financial report
2010/2011

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 30 September 2011.
The Company has the power to amend and reissue the financial report.

Directors' report
30 June 2011

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 2011.

Directors

The following persons were Directors of the Company during the financial year ended 30 June 2011 and up to the date of this report:

Dr Stuart Boland *(Chairman)*
Dr Jonathan Burdon *(Deputy Chairman)*
Dr Rosemary Ayton
Dr Stephen Clarke
The Hon John Fahey
Dr Cherrell Hirst
Dr Beverly Rowbotham
Mr Vyn Tozer
Prof Simon Willcock

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 2011 is a net profit after tax of $64,920,000 (2010: $83,858,000). The total members' accumulated equity as at 30 June 2011 is $693,297,000 (2010: $628,377,000).

In reviewing operations, the following points are noteworthy.

Loyalty reward plan

On 22 October 2010 the Directors approved a Loyalty Reward Plan ("LRP"). The LRP has been created as the best way to reward members of the ultimate parent company for their loyalty and 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 determined on the 22 October 2010, that the LRP for members who renewed during calendar year 2011 was between 5.5% and 11.0% of the premium payable dependent upon the member's years of continuous membership.

On 30 September 2011, the Directors determined that the LRP for members who renew during calendar year 2012 will be between 5.5% and 11.0% of the premium payable dependent upon the member's years of continuous membership.

Directors' report (continued)

Matters subsequent to the end of the financial year

a) Proposed acquisition of The Doctors' Health Fund

On 12 August 2011, Avant Group Holdings Limited ("AGHL"), a wholly owned subsidiary of the Company, announced its intention to acquire The Doctors' Health Fund Limited, a registered private health insurer. An Implementation Deed has been signed with the acquisition subject to regulatory and Court approvals and the approval of the members of The Doctors' Health Fund Limited.

b) Market volatility

The Group holds investments in a diversified portfolio of Australian and international unlisted trusts and is consequently exposed to the market risk associated with these investments. Refer to note 31b) for further detail.

c) Other

Other than disclosed above, no other matters or circumstances have arisen since 30 June 2011 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 2011 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.

Directors' report (continued)

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 is a general surgeon and 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.
Avant Directorships	United Medical Protection 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, Avant Group Holdings Limited, United Medical Protection of New South Wales Limited and The Medical Defence Association of Victoria Limited.
Other current Directorships	Nil.
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.
Avant Directorships	United Medical Protection 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, Avant Group Holdings Limited and United Medical Protection of New South Wales Limited.
Other current Directorships	Nil.
Former Directorships in last 3 years	Nil.
Special responsibilities	Chairman of the Medical Advisory Council and Member of the Group Nominations, Performance & Remuneration Committee.

Directors' report (continued)

Information on Directors (continued)

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.
Avant Directorships	United Medical Protection Limited, Healthcare Risk Resources International Pty Ltd, The Medical Defence Union Pty Ltd, Avant Group Holdings Limited, United Medical Protection of New South Wales Limited and The Medical Defence Association of Victoria Limited.
Other current Directorships	Nil.
Former Directorships in last 3 years	Nil.
Special responsibilities	Member of the Group Nominations, Performance & Remuneration Committee.

Dr Stephen Clarke MBBS, FRACS, Dip ABU, FAMA FAICD

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.
Avant Directorships	United Medical Protection Limited, Healthcare Risk Resources International Pty Ltd, The Medical Defence Association of Victoria Limited, United Medical Protection of New South Wales Limited, Avant Group Holdings Limited and The Medical Defence Union Pty Ltd.
Other current Directorships	Nil.
Former Directorships in last 3 years	Nil.
Special responsibilities	Member of the Group Investment Committee and Medical Advisory Council.

