2009–10 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 22 October 2010.

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 2010.

Directors

The following persons were Directors of the Company during the financial year ended 30 June 2010 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
Mr Vyn Tozer
Prof Simon Willcock

Dr David McConnel was a director from the beginning of the financial year until his resignation on 30 June 2010.

Dr Beverley Rowbotham was appointed as director on 1 July 2010 and continues in office up to the date of this report.

Principal activities

The principal activities of the Group during the year consisted of the protection, support and safeguarding of the reputation 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 involving the underwriting of medical and health malpractice and legal expenses insurance policies and undertakes investment activities related to its insurance activities.

During the year AIL launched a product to provide professional indemnity and public liability insurance to private hospitals and a product in conjunction with a strategic partner to provide life and income protection and total permanent disability insurance for our members.

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 2010 is a net profit after tax of $83,858,000 (2009: net loss after tax of $8,017,000). The total members' accumulated equity as at 30 June 2010 is $628,377,000 (2009: $544,519,000).

In reviewing operations, the following points are noteworthy.

(a) Acquisition of the remaining share of an associate

On 29 June 2010, The Medical Defence Union Pty Ltd ("MDU"), a wholly owned subsidiary within the Avant Mutual Group, acquired the remaining shares (33.42%) in Professional Insurance Australia Pty Ltd ("PIA") from Medical Indemnity Protection Society Limited and The Medical Protection Society of Tasmania making PIA a wholly owned subsidiary of MDU as at 29 June 2010.

PIA will be included in the Avant tax consolidation group beginning 1 July 2010.

Review of operations (continued)

(b) Adoption of new accounting standard

The Group adopted Accounting Standard AASB 9 as at 30 June 2010, being the first reporting period end since the standard was issued on 12 November 2009. Under the previous accounting standard AASB 139, unrealised gains and losses in financial assets classified as available-for-sale ("AFS") were recognised directly in equity. After that date both realised and unrealised gains and losses on all financial assets have been recognised directly in profit or loss.

On adoption of the standard, $97,000, net of tax, of unrealised gain on financial assets previously classified as AFS were transferred from equity reserves to retained earnings.

The prior year statements of comprehensive income and balance sheets:
There is no change to the profit or loss or balance sheets in the prior year.

The statements of changes in equity:
The prior year statements of changes in equity stay the same but the current year statements of changes in equity will include the movement in equity reserves to retained earnings of $97,000, net of tax, as the effect of change in accounting policy for classification and measurement of financial assets.

Matters subsequent to the end of the financial year

On 22 October 2010 the Directors of Avant Insurance Limited approved a Loyalty Reward Plan ("LRP"). The LRP has been created as the best way to reward members for their loyalty when Avant's financial performance is strong.

The Directors will determine annually what, if any, reward should be made to members by reviewing the quality of Avant's recent financial performance and satisfying themselves that any reward will not materially impact on Avant's financial strength in the coming years. Eligible members will receive any announced reward under the LRP as a deduction from their premium on the member's next renewal notice.

The Directors have determined that the LRP for members renewing during calendar year 2011 will be between 5.5% and 11.0% of the premium payable dependent upon the members years of continuous membership.

Other than those disclosed above, no matters or circumstances have arisen since 30 June 2010 that have significantly affected or may significantly affect:

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

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

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

Significant changes in the state of affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the Group that occurred during the financial year ended 30 June 2010 other than those disclosed above.

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, FAICD	
Experience and expertise	Dr Boland is the Chairman of the Board of Avant Mutual Group Limited and 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 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, Professional Insurance Australia Pty Ltd, The Medical Defence Union Pty Limited, 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	
Experience and expertise	Dr Burdon is the Deputy Chairman of Avant Mutual Group Limited and a Director of Avant Insurance Limited. 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 was a Director of the Australian Lung Foundation from 2000 - 2004.
Other current Directorships	AMRAS Limited, Healthcare Risk Resources International Pty Ltd, MDU Australia Insurance Co Pty Limited, Professional Indemnity Insurance Company Australia Pty Limited, Professional Insurance Australia Pty Ltd, The Medical Defence Association of Victoria Limited, The Medical Defence Union Pty Limited, United Medical Protection Limited and United Medical Protection of New South Wales Limited.
Former Directorships in last 3 years	Nil.
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 is a former committee member of the Medico-Legal Society of Victoria. She was a member of the Australian Drug Evaluation Committee from 1992 to 2001. 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.

Information on Directors (continued)

Dr Stephen Clarke MBBS, FRACS, Dip ABU, FAMA GAICD	
Experience and expertise	Dr Clarke is a Director of Avant Mutual Group Limited. He is a former President of the AMA Victoria and a previous member of the Federal Council of the AMA. Dr Clarke is in private and public Urology practice in Melbourne, but previously worked for many years in the Hunter Valley.
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 of Avant Mutual Group Limited and also serves as a Director of Avant Insurance Limited. He was the Premier of NSW for three years, and then Federal Minister for Finance and Administration (1996-2001). Prior to Parliament, he practised as a solicitor. In 2002 he was awarded a Companion in the Order of Australia and since 2007 he has been 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, Professional Insurance Australia Pty Ltd, Assetinsure Pty Limited, Men of League Foundation Limited, Integral Energy 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, Connector Motorways 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 Avant Mutual Group Limited and the Deputy Chair of Avant Insurance Limited. She was formerly a leading practitioner in breast cancer diagnosis and screening, Chancellor of the Queensland University of Technology (1994-2004) and 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, Professional Insurance Australia Pty Limited, United Medical Protection of New South Wales Limited, Medical Indemnity Industry Association of Australia, Medibank Private 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, Suncorp Limited and Peplin Inc.
Special responsibilities	Member of the Group Audit & Risk Committee and Group Investment Committee.

Information on Directors (continued)

Dr David McConnel MBBS (QLD), FRCA, FANZCA	
Experience and expertise	Dr McConnel resigned as a Director of Avant Mutual Group Limited on 30 June 2010. He is a specialist anaesthetist in private practice. He has held many appointments including council member of the Australian and New Zealand College of Anaesthetists and is also a former Federal President of the Australian Society of Anaesthetists.
Other current Directorships	Nil.
Former Directorships in last 3 years	Nil.
Special responsibilities	Member of the Group Nominations, Performance & Remuneration Committee.

Dr Beverley Rowbotham MD, FRACP, FRCPA, GAICD	
Experience and expertise	Dr Rowbotham was appointed as a Director of Avant Mutual Group Limited on 1 July 2010. She is Director of Haematology and a member of the Executive, Sullivan Nicolaides Pathology, a member of the Sonic Healthcare group. She is also Associate Professor of the Department of Pathology at the University of Queensland and a member of the Federal AMA Council. She was formerly President of the Royal College of Pathologists of Australia.
Other current Directorships	Chair of the Association for Childhood Language and Related Disorders and Director of RCPA Quality Assurance Programs Pty Limited.
Former Directorships in last 3 years	Nil.
Special responsibilities	Nil.

Mr Vyn Tozer BCom, D.Bus.S (accy), FCPA	
Experience and expertise	Mr Tozer is a Director of Avant Mutual Group Limited and the Chairman of Avant Insurance Limited. He has extensive experience and expertise 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), RACT Insurance Pty Limited (Chairman) and RACQ Insurance Pty Ltd.
Former Directorships in last 3 years	Fortis Australia Limited, Insurance Council of Australia, 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.

Professor Simon Willcock MBBS (Hons), PhD, FRACGP, Dip. Obs. RANZCOG/RACGP	
Experience and expertise	Prof Willcock is a Director of Avant Mutual Group Limited. He is a general practitioner and Professor of General Practice and Discipline at the University of Sydney Medical School. He 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 Health Workforce Australia.
Former Directorships in last 3 years	NSW Institute of Medical Education and Training (IMET)
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 2010, and the number of meetings attended by each Director are set out in the tables below.

