net movement in amounts due (to) / from related parties	(91,058)	-	13,511	(36,943)
Decrease / (increase) in:				
Trade debtors	(3,953)	6,038	(13)	(171)
Reinsurance and other recoveries receivable (net of reinsurance default)	71,048	68,989	-	-
Prepaid reinsurance premiums, deferred ROCS expense and acquisition costs	525	(1,601)	-	-
Deferred tax asset / liability	(7,551)	(30,520)	(10,891)	-
Other operating assets	(4,884)	2,520	-	-
Increase / (decrease) in:				
Reinsurance premiums payable	(2,761)	(6,766)	-	-
Outstanding claims	41,427	(110,904)	-	-
Unearned premiums	2,031	(14,996)	240	-
Unearned subscriptions	-	3,143	-	3,142
Income tax payable	(37,126)	19,976	(1,432)	35,589
Provisions	1,325	(84)	-	-
Other operating liabilities	(8,411)	1,717	4	86
Net cash inflow from operating activities	**50,066**	**77,679**	**5,404**	**2,617**

Note 34. Capital adequacy

The Group's insurance subsidiary, AIL is regulated by APRA. The capital base, minimum capital requirement and capital adequacy multiple of AIL were as follows:

	2009 $'000	2008 $'000
Tier 1 capital		
Contributed equity	149,000	149,000
Retained earnings	273,214	236,828
Current year earnings (net of tax)	(20,362)	36,386
Intangible assets, net deferred tax liabilities	(31,030)	(31,254)
Reinsurance contracts that do not meet documentation test	-	(501)
Excess technical provisions (net of tax)	7,089	7,125
Net Tier 1 capital	377,911	397,584
Total capital base	**377,911**	**397,584**
Minimum capital requirement		
Off balance sheet risk	70	66
Insurance risk	53,505	45,277
Investment risk	43,743	33,609
Maximum event retention risk charge	42,845	41,000
Total minimum capital requirement	**140,163**	**119,952**
Capital adequacy multiple	2.70	3.31

Excess technical provisions

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

(a) GPS 210 requires a prudential margin with a probability of sufficiency of 75% (the level adopted by the Company for accounting purposes is 80%); and

(b) GPS 210 requires an assessment of premium liability (unearned premium less deferred acquisition costs is used for accounting purposes).

In accordance with APRA Prudential Standard, the methodology used for calculating the minimum capital requirement changed prospectively for all reporting periods commencing on or after 1 July 2008.

Changes to the APRA Prudential Standard that came into effect on 1 July 2008 increased the minimum capital requirement for AIL and the insurance industry generally. The prior year capital adequacy multiple comparative would have been 2.80 if restated to the new basis.

directors' declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 11 to 64 are in accordance with the *Corporations Act 2001*, including:
 (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 (ii) giving a true and fair view of the Company's and Group's financial position as at 30 June 2009 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.

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

Stuart L Boland

Dr Stuart Boland
Chairman
Sydney
16th October 2009

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

Report on the financial report

We have audited the accompanying financial statements of Avant Mutual Group Limited ("the Company"), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' declaration for both the Company and the Avant Mutual Group ("the Group"). The Group comprises the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

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

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

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

Our audit did not involve an analysis of the prudence of business decisions made by Directors or management.

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

Independence

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

Auditor's opinion

In our opinion:

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

   (i) giving a true and fair view of the Company's and Group's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

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

(b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a).

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report of Avant Mutual Group Limited ("the Company") for the year ended 30 June 2009 included on Avant Mutual Group Limited web site. The Company's directors are responsible for the integrity of the Avant Mutual Group Limited web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Pricewaterhouse Coopers

PricewaterhouseCoopers

SJ Hadfield

S J Hadfield
Partner

Sydney
16 October 2009

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