Directors' report (continued)

Information on Directors (continued)

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.
Avant Directorships	MDU Australia Insurance Co Pty Limited, Professional Indemnity Insurance Company Australia Pty Limited, Avant Group Holdings Limited, United Medical Protection of New South Wales Limited, The Medical Defence Association of Victoria Limited and Professional Insurance Australia Pty Ltd.
Other current Directorships	Assetinsure Pty Limited, Men of League Foundation Limited, Endeavour 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.
Avant Directorships	MDU Australia Insurance Co Pty Limited, Professional Indemnity Insurance Company Australia Pty Limited, The Medical Defence Association of Victoria Limited, Avant Group Holdings Limited, Professional Insurance Australia Pty Limited and United Medical Protection of New South Wales Limited.
Other current Directorships	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.

Directors' report (continued)

Information on Directors (continued)

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 2011. 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.
Avant Directorships	Avant Group Holdings Limited, The Medical Defence Association of Victoria Limited and United Medical Protection of New South Wales Limited.
Other current Directorships	Association for Childhood Language and Related Disorders and RCPA Quality Assurance Programs Pty Limited.
Former Directorships in last 3 years	Nil.
Special responsibilities	Member of the Group Nominations, Performance & Remuneration Committee.

Mr Vyn Tozer BCom, D.Bus.S (accy), FCPA

Experience and expertise	Mr Tozer is a Director of Avant Mutual Group Limited and the Chairman of Avant Insurance Limited. He has extensive experience and expertise in finance, accounting and insurance.
Avant Directorships	MDU Australia Insurance Co Pty Limited, Professional Insurance Australia Pty Limited and Professional Indemnity Insurance Company Australia Pty Limited.
Other current Directorships	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, Elders Financial Services Group Pty Limited and Australian Health Services Alliance Limited (Chairman).
Special responsibilities	Member of the Group Audit & Risk Committee and Group Nominations, Performance & Remuneration Committee.

Directors' report (continued)

Information on Directors (continued)

Professor Simon Willcock MBBS (Hons), PhD, FRACGP, Dip. Obs. RANZCOG/RACGP

Experience and expertise	Professor Willcock is a Director of Avant Mutual Group Limited. He is a general practitioner and Professor of General Practice and Discipline Head 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.
Avant Directorships	The Medical Defence Association of Victoria Limited, Avant Group Holdings Limited and United Medical Protection of New South Wales Limited.
Other current Directorships	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.

Directors' report (continued)

Meeting of Directors

The number of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2011, 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)*	10	10	5	5
Dr Jonathan Burdon *(Deputy Chairman)*	10	10	*	*
Dr Rosemary Ayton	10	10	*	*
Dr Stephen Clarke	9	10	*	*
The Hon John Fahey	9	10	*	*
Dr Cherrell Hirst	10	10	5	5
Dr Beverly Rowbotham	9	10	*	*
Mr Vyn Tozer	10	10	5	5
Prof Simon Willcock	8	10	4	5

	Group Investment Committee		Nominations, Performance and Remuneration Committee	
	A	B	A	B
Dr Stuart Boland *(Chairman)*	*	*	5	5
Dr Jonathan Burdon *(Deputy Chairman)*	*	*	5	5
Dr Rosemary Ayton	*	*	5	5
Dr Stephen Clarke	4	4	*	*
The Hon John Fahey	4	4	*	*
Dr Cherrell Hirst	4	4	*	*
Dr Beverly Rowbotham	*	*	3	3
Mr Vyn Tozer	*	*	5	5
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

**Non-member Director

Directors' report (continued)

Company Secretary

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

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 11.

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

30 September 2011

Auditor's Independence Declaration

As lead auditor for the audit of Avant Mutual Group Limited for the year ended 30 June 2011, 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 during the period.