	AVANT MUTUAL BOARD FULL MEETING		GROUP AUDIT AND RISK COMMITTEE	
	A	B	A	B
Dr Stuart Boland (Chairman)	9	9	5	5
Dr Jonathan Burdon (Deputy Chairman)	8	9	*	*
Dr Rosemary Ayton	9	9	*	*
Dr Stephen Clarke	9	9	*	*
The Hon John Fahey	9	9	*	*
Dr Cherrell Hirst	9	9	5	5
Dr David McConnel	9	9	*	*
Mr Vyn Tozer	9	9	5	5
Prof Simon Willcock	9	9	5	5

	GROUP INVESTMENT COMMITTEE		NOMINATIONS, PERFORMANCE AND REMUNERATION COMMITTEE	
	A	B	A	B
Dr Stuart Boland (Chairman)	*	*	7	7
Dr Jonathan Burdon (Deputy Chairman)	*	*	7	7
Dr Rosemary Ayton	*	*	7	7
Dr Stephen Clarke	5	6	*	*
The Hon John Fahey	6	6	*	*
Dr Cherrell Hirst	6	6	*	*
Dr David McConnel	*	*	7	7
Mr Vyn Tozer	*	*	6	7
Prof Simon Willcock	*	*	*	*

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

*Not a member of the relevant committee

Company Secretary

During the year, Fraser MacLennan-Pike LLB, GAICD served as General Counsel and Company Secretary.

Michael Handley was Company Secretary from the beginning of the financial year until his resignation on 20 July 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

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 9.

Rounding of amounts

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

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

Stuart L Boland

Dr Stuart Boland
Chairman

Melbourne
22 October 2010

auditor's independence declaration

PRICEWATERHOUSECOOPERS

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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 2010, 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
22 October 2010

Statements of comprehensive income

for the year ended 30 June 2010

	Notes	Consolidated		Company	
		2010	2009	2010	2009
		$'000	$'000	$'000	$'000
Gross written premium		164,507	169,998	-	-
Movement in unearned premiums		1,192	(1,791)	-	-
Gross premium revenue		**165,699**	**168,207**	**-**	**-**
Reinsurance premium expense		(10,778)	(15,206)	-	-
Net premium revenue		**154,921**	**153,001**	-	-
Gross claims expense	4	(74,660)	(101,508)	-	-
Reinsurance and other recoveries revenue	4	9,435	13,986	-	-
Net claims incurred	4	**(65,225)**	**(87,522)**	**-**	**-**
Acquisition costs	5	(10,892)	(10,470)	-	-
Run-off Cover Scheme (ROCS) levy		(7,589)	(9,468)	-	-
Other underwriting expenses	5	(34,654)	(30,542)	-	-
Underwriting expenses		**(53,135)**	**(50,480)**	**-**	**-**
Underwriting result		**36,561**	**14,999**	**-**	**-**
Share of net profit of associate accounted for using the equity method	27	3,185	1,831	-	-
Investment income / (loss)	6	69,968	(37,104)	334	170
Other income	7	11,257	9,159	7,451	7,397
Other operating expenses	5	(4,620)	(7,499)	(4,738)	(3,548)
Profit / (loss) before income tax		**116,351**	**(18,614)**	**3,047**	**4,019**
Income tax (expense) / benefit	8(a)	(32,493)	10,597	(49)	(34)
Profit / (loss) for the year		**83,858**	**(8,017)**	**2,998**	**3,985**
Other comprehensive loss for the year					
Change in fair value of available-for-sale investments, net of tax	21(a)	-	(1,216)	-	-
Total comprehensive income / (loss) for the year		**83,858**	**(9,233)**	**2,998**	**3,985**

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

Balance sheets
As at 30 June 2010

	Notes	Consolidated 2010 $'000	Consolidated 2009 $'000	Company 2010 $'000	Company 2009 $'000
Current assets					
Cash and cash equivalents	9	175,209	131,297	11,932	8,021
Receivables	10	45,231	55,322	9,928	975
Financial assets	11	161,685	70,617	-	-
Reinsurance and other recoveries	12	61,636	65,863	-	-
Current tax assets		-	1,427	-	1,427
Deferred expenses	13	13,759	13,178	-	-
Total current assets		**457,520**	**337,704**	**21,860**	**10,423**
Non-current assets					
Property, plant and equipment	14	2,530	2,623	-	-
Intangible assets	15	1,309	1,200	-	-
Financial assets	11	657,543	654,589	508,602	508,602
Reinsurance and other recoveries	12	317,886	347,696	-	-
Deferred tax assets	8(f)	30,251	52,912	121	10,891
Total non-current assets		**1,009,519**	**1,059,020**	**508,723**	**519,493**
TOTAL ASSETS		**1,467,039**	**1,396,724**	**530,583**	**529,916**
Current liabilities					
Payables	16	27,266	24,773	1,337	13,033
Current tax liabilities		11,417	-	9,453	-
Outstanding claims liabilities	17	129,919	122,944	-	-
Provisions	18	7,328	7,150	-	-
Unearned income	19	73,480	74,760	3,294	3,382
Total current liabilities		**249,410**	**229,627**	**14,084**	**16,415**
Non-current liabilities					
Outstanding claims liabilities	17	581,251	611,353	-	-
Provisions	18	8,001	11,225	-	-
Total non-current liabilities		**589,252**	**622,578**	**-**	**-**
TOTAL LIABILITIES		**838,662**	**852,205**	**14,084**	**16,415**
NET ASSETS		**628,377**	**544,519**	**516,499**	**513,501**
Equity					
Reserves	21(a)	54,598	54,695	508,602	508,602
Retained profits	21(b)	573,779	489,824	7,897	4,899
TOTAL EQUITY		**628,377**	**544,519**	**516,499**	**513,501**

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

Statements of changes in equity

For the year ended 30 June 2010

Consolidated	Notes	Reserves $'000	Retained profits $'000	Total $'000
At 1 July 2008		**49,080**	**496,041**	**545,121**
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	-
Total comprehensive income for the year		(1,216)	(8,017)	(9,233)
At 30 June 2009		**54,695**	**489,824**	**544,519**
Effect of change in accounting policy for classification and measurement of financial assets, net of tax	1(a)	(97)	97	-
Total comprehensive income for the year		-	83,858	83,858
At 30 June 2010		**54,598**	**573,779**	**628,377**

Company	Reserves $'000	Retained profits $'000	Total $'000
At 1 July 2008	508,602	914	509,516
Profit for the year	-	3,985	3,985
At 30 June 2009	**508,602**	**4,899**	**513,501**
Profit for the year	-	2,998	2,998
At 30 June 2010	**508,602**	**7,897**	**516,499**

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

Statements of cash flows

for the year ended 30 June 2010

	Notes	Consolidated		Company	
		2010	2009	2010	2009
		$'000	$'000	$'000	$'000
Cash flows from operating activities					
Premium and subscription income received		197,182	184,045	8,191	8,297
Reinsurance premium paid		(14,515)	(18,066)	-	-
Claims paid		(137,748)	(147,234)	-	-
Reinsurance and other recoveries received		78,026	82,334	-	-
Run-off Cover Scheme cost		(7,653)	(16,230)	-	-
Dividends and distributions received		12,597	35,043	-	-
Interest received		31,259	25,209	334	170
Sundry (expenses) / income		(2,981)	(2,620)	-	43
(Payments to) / receipts from related parties		-	-	(506)	13,512
Income tax recovered / (paid)		1,040	(34,077)	1,383	(12,355)
Underwriting and administrative expenses paid		(36,746)	(47,032)	(4,750)	(3,528)
Policyholder reward payment		(241)	(3,265)	-	-
Goods and services tax paid		(20,552)	(8,041)	(741)	(735)
Net cash inflow from operating activities	32	**99,668**	**50,066**	**3,911**	**5,404**
Cash flows from investing activities					
Purchase of investments		(298,521)	(304,850)	-	-
Proceeds from sale of investments		221,122	304,830	-	-
Purchase of fixed assets		(1,277)	(1,311)	-	-
Proceeds from sale of land and buildings		-	8,000	-	-
Net cash inflow / (outflow) from investing activities		**(78,676)**	**6,669**	**-**	**-**
Cash flows from financing activities					
Payments for shares acquired		(10,650)	-	-	-
Net cash outflow from financing activities		**(10,650)**	**-**	**-**	**-**
Net increase in cash held		10,342	56,735	3,911	5,404
Cash acquired from business combination		33,570	-	-	-
Cash and cash equivalents at the beginning of the year		131,297	74,562	8,021	2,617
Cash and cash equivalents at the end of the year	9	**175,209**	**131,297**	**11,932**	**8,021**

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

Notes to the financial statements

30 June 2010

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.

Financial statement presentation
The Group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires a separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statements of comprehensive income. As a consequence, the Group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is in conformity with the revised standard.

Early adoption of standards

AASB 9 *Financial Instruments*
The standard is not applicable until 1 January 2013 but is available for early adoption. The Group has elected to adopt Accounting Standard AASB 9: *Financial Instruments* from 30 June 2010, being the first reporting period end since the standard was issued on 12 November 2009. The standard has been applied retrospectively but comparative amounts have not been restated in accordance with the transition provision within the standard.

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

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

The Directors have reviewed and assessed all of the Group's existing financial assets as at the date of initial application of AASB 9 and have concluded that all financial assets are measured at fair value through profit or loss ("FVTPL").

The transition provisions of AASB 9 require the standard to be applied retrospectively but it cannot be applied to financial assets that were disposed of prior to the initial application date, which in the Group's case is 30 June 2010. Therefore, investments that were sold prior to 30 June 2010 have been accounted for under the previous standard AASB 139 where unrealised gains and losses (as well as tax thereon) were included in the equity reserves and then transferred to profit or loss on sale. For assets that were not sold prior to 30 June 2010, all unrealised gains and losses during the year are recognised directly in profit or loss.

Note 1. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Early adoption of standards (continued)

The impact of adopting AASB 9 has been a reclassification of fair value gain of $97,000 net of tax, from the equity reserve to retained earnings at 30 June 2010. There was no impact on the carrying value of any financial assets following the adoption of AASB 9.

New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The Group's assessment of the impact of these new standards and interpretations are set out below:

(i) AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* and AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (effective from 1 July 2010 / 1 January 2011 respectively)

In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The Group will apply the amendments from 1 July 2010. It does not expect that any adjustments will be necessary as a result of applying the revised rules.

(ii) Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards* (effective from 1 January 2011)
In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the amended standard from 1 July 2011. When the amendments are applied, the Group will need to disclose any transactions between its subsidiaries and associates. However, there will be no impact on any of the amounts recognised in the financial statements.

(b) Principles of consolidation

Subsidiaries
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2010 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.

Note 1. Summary of significant accounting policies (continued)

(b) Principles of consolidation (continued)

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 statement of comprehensive income, 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 statement of comprehensive income, 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 statement of comprehensive income 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 statement of comprehensive income at the reporting date is recognised in the balance sheet as an unearned subscription liability.

Note 1. Summary of significant accounting policies (continued)

(e) Liability adequacy test

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

(f) Outwards reinsurance

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

(g) Outstanding claims liabilities

The provision for outstanding claims is measured as the central estimate of the present value of expected future claims payments. 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 or other party is in doubt, a provision for default is raised.

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

(i) Acquisition costs

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

(j) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the notional 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.

Note 1. Summary of significant accounting policies (continued)

(j) Income tax (continued)

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.

Note 1. Summary of significant accounting policies (continued)

(k) Operating leases

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

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

(l) Impairment of assets

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

(m) 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.

(n) Cash and cash equivalents

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

(o) 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 statement of comprehensive income.

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 statement of comprehensive income 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 statement of comprehensive income.

Note 1. Summary of significant accounting policies (continued)

(p) 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 that were sold prior to 30 June 2010 are categorised as AFS financial assets. They are recognised initially at cost and subsequently at fair value, with any resultant gains or losses recognised directly in equity. On disposal, any cumulative gains or losses previously recognised in equity are recognised through profit or loss.

On adoption of AASB 9 all other financial assets, with the exception of investments in controlled entities, are categorised as FVTPL.

Recognition and derecognition
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 statement of comprehensive income. 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 statement of comprehensive income 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 statement of comprehensive income 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.

Note 1. Summary of significant accounting policies (continued)

(p) Financial assets (continued)

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 statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments classified as available-for-sale are not reversed through the statement of comprehensive income.

(q) 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 statement of comprehensive income. 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	3-4 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 statement of comprehensive income. When revalued assets are sold, it is a Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

Note 1. Summary of significant accounting policies (continued)

(r) Intangible assets

Value of Customer Relationships
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.

IT development and software
Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis over periods generally ranging from 3 to 5 years.

(s) 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.

(t) 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.

(u) 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.

Note 1. Summary of significant accounting policies (continued)

(v) 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.

(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

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

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

Note 3. Insurance risk and actuarial assumptions

The Group has an objective to 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 17(d) show the estimates of total claims outstanding for each accident year at successive year ends.

Note 3. Insurance risk and actuarial assumptions (continued)

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:

	2010	2009
Normal inflation rate	3.75%	3.75%
Superimposed inflation	2.0 - 4.0%	2.0 - 4.0%
Average weighted discount rate	4.85%	5.10%
Average weighted term to settlement – known claims	2.90 years	2.90 years
Average weighted term to settlement – IBNR claims	7.70 years	8.60 years
Estimated ultimate number of claims	1,951	2,272
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.

Note 3. Insurance risk and actuarial assumptions (continued)

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

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

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

Note 3. Insurance risk and actuarial assumptions (continued)

(c) Sensitivity analysis (continued)

(ii) Impact of changes in key variables

		Profit / (loss) after tax		Equity
		Gross of Reinsurance	Net of Reinsurance	
		$'000	$'000	$'000
Variable	Movement in variable	Adjusted amounts		
Inflation rate	1%	(22,366)	(8,012)	(8,012)
	-1%	20,867	7,601	7,601
Superimposed inflation	3%	(55,860)	(19,742)	(19,742)
	-3%	30,707	12,140	12,140
Discount rates	1%	19,523	6,953	6,953
	-1%	(21,264)	(7,436)	(7,436)
Ultimate number of claims for incidents notified	10%	(21,524)	(8,341)	(8,341)
	-10%	21,524	8,399	8,399

Note 4. Net claims incurred / (recovered)

	Consolidated			Company		
	Current period $'000	Prior Periods $'000	Total $'000	Current period $'000	Prior periods $'000	Total $'000
2010						
Undiscounted claims incurred:						
Gross claims incurred	159,593	(137,932)	21,661	-	-	-
Reinsurance recoveries	(56,162)	88,419	32,257	-	-	-
Net claims incurred	103,431	(49,513)	53,918	-	-	-
Discount movement:						
Gross claims incurred	(29,212)	82,211	52,999	-	-	-
Reinsurance recoveries	14,791	(56,483)	(41,692)	-	-	-
Net discount movement	(14,421)	25,728	11,307	-	-	-
Net discounted claims	**89,010**	**(23,785)**	**65,225**	**-**	**-**	**-**
Discounted claims expense:						
Gross claims expense	130,381	(55,721)	74,660	-	-	-
Reinsurance recoveries	(41,371)	31,936	(9,435)	-	-	-
Net discounted claims expense	**89,010**	**(23,785)**	**65,225**	**-**	**-**	**-**