S J Hadfield
Partner
PricewaterhouseCoopers

Sydney
30 September 2011

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Statements of comprehensive income
For the year ended 30 June 2011

	Notes	Consolidated		Company	
		2011	2010	2011	2010
		$'000	$'000	$'000	$'000
Gross written premium		158,942	164,507	-	-
Movement in unearned premiums		4,837	1,192	-	-
Gross premium revenue		**163,779**	**165,699**	**-**	**-**
Reinsurance premium expense		(15,762)	(10,778)	-	-
Net premium revenue		**148,017**	**154,921**	**-**	**-**
Gross claims expense	4	(142,069)	(74,660)	-	-
Reinsurance and other recoveries revenue	4	40,009	9,435	-	-
Net claims incurred	4	**(102,060)**	**(65,225)**	**-**	**-**
Acquisition costs	5	(12,889)	(10,892)	-	-
Run-off Cover Scheme (ROCS) levy		(7,461)	(7,589)	-	-
Other underwriting expenses	5	(35,435)	(34,654)	-	-
Underwriting expenses		**(55,785)**	**(53,135)**	**-**	**-**
Underwriting result		**(9,828)**	**36,561**	**-**	**-**
Share of net profit of associate accounted for using the equity method	27	-	3,185	-	-
Investment income	6	98,258	69,968	559	334
Other income	7	9,621	11,257	7,583	7,451
Other operating expenses	5	(4,612)	(4,620)	(5,507)	(4,738)
Profit before income tax		**93,439**	**116,351**	**2,635**	**3,047**
Income tax expense	8(a)	(28,519)	(32,493)	(71)	(49)
Profit for the year		**64,920**	**83,858**	**2,564**	**2,998**
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		**64,920**	**83,858**	**2,564**	**2,998**

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

Balance sheets
As at 30 June 2011

	Notes	Consolidated		Company	
		2011	2010	2011	2010
		$'000	$'000	$'000	$'000
Current assets					
Cash and cash equivalents	9	125,423	175,209	8,087	11,932
Receivables	10	40,072	45,231	14,899	9,928
Financial assets	11	162,151	161,685	-	-
Reinsurance and other recoveries	12	56,841	61,636	-	-
Deferred expenses	13	13,799	13,759	-	-
Total current assets		**398,286**	**457,520**	**22,986**	**21,860**
Non-current assets					
Property, plant and equipment	14	3,606	2,530	-	-
Intangible assets	15	1,572	1,309	-	-
Financial assets	11	830,228	657,543	508,602	508,602
Reinsurance and other recoveries	12	310,163	317,886	-	-
Deferred tax assets	8(e)	17,844	30,251	121	121
Total non-current assets		**1,163,413**	**1,009,519**	**508,723**	**508,723**
TOTAL ASSETS		**1,561,699**	**1,467,039**	**531,709**	**530,583**
Current liabilities					
Payables	16	30,485	27,266	1,807	1,337
Current tax liabilities		7,433	11,417	7,433	9,453
Outstanding claims liabilities	17	143,379	129,919	-	-
Provisions	18	4,290	7,328	-	-
Unearned income	19	68,755	73,480	3,406	3,294
Total current liabilities		**254,342**	**249,410**	**12,646**	**14,084**
Non-current liabilities					
Outstanding claims liabilities	17	605,362	581,251	-	-
Provisions	18	8,698	8,001	-	-
Total non-current liabilities		**614,060**	**589,252**	**-**	**-**
TOTAL LIABILITIES		**868,402**	**838,662**	**12,646**	**14,084**
NET ASSETS		**693,297**	**628,377**	**519,063**	**516,499**
Equity					
Reserves	21(a)	54,598	54,598	508,602	508,602
Accumulated surpluses	21(b)	638,699	573,779	10,461	7,897
TOTAL EQUITY		**693,297**	**628,377**	**519,063**	**516,499**

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

Statements of changes in equity
For the year ended 30 June 2011

Consolidated	Notes	Reserves $'000	Accumulated surpluses $'000	Total $'000
Balance 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	-
Profit for the year		-	83,858	83,858
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	83,858	83,858
Balance at 30 June 2010	21	54,598	573,779	628,377
Profit for the year		-	64,920	64,920
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	64,920	64,920
Balance at 30 June 2011	21	54,598	638,699	693,297