	Consolidated			Company		
	Current period $'000	Prior periods $'000	Total $'000	Current period $'000	Prior periods $'000	Total $'000
2009						
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	-	-	-

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. Acquisition and other expenses

	Consolidated		Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Employee related costs	(31,918)	(28,706)	-	-
Director related costs	(674)	(666)	-	-
Rental expense relating to operating leases	(2,545)	(2,089)	-	-
Other rent related outgoings	(790)	(465)	-	-
Depreciation and amortisation	(1,261)	(1,077)	-	-
General & administration expenses	(9,337)	(12,933)	(1,894)	(691)
Management fees paid	-	-	(2,844)	(2,825)
Investment management fees paid	(1,528)	(1,404)	-	-
Loss on disposal of property, plant & equipment	-	(762)	-	-
Impairment loss on goodwill	(1,607)	-	-	-
Provision for impairment	(506)	(409)	-	(32)
	(50,166)	**(48,511)**	**(4,738)**	**(3,548)**
Acquisition costs	(10,892)	(10,470)	-	-
Other underwriting expenses	(34,654)	(30,542)	-	-
Other operating expenses	(4,620)	(7,499)	(4,738)	(3,548)
	(50,166)	**(48,511)**	**(4,738)**	**(3,548)**

Note 6. Investment income / (loss)

	Consolidated		Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Interest	31,259	25,211	334	170
Dividends and distributions from unit trusts	12,205	34,647	-	-
Other	392	564	-	-
	43,856	60,422	334	170
Change in fair value of investments held at fair value through profit or loss	26,112	(85,195)	-	-
Impairment of available-for-sale investments	-	(12,331)	-	-
	69,968	**(37,104)**	**334**	**170**

Note 7. Other income

	Consolidated		Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Membership subscription revenue	7,451	7,354	7,451	7,354
Government Support Scheme Fee income	3,043	1,143	-	-
Other income	763	662	-	43
	11,257	**9,159**	**7,451**	**7,397**

Note 8. Income tax

	Consolidated 2010 $'000	Consolidated 2009 $'000	Company 2010 $'000	Company 2009 $'000
(a) Income tax benefit / (expense)				
Current tax expense	(9,453)	(846)	(49)	(34)
Deferred tax (expense) / benefit	(23,098)	12,005	-	-
Over / (under) provision in prior years	58	(562)	-	-
Income tax benefit / (expense) attributable to (loss) / profit from continuing operations	**(32,493)**	**10,597**	**(49)**	**(34)**
(b) Numerical reconciliation of income tax benefit / (expense) to prima facie tax payable				
Profit / (loss) from continuing operations before income tax	116,351	(18,614)	3,047	4,019
Tax at Australian tax rate of 30% (2009: 30%)	(34,905)	5,584	(914)	(1,206)
Net mutual income - non assessable	1,165	4,373	865	-
Other permanent differences	(587)	(36)	-	1,172
Effect of excess franking offset converted to tax loss	1,776	1,603	-	-
Effect of franking credits	-	(481)	-	-
Benefit of tax losses of prior years recouped	-	116	-	-
Current year income tax benefit / (expense)	(32,551)	11,159	(49)	(34)
Over / (under) provision in prior year	58	(562)	-	-
Income tax benefit / (expense)	**(32,493)**	**10,597**	**(49)**	**(34)**
(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)	-	-
Net deferred tax - charged directly to equity	**-**	**(3,177)**	**-**	**-**
(d) Deferred tax assets				
The balance comprises temporary differences attributable to:				
Amounts recognised in the profit or loss:				
Accruals and provisions	13,318	13,427	-	-
Financial assets	18,339	29,278	-	-
Non Financial assets	482	-	-	-
Investments	75	75	-	-
	32,214	42,780	-	-
Deferred tax recognised on losses	121	11,010	121	10,891
Total deferred tax assets	**32,335**	**53,790**	**121**	**10,891**
Movements:				
Opening balance at the beginning of the year	53,790	46,278	10,891	-
Acquisitions	306	-	-	-
Prior year over / (under) under provision	58	(318)	58	-
(Charged) / credited to the statement of comprehensive income	(21,819)	11,855	-	-
Utilisation of prior year tax losses	-	-	(10,949)	-
Charged to equity	-	(3,177)	-	-
Amounts payable to Group members under tax sharing and funding agreement	-	(848)	121	10,891
Closing balance at the end of the year	**32,335**	**53,790**	**121**	**10,891**

Note 8. Income tax (continued)

	Consolidated		Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
(e) Deferred tax liabilities				
Financial assets	532	329	-	-
Interest receivable	46	-	-	-
Investment in associates	1,506	549	-	-
Total deferred tax liabilities	**2,084**	**878**	**-**	**-**
Movements:				
Opening balance at the beginning of the year	878	1,028	-	-
Charged / (credited) to the statement of comprehensive income	1,206	(150)	-	-
Closing balance at the end of the year	**2,084**	**878**	**-**	**-**
(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	32,335	53,790	121	10,891
Deferred tax liabilities	(2,084)	(878)	-	-
Total deferred tax asset after set-off	**30,251**	**52,912**	**121**	**10,891**
(g) Franking credits				
Franking credits available for the subsequent financial years based on a tax rate of 30% (2009: 30%)	138,746	132,588	138,746	132,588

(h) Tax consolidation legislation

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

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

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

The amounts receivable/payable under the tax funding agreement 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 instalments. The funding amounts are recognised as current intercompany receivables or payables (see note 25).

Note 9. Cash and cash equivalents

	Consolidated		Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Cash at bank and in hand	175,209	131,297	11,932	8,021
	175,209	**131,297**	**11,932**	**8,021**

(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		Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Balances as above	175,209	131,297	11,932	8,021
Balances per statement of cash flows	**175,209**	**131,297**	**11,932**	**8,021**

Note 10. Receivables

	Consolidated		Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Premium and subscription debtors	42,822	49,424	168	212
Provision for impairment	(481)	(476)	(54)	(29)
Net premium and subscription revenue debtors	42,341	48,948	114	183
Sundry debtors	2,890	6,374	-	-
Receivable from related entity	-	-	9,814	792
Net receivables	**45,231**	**55,322**	**9,928**	**975**

All receivables past due are provided for in full.

(a) Fair value

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

(b) Risk

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

Note 11. Financial assets

	Notes	Consolidated		Company	
		2010	2009	2010	2009
		$'000	$'000	$'000	$'000
Investments held at fair value through profit or loss					
Short duration interest bearing securities		156,678	96,077	-	-
Fixed interest securities		372,328	414,288	-	-
Units in unlisted equity trusts		241,899	121,816	-	-
Units in unlisted property trusts		48,323	24,225	-	-
		819,228	**656,406**	**-**	**-**
Available-for-sale investments					
Units in unlisted equity trusts		-	45,030	-	-
Units in unlisted property trusts		-	8,939	-	-
		-	**53,969**	**-**	**-**
Investments held at cost					
Investments in controlled entities	26	-	-	508,602	508,602
		-	**-**	**508,602**	**508,602**
Equity accounted investments					
Investments in associates	27	-	14,831	-	-
		-	**14,831**	**-**	**-**
		819,228	**725,206**	**508,602**	**508,602**
Current financial assets		161,685	70,617	-	-
Non-current financial assets		657,543	654,589	508,602	508,602
		819,228	**725,206**	**508,602**	**508,602**

Note 12. Reinsurance and other recoveries

	Consolidated		Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Expected future reinsurance and other recoveries undiscounted on:				
Paid claims	80,279	76,360	-	-
Outstanding claims	431,496	497,610	-	-
	511,775	573,970	-	-
Discount to present value	(74,521)	(116,135)	-	-
Provision for impairment of reinsurance and other recoveries	(57,732)	(44,276)	-	-
Reinsurance and other recoveries on claims	**379,522**	**413,559**	**-**	**-**
Reinsurance and other recoveries receivable - current	81,517	90,892	-	-
Less: Provision for impairment of reinsurance assets	(19,881)	(25,029)	-	-
	61,636	**65,863**	**-**	**-**
Reinsurance and other recoveries receivable - non current	355,737	366,943	-	-
Less: Provision for impairment of reinsurance assets	(37,851)	(19,247)	-	-
	317,886	**347,696**	**-**	**-**
	379,522	**413,559**	**-**	**-**

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 $12,971,000 (2009: $13,777,000) in respect of these recoveries have been offset against the recoveries as at 30 June 2010. The provision for impairment against our net exposure is consistent with the liquidation proceedings.

The Group's estimate of its exposure to HIH including prudential margins is $63,289,667 at 30 June 2010 (2009: $56,106,647). A $57,250,637 (2009: $44,038,795) provision against this balance is recognised in these financial statements. The provision has been made on the best information available to 30 June 2010 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 37.5% and 66.5% have been made (2009: 45.0% - 77.5%).

Note 13. Deferred expenses

	Consolidated		Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Deferred reinsurance premiums	6,427	6,378	-	-
Deferred ROCS expense	3,227	3,256	-	-
Deferred acquisition costs	4,105	3,544	-	-
	13,759	**13,178**	**-**	**-**

Note 14. Property, plant and equipment

	Consolidated		Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Gross carrying value				
At the beginning of the year	6,461	13,067	-	-
Additions	1,018	1,311	-	-
Disposals	-	(4,986)	-	-
Written off in the year	(3,095)	(2,931)	-	-
At the end of the year	**4,384**	**6,461**	**-**	**-**
Accumulated depreciation				
At the beginning of the year	(3,838)	(5,329)	-	-
On disposals	-	2	-	-
Written off in the year	3,095	2,416	-	-
Depreciation expense for the year	(1,111)	(927)	-	-
At the end of the year	**(1,854)**	**(3,838)**	**-**	**-**
Net carrying value at the end of the year	**2,530**	**2,623**	**-**	**-**

Note 14. Property, plant and equipment (continued)

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	Leasehold improve-ments $'000	Total $'000
Consolidated					
Net carrying value at 1 July 2009	1,339	335	879	70	2,623
Additions	321	64	548	85	1,018
Reclassification	9	424	(424)	(9)	-
Depreciation	(415)	(167)	(504)	(25)	(1,111)
Net carrying value at 30 June 2010	**1,254**	**656**	**499**	**121**	**2,530**
Company					
Net carrying value at 1 July 2009 and 30 June 2010	**-**	**-**	**-**	**-**	**-**

Note 15. Intangible assets

	Consolidated		Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Gross carrying value				
At the beginning of the year	2,482	2,482	-	-
Additions	1,866	-	-	-
At the end of the year	**4,348**	**2,482**	**-**	**-**
Accumulated amortisation				
At the beginning of the year	(1,282)	(1,132)	-	-
Amortisation charge	(150)	(150)	-	-
Impairment	(1,607)	-	-	-
At the end of the year	**(3,039)**	**(1,282)**	**-**	**-**
Net carrying value at the end of the year	**1,309**	**1,200**	**-**	**-**

Note 15. Intangible assets (continued)

Reconciliations

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

	Goodwill $'000	IT development and software $'000	Value of customer relationships $'000	Total $'000
Consolidated				
Net carrying value at 1 July 2009	-	-	1,200	1,200
Additions	1,607	259	-	1,866
Impairment loss	(1,607)	-	-	(1,607)
Amortisation	-	-	(150)	(150)
Net carrying value at 30 June 2010	**-**	**259**	**1,050**	**1,309**

*Amortisation of $150,000 (2009: $150,000) is included in depreciation and amortisation expense in the statement of comprehensive income.

Note 16. Payables

	Consolidated		Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Sundry creditors and accruals	20,377	17,817	50	89
Reinsurance premiums payable	4,341	4,316	-	-
ROCS levy payable	2,548	2,640	-	-
Payable to related entity	-	-	1,287	12,944
	27,266	**24,773**	**1,337**	**13,033**

Note 17. Outstanding claims liabilities

	Consolidated		Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
(a) Outstanding claims liabilities				
Central estimate	722,626	815,909	-	-
Discount to present value	(149,369)	(200,344)	-	-
	573,257	615,565	-	-
Risk margin	137,913	118,732	-	-
Gross outstanding claims liabilities – discounted	**711,170**	**734,297**	**-**	**-**
Current outstanding claims liabilities	129,919	122,944	-	-
Non-current outstanding claims liabilities	581,251	611,353	-	-
	711,170	**734,297**	**-**	**-**
Gross claims outstanding – undiscounted	**860,539**	**934,641**	**-**	**-**

(b) Risk margin

The process used to determine the risk margin is explained in note 3. The probability of adequacy at 30 June 2010 is 85% (2009: 80%). The impact of increasing the probability of sufficiency at 30 June 2010 was a $13,166,000 increase to the risk margin.

The risk margin included in gross outstanding claims at 30 June 2010 is 19.08% (2009: 14.5%) on a weighted average basis to the underlying liabilities.

(c) Reconciliation of movement in discounted outstanding claims liability

Consolidated	2010			2009		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	$'000	$'000	$'000	$'000	$'000	$'000
Brought forward	734,297	(376,124)	358,173	743,162	(398,793)	344,369
Outstanding claims / recoveries managed claims in run-off	12,481	(4,110)	8,371	-	-	-
Effect of changes in assumptions	(55,721)	31,936	(23,785)	(21,435)	12,521	(8,914)
Increase in claims incurred / Recoveries anticipated over the year	157,861	(82,933)	74,928	159,804	(72,186)	87,618
Claim payments / recoveries during the year	(137,748)	78,026	(59,722)	(147,234)	82,334	(64,900)
Carried forward	**711,170**	**(353,205)**	**357,965**	**734,297**	**(376,124)**	**358,173**

Note 17. Outstanding claims liabilities (continued)

(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 subsidiaries, AIL and PIA and for the Company's combined mutual entities.

Insurance subsidiaries

i) Gross	2003 and prior $'000	2004 $'000	2005 $'000	2006 $'000	2007 $'000	2008 $'000	2009 $'000	2010 $'000	Total $'000
Estimate of ultimate claims cost									
At end of accident year	529,552	20,246	36,954	32,815	*50,601	*60,471	*61,764	***59,383**	
One year later	508,570	45,984	67,709	*91,781	*106,065	*117,502	***113,367**		
Two years later	451,372	47,033	*84,331	*80,098	*96,524	***112,097**			
Three years later	415,118	*88,621	*63,164	*79,818	***89,353**				
Four years later	*527,186	*71,625	*76,646	***71,452**					
Five years later	*555,271	*66,900	***79,926**						
Six years later	*547,281	***59,151**							
Seven years later	***529,493**								
Current estimate of cumulative claims cost	529,493	59,151	79,926	71,452	89,353	112,097	113,367	59,383	1,114,222
Cumulative payments	(462,363)	(44,960)	(48,195)	(36,433)	(30,236)	(28,516)	(15,751)	(1,286)	(667,740)
Outstanding claims- undiscounted	67,130	14,191	31,731	35,019	59,117	83,581	97,616	58,097	446,482
Discount									(80,124)
Claims handling expenses									28,863
Risk margin									81,216
Claims managed in run off									12,481
GST									8,973
Total gross outstanding claims									**497,891**

i) Net	2003 and prior $'000	2004 $'000	2005 $'000	2006 $'000	2007 $'000	2008 $'000	2009 $'000	2010 $'000	Total $'000
Estimate of ultimate claims cost									
At end of accident year	236,559	16,814	27,435	24,185	*39,522	*44,690	*43,353	***41,044**	
One year later	211,481	35,483	49,428	*70,040	*73,121	*87,281	***80,291**		
Two years later	158,555	35,490	*59,134	*58,004	*69,504	***79,916**			
Three years later	117,730	*58,073	*46,902	*57,130	***65,416**				
Four years later	*204,336	*49,625	*48,882	***52,484**					
Five years later	*206,014	*45,419	***49,869**						
Six years later	*187,455	***41,475**							
Seven years later	***184,661**								
Current estimate of cumulative claims cost	184,661	41,475	49,869	52,484	65,416	79,916	80,291	41,044	595,156
Cumulative payments	(162,137)	(36,549)	(35,885)	(30,419)	(27,725)	(25,940)	(13,981)	(1,276)	(333,912)
Outstanding claims- undiscounted	22,524	4,926	13,984	22,065	37,691	53,976	66,310	39,768	261,244
Discount									(35,049)
Claims handling expenses									27,542
Risk margin									47,877
Claims managed in run off									4,110
Total net outstanding claims									**305,724**

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 since the year ending 30 June 2007 (*the last four 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.

The managed claims in run-off are claims insured by PIA, notified between 1997 and 2002. There has been an improvement in claims experience during the past year. 28 claims remain open.

Note 17. Outstanding claims liabilities (continued)

(d) Claims development table (continued)

Mutual entities

i) Gross	2003 and prior $'000	2004 $'000	2005 $'000	2006 $'000	2007 $'000	2008 $'000	2009 $'000	2010 $'000	Total $'000
Estimate of ultimate claims cost									
At end of accident year	980,942	19,915	10,929	7,239	* 14,780	* 8,619	* 6,449	* 5,157	
One year later	739,758	26,101	22,235	* 27,906	* 32,768	* 12,555	* 10,295		
Two years later	549,105	17,847	* 28,689	* 26,883	* 26,997	* 9,434			
Three years later	466,908	* 59,221	* 35,718	* 22,394	* 30,796				
Four years later	* 680,493	* 44,483	* 29,118	* 20,126					
Five years later	* 660,160	* 36,915	* 26,178						
Six years later	* 603,598	* 40,499							
Seven years later	* 545,147								
Current estimate of cumulative claims cost	545,147	40,499	26,178	20,126	30,796	9,434	10,295	5,157	687,632
Cumulative payments	(380,594)	(30,433)	(20,457)	(8,627)	(10,832)	(3,437)	(1,111)	-	(455,491)
Outstanding claims- undiscounted	164,553	10,066	5,721	11,499	19,964	5,997	9,184	5,157	232,141
Discount									(61,721)
Claims handling expenses									12,281
Risk margin									50,254
GST									3,727
Total gross outstanding claims									**236,682**

i) Net	2003 and prior $'000	2004 $'000	2005 $'000	2006 $'000	2007 $'000	2008 $'000	2009 $'000	2010 $'000	Total $'000
Estimate of ultimate claims cost									
At end of accident year	54,037	-	-	-	* 2,627	947	* 669	* 133	
One year later	36,240	-	-	* 8,001	* 6,406	* 3,302	* 1,382		
Two years later	22,408	-	* 8,210	* 8,049	* 3,898	* 2,422			
Three years later	16,198	* 25,587	* 7,725	* 4,711	* 4,752				
Four years later	*156,184	* 19,902	* 6,064	* 5,047					
Five years later	*161,853	* 17,528	* 6,464						
Six years later	*144,665	* 18,208							
Seven years later	*139,909								
Current estimate of cumulative claims cost	139,909	18,208	6,464	5,047	4,752	2,422	1,382	133	178,317
Cumulative payments	(112,310)	(14,461)	(5,712)	(3,992)	(2,804)	(223)	(22)	-	(139,524)
Outstanding claims- undiscounted	27,599	3,747	752	1,055	1,948	2,199	1,360	133	38,793
Discount									(6,685)
Claims handling expenses									5,976
Risk margin									9,896
Total net outstanding claims									**47,980**

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 since the year ending 30 June 2007 (*the last four 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 18. Provisions

	Consolidated		Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Provision for restoration of leased premises	556	396	-	-
Employee entitlements	3,504	3,268	-	-
Reinsurance premiums payable	11,269	14,711	-	-
	15,329	**18,375**	**-**	**-**
Current provision	7,328	7,150	-	-
Non-current provision	8,001	11,225	-	-
	15,329	**18,375**	**-**	**-**
Numbers of employees at reporting date	236	241	-	-

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.

	Employee benefits	Reinsurance Adjustment Provision	Employee benefits	Restoration provision	Reinsurance Adjustment Provision	
	Current	Current	Non-current	Non-current	Non-current	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Carrying value 1 July 2009	1,717	5,433	1,551	396	9,278	18,375
Additional provisions recognised	4,385	-	116	-	-	4,501
Payments	(4,479)	(403)	-	-	-	(4,882)
Increase / (reductions) from remeasurement	-	675	214	160	(3,714)	(2,665)
Carrying value 30 June 2010	**1,623**	**5,705**	**1,881**	**556**	**5,564**	**15,329**

Note 19. Unearned income

	Consolidated		Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Unearned subscriptions	3,294	3,382	3,294	3,382
Unearned premiums	70,186	71,378	-	-
	73,480	**74,760**	**3,294**	**3,382**
Unearned premium liability at the beginning of the year	71,378	69,588	-	-
Deferral of premiums on contracts written in the period	70,186	71,378	-	-
Earnings of premiums written in previous periods	(71,378)	(69,588)	-	-
Unearned premium liability at the end of the year	**70,186**	**71,378**	**-**	**-**

The application of the liability adequacy test in respect of the net premium liabilities identified a surplus at 30 June 2010 and 2009.

Note 20. Financial risk management

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

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

The Group has 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.

Note 20. Financial risk management (continued)

(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:

2010		Fixed interest maturing in:				
	Floating interest rate $'000	1 year or less $'000	1 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
Financial assets						
Cash and cash equivalents	175,209	-	-	-	-	175,209
Receivables	-	-	-	-	45,231	45,231
Financial assets - investments	115,586	146,483	163,907	107,284	285,968	819,228
Reinsurance and other recoveries	-	-	-	-	379,522	379,522
Total financial assets	**290,795**	**146,483**	**163,907**	**107,284**	**710,721**	**1,419,190**
Weighted average interest rate	4.22%	5.52%	5.83%	5.37%		
Financial liabilities						
Payables	-	-	-	-	27,266	27,266
Provisions	-	-	-	-	15,329	15,329
Outstanding claims liabilities	-	-	-	-	711,170	711,170
Total financial liabilities	**-**	**-**	**-**	**-**	**753,765**	**753,765**
Net financial assets	**290,795**	**146,483**	**163,907**	**107,284**	**(43,044)**	**665,425**

Note 20. Financial risk management (continued)

(a) Market risk (continued)

(i) Interest rate risk (continued)

2009	Fixed interest maturing in:					
	Floating interest rate	1 year or less	1 to 5 years	Over 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**

Reconciliation of net financial assets to net assets	2010	2009
	$'000	$'000
Net financial assets as above		
Interest bearing	708,469	531,303
Non-Interest bearing	(43,044)	16,635
Net financial assets	665,425	547,938
Net non-financial liabilities	(37,048)	(3,419)
Net assets	**628,377**	**544,519**

Note 20. Financial risk management (continued)

(a) Market risk (continued)

(i) Interest rate risk (continued)
The Group's sensitivity to movements in interest rates in relation to the value of interest bearing financial assets is shown in the table below:

		FINANCIAL IMPACT *			
	Movement in variable	Profit / (Loss) 2010 $'000	Equity 2010 $'000	Profit / (Loss) 2009 $'000	Equity 2009 $'000
Interest rate movement - interest bearing financial assets	100 bpt +	(8,344)	(8,344)	(7,021)	(7,021)
	100 bpt -	8,354	8,354	7,027	7,027

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

(ii) Price Risk
Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (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 statement of comprehensive income and balance sheet is shown in the sensitivity analysis below. The analysis is based on the assumption that the value had increased/decreased by 20% (2009: 20%) with all other variables held constant.

		FINANCIAL IMPACT *			
	Movement in variable %	Profit / (Loss) 2010 $'000	Equity 2010 $'000	Profit / (Loss) 2009 $'000	Equity 2009 $'000
Unit trusts	20% +	40,634	40,634	35,752	43,233
	20% -	(40,634)	(40,634)	(36,104)	(43,709)

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

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

Note 20. Financial risk management (continued)

(b) Credit risk

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

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

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

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

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

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

As at 30 June 2010	CREDIT RATING					
	AAA	AA	A	BBB	Not rated	TOTAL
	$'000	$'000	$'000	$'000	$'000	$'000
Cash at bank and short-term bank deposits		175,209				175,209
Receivables	-	-	-	-	45,230	45,230
Financial assets	356,224	65,268	70,910	15,850	310,976	819,228
Reinsurance and other recoveries	325,445	13,942	30,516	-	9,620	379,523

Note 20. Financial risk management (continued)

(b) Credit risk (continued)

As at 30 June 2009	CREDIT RATING					
	AAA	AA	A	BBB	Not rated	TOTAL
	$'000	$'000	$'000	$'000	$'000	$'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

(c) Liquidity risk

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

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

As at 30 June 2010	1-3 months	3-6 months	6-12 months	Between 1-2 years	Over 2 years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Payables	27,266	-	-	-	-	27,266
Provisions	-	-	7,328	5,564	2,437	15,329

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

Note 20. Financial risk management (continued)

(d) Fair value measurements

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

As of 1 July 2009, the Company has adopted the amendment to AASB 7 *Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(i) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

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

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

The following tables represent the Company's assets measured and recognised at fair value at 30 June 2010. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Assets				
Financial assets at fair value through profit or loss				
Short duration interest bearing securities	15,607	141,071	-	156,678
Fixed interest securities	5,000	366,322	1,006	372,328
Unlisted equity trusts	7	241,892	-	241,899
Unlisted property trusts	-	48,323	-	48,323
	20,614	**797,608**	**1,006**	**819,228**

Note 20. Financial risk management (continued)

(d) Fair value measurements (continued)

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

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

The following table present the change in level 3 instruments for the year ended 30 June 2010.

Reconciliation of Level 3 transactions	Total $'000
Opening balance	-
Transfers into level 3	1,006
Closing balance	**1,006**

The Company transferred two fixed interest securities from level 2 into level 3 as the assets have not been traded in the market in over a year.

Note 21. Equity

	Consolidated		Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
(a) Reserves				
Available-for-sale reserve				
At the beginning of the year	97	(7,318)	-	-
Change in fair value of financial assets net of tax	(97)	(1,216)	-	-
Impairment of available-for-sale investments net of tax	-	8,631	-	-
At the end of the year	**-**	**97**	**-**	**-**
Asset revaluation reserve				
At the beginning of the year	-	1,800	-	-
Change in fair value of property and equipment	-	-	-	-
Tax effect of changes in fair value	-	-	-	-
Release of reserve on disposal of property and equipment	-	(1,800)	-	-
At the end of the year	-	-	-	-
Business combination reserve				
At the beginning and at the end of the year	**54,598**	**54,598**	**508,602**	**508,602**
	54,598	**54,695**	**508,602**	**508,602**
(b) Retained profits				
At the beginning of the year	489,824	496,041	4,899	914
Effect of change in accounting policy for classification and measurement of financial assets, net of tax	97	1,800	-	-
Profit / (loss) for the year	83,858	(8,017)	2,998	3,985
At the end of the year	**573,779**	**489,824**	**7,897**	**4,899**

(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.

The Group has a comprehensive capital management policy which documents the various practices governing the management of the Group's capital. The policy articulates the Group's tolerance to capital management risk and how these practices manage risk of the Group's tolerance framework.

Note 22. Remuneration of key management personnel

	Consolidated		Company	
	2010	2009	2010	2009
	$	$	$	$
Short-term employee benefits				
Cash salary and fees	3,892,844	3,988,603	799,084	721,157
Post-employment benefits				
Superannuation	350,356	693,615	71,918	313,060
Termination benefits	-	154,463	-	-
Total remuneration	**4,243,200**	**4,836,681**	**871,002**	**1,034,217**

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 23. Remuneration of auditors

	Consolidated		Company	
	2010	2009	2010	2009
	$	$	$	$
Audit services				
PricewaterhouseCoopers Australian Firm:				
Audit of financial reports	646,443	582,250	61,144	58,225
Other assurance services				
PricewaterhouseCoopers Australian Firm:				
Audit of regulatory returns	132,077	102,750	10,790	10,275
Other services				
PricewaterhouseCoopers Australian Firm:				
Accounting advice	-	17,500	-	-
Taxation services	12,000	18,200	-	-
Actuarial services	69,000	50,000	-	-
	859,520	**770,700**	**71,934**	**68,500**

Note 24. Commitments for expenditure

	Consolidated		Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Operating leases				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	3,084	2,971	-	-
Later than one year but not later than five years	10,117	9,181	-	-
Later than five years	2,314	3,447	-	-
	15,515	**15,599**	**-**	**-**

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

The lease payments recognised in the Statement of Comprehensive Income were $2,545,000 (2009: $2,291,007).

Note 25. 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
The Hon John Fahey
Dr Cherrell Hirst
Dr David McConnel
Mr Vyn Tozer
Prof Simon Willcock

Key management personnel

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

Remuneration

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

Transactions with Directors

For the year ended 30 June 2010, 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.

Note 25. Related parties (continued)

Group structure

Up to 30 June 2010, the ultimate Australian parent entity within the Group was Avant Mutual Group Limited. Refer to note 26 for the details and ownership interests of the controlled entities of the Company up to 30 June 2010.

Related party transactions

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

(a) A decrease in insurance recoveries paid or payable from AIL to UNITED Medical Protection Limited ("United") for the period 1 July 2009 to 30 June 2010 of $2,373,000 (2009: decrease of $6,505,000) in respect of claims arising from the indemnity risks insured by AIL. Included in outstanding claims liabilities (note 17) is an amount payable to United by AIL of $6,488,000 (2009: $8,861,000).

(b) Included in reinsurance and other recoveries (note 12) is an amount receivable from United by AIL of $2,888,000 (2009: $4,814,000).

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

(d) The provision of management services by the controlled entity, AIL, for the Company with management fees of $2,843,790 (2009: $2,825,248) paid to the controlled entity.

(e) At 30 June 2010, AIL is due to receive $656,123 (2009: $nil) from Avant Law Pty Limited ("Avant Law") for the settlement of inter-company transactions.

(f) At 30 June 2010, AIL is due to receive $nil (2009: $78,612) from The Medical Defence Union Pty Limited ('MDU') for the settlement of inter-company transactions.

(g) At 30 June 2010, United is due to receive $28,612 (2009: $8,605) from MDAV for the settlement of inter-company transactions.

(h) At 30 June 2010, AIL is due to pay $137,821 (2009: $2,539,304) to United for the settlement of inter-company transactions.

(i) At 30 June 2010, AIL is due to pay $14,559 (2009: $42,055) to MDAV for the settlement of inter-company transactions.

(j) At 30 June 2010, United is due to pay $322,350 (2009: $nil) to Avant Law for the settlement of inter-company transactions.

(k) At 30 June 2010, MDU is due to receive $7,843 (2009: $7,843) from MDAV for the settlement of inter-company transactions.

(l) The Company is due to pay $497,761 (2009: $nil) to Avant Law; $114,002 (2009: $nil) to AMRAS Limited; $675,646 (2009: pay $2,230,946) to United in respect of the controlled entity's income tax receivable, and due to receive $759,042 (2009: $742,413) from MDU; $107,969 (2009: $49,121) from UNITED Medical Protection of New South Wales; $8,947,558 (2009: pay $10,712,927) from AIL in respect of the controlled entities' income tax liabilities.

Note 26. Investments in controlled entities

Name of Entity	Country of incorporation	Class of shares	Ownership Interest 2010 %	Ownership Interest 2009 %
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 Limited	Australia	Ordinary	100	100
Investments in controlled entities of Avant Insurance Limited				
Healthcare Risk Resources International Pty Ltd (“HRRI”)	Australia	Ordinary	100	100
Avant Law Pty Limited	Australia	Ordinary	100	100
Investments in controlled entities of The Medical Defence Union Pty Ltd				
Professional Insurance Australia Pty Ltd	Australia	Ordinary	100	-

*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 Limited sitting on the Board of this entity.

Note 27. Investments in associates

	Ownership interest *		Consolidated Carrying amount	
	2010	2009	2010	2009
	%	%	$'000	$'000
Equity accounted investment				
Professional Insurance Australia Pty Ltd ("PIA")	-	67	-	14,831
			-	**14,831**

*PIA is a company that provided insurance to medical defence organisations and undertakes related investment activities. Its activities have been in run-off since 1 July 2003. As at 29 June 2010, MDU's investment in PIA was accounted for in the consolidated financial statements using the equity method of accounting. On 29 June 2010, MDU acquired Medical Indemnity Protection Society Limited and The Medical Protection Society of Tasmania Inc.'s share on PIA of 33.42% making PIA a wholly owned subsidiary of MDU as at 29 June 2010. As at 30 June 2010, MDU's investment in PIA was then accounted at cost.

	Consolidated	
	2010	2009
	$'000	$'000
Movements		
At the beginning of the year	14,831	13,000
Transferred to investments held at cost *(note 11)*	(14,831)	1,831
Balance at the end of the year	**-**	**14,831**
Share of associates' profit		
Profit before tax	4,499	2,587
Income tax (expense) / benefit	(1,314)	(756)
Net profit	3,185	1,831
Less: dividends received/receivable	-	-
	3,185	**1,831**
Summarised financial information of associates		
Revenues	7,469	4,657
Net profit	4,540	2,750
Assets	46,189	43,802
Liabilities	(19,130)	(21,322)

Note 28. Business combination

On 29 June 2010, The Medical Defence Union Pty Ltd ("MDU"), a wholly owned subsidiary within the Avant Mutual Group, acquired the remaining shares (33.42%) in Professional Insurance Australia Pty Ltd ("PIA") from Medical Indemnity Protection Society Limited and The Medical Protection Society of Tasmania making PIA a wholly owned subsidiary of MDU as at 29 June 2010.

Details of the purchase consideration are as follows:

	$'000
Purchase consideration	10,650
Acquisition date fair value of previously held equity interest	18,016
Total purchase consideration	**28,666**

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value $'000
Cash and cash equivalents	33,570
Financial assets	5,000
Reinsurance and other recoveries	4,110
Other assets	3,128
Deferred tax assets	381
Payables	(4,685)
Outstanding claims liabilities	(12,481)
Tax liabilities	(1,964)
	27,059
Goodwill	1,607
Net assets acquired	**28,666**

Note 29. Contingent liabilities

At the request of the Group, Westpac Banking Corporation Limited has undertaken to pay on demand amounts up to $1,134,473 (2009: $1,206,889) in respect of lease payments payable. This bank guarantee is secured by a fixed charge over the Group's cash deposits.

The Company has undertaken that the benefits of membership will be available to members of the Company in the event that the insurances and funds of the Company are insufficient to meet a claim against a member. To indemnify the Company against any financial assistance it may grant under this agreement, a jointly controlled fund (established from subscription income of the Company) exists.

On June 2003, the insurance agreement between the Company and Professional Insurance Australia Pty Ltd expired and was not renewed. As a consequence pursuant to the conditions of the agreement, the Company's undertaking is now in 'run-off' and the jointly controlled fund will continue to remain under joint control until a period of seven years. Control of the funds and IBNR obligation will revert back to the Company on 1 July 2010.

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

Note 30. 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 31. Events occurring after the reporting date

On 22 October 2010 the Directors of Avant Insurance Limited approved a Loyalty Reward Plan ("LRP"). The LRP has been created as the best way to reward members for their loyalty when Avant's financial performance is strong.

The Directors will determine annually what, if any, reward should be made to members by reviewing the quality of Avant's recent financial performance and satisfying themselves that any reward will not materially impact on Avant's financial strength in the coming years. Eligible members will receive any announced reward under the LRP as a deduction from their premium on the member's next renewal notice.

The Directors have determined that the LRP for members renewing during calendar year 2011 will be between 5.5% and 11.0% of the premium payable dependent upon the members years of continuous membership.

Other than those disclosed above, no matters or circumstances have arisen since 30 June 2010 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 32. Reconciliation of profit / (loss) from continuing operations after income tax to net cash inflow from operating activities

	Consolidated		Company	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Profit / (loss) from continuing operations after income tax	**83,858**	**(8,017)**	**2,998**	**3,985**
Depreciation, amortisation and impairment loss	2,868	1,076	-	-
Change in fair value of investments held at fair value through profit or loss	(26,112)	97,526	-	-
Loss on disposal of property, plant & equipment	-	700	-	-
Share in net profit of associates	(3,185)	(1,831)	-	-
Net movement in amounts due (to) / from related parties	-	-	(20,680)	13,511
Decrease / (increase) in:				
Receivables	6,581	(3,953)	70	(13)
Reinsurance and other recoveries	20,713	71,048	-	-
Deferred expenses	(580)	525	-	-
Deferred tax assets	22,698	(7,551)	10,769	(10,891)
Other operating assets	3,666	122,610	-	-
Increase / (decrease) in:				
Reinsurance premiums payable	(3,715)	(2,761)	-	-
Outstanding claims	(15,210)	(48,425)	-	-
Unearned premiums	(1,280)	2,031	(88)	240
Income tax payable	10,881	(37,126)	10,881	(1,432)
Provisions	670	1,325	-	-
Other operating liabilities	(2,185)	(137,111)	(39)	4
Net cash inflow from operating activities	**99,668**	**50,066**	**3,911**	**5,404**

Note 33. 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:

	2010 $'000	2009 $'000
Tier 1 capital		
Contributed equity	149,000	149,000
Retained earnings	252,852	273,214
Current year earnings (net of tax)	69,676	(20,362)
Intangible assets, net deferred tax liabilities	(21,159)	(31,030)
Excess technical provisions (net of tax)	14,711	7,089
Net Tier 1 capital	465,080	377,911
Total capital base	**465,080**	**377,911**
Minimum capital requirement		
Off balance sheet risk	68	70
Insurance risk	51,257	53,505
Investment risk	54,366	43,743
Maximum event retention risk charge	27,400	42,845
Total minimum capital requirement	**133,091**	**140,163**
Capital adequacy multiple	3.49	2.70

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 85% (2009: 80%); and

(b) GPS 210 requires an assessment of premium liability (unearned premium and deferred acquisition costs is used for accounting purposes) with a separate liability adequacy test.

directors' declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 10 to 60 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 2010 and of their performance for the financial year ended on that date; and

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

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

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

Dr Stuart Boland
Chairman

Melbourne
22 October 2010

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

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Report on the financial report

We have audited the accompanying financial report of Avant Mutual Group Limited ("the Company"), which comprises the balance sheet as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' declaration for both 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 the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility
Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. 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.

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 2010 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 report 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 and remuneration report of Avant Mutual Group Limited (the Company) for the year ended 30 June 2010 included on the 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 the financial report. 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.

PricewaterhouseCoopers

S J Hadfield
Partner

Sydney
22 October 2010

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