Company	Notes	Reserves $'000	Accumulated surpluses $'000	Total $'000
Balance at 30 June 2009		508,602	4,899	513,501
Profit for the year		-	2,998	2,998
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	2,998	2,998
Balance at 30 June 2010	21	508,602	7,897	516,499
Profit for the year		-	2,564	2,564
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	2,564	2,564
Balance at 30 June 2011	21	508,602	10,461	519,063

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 2011

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000	Company 2011 $'000	Company 2010 $'000
Cash flows from operating activities					
Premium and subscription income received		189,006	197,182	8,562	8,191
Reinsurance premium paid		(15,249)	(14,515)	-	-
Claims paid		(128,432)	(137,748)	521	-
Reinsurance and other recoveries received		79,144	78,026	-	-
Run-off Cover Scheme paid		(7,406)	(7,653)	-	-
Dividends and distributions received		39,368	12,597	-	-
Interest received		32,478	31,259	559	334
Sundry income		2,086	3,492	-	-
Payments to related parties		-	-	(6,920)	(506)
Income tax (paid) / recovered		(20,096)	1,040	(301)	1,383
Underwriting and administrative expenses paid		(54,057)	(43,219)	(5,484)	(4,750)
Policyholder reward payment		(5)	(241)	-	-
Goods and services tax paid		(17,353)	(20,552)	(782)	(741)
Net cash inflow from operating activities	32	**99,484**	**99,668**	**(3,845)**	**3,911**
Cash flows from investing activities					
Purchase of investments		(633,980)	(298,521)	-	-
Proceeds from sale of investments		487,243	221,122	-	-
Purchase of fixed assets		(2,533)	(1,277)	-	-
Net cash outflow from investing activities		**(149,270)**	**(78,676)**	**-**	**-**
Cash flows from financing activities					
Payments for shares acquired		-	(10,650)	-	-
Net cash outflow from financing activities		**-**	**(10,650)**	**-**	**-**
Net (decrease) / increase in cash held		(49,786)	10,342	(3,845)	3,911
Cash acquired from business combination		-	33,570	-	-
Cash and cash equivalents at the beginning of the year		175,209	131,297	11,932	8,021
Cash and cash equivalents at the end of the year	9	**125,423**	**175,209**	**8,087**	**11,932**

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

Notes to the financial statements
30 June 2011

Note 1. Summary of significant accounting policies

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

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

(i) Compliance with IFRS

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

(ii) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2010:

- AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* – adopted early by the Group in the 2010 financial report
- AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*.

The adoption of these standards did not have any impact on the current period or any prior period and is not likely to affect future periods.

(iii) Early adoption of standards

AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*. The Group has elected to apply this pronouncement to the annual reporting period beginning 1 July 2010. This includes applying the revised pronouncement to the comparatives in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. None of the items in the financial statements have to be restated as the result of applying this standard.

Note 1. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(iv) New accounting standards and interpretations
Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

a) 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 its associates. However, there will be no impact on any of the amounts recognised in the financial statements.

b) AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* (effective from 1 July 2013)
On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. The Company decided to retain the current format of the financial statements rather than adopting the reduced disclosure requirements because one of its subsidiaries, AIL, holds an Australian Financial Services License ("AFSL"). Entities that hold AFSL need to prepare separate parent entity financial statements under the AFSL rules.

c) AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* (effective for annual reporting periods beginning on or after 1 July 2011)
Amendments made to AASB 7 *Financial Instruments: Disclosures* in November 2010 introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. They are not expected to have any significant impact on the Group's disclosures. The Group intends to apply the amendment from 1 July 2011.

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

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

Note 1. Summary of significant accounting policies (continued)

(b) Principles of consolidation

Subsidiaries
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2011 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.

(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.

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

Run-off Cover Scheme
The Medical Indemnity (Run-off Cover Support Payment) Act 2004 imposes an annual 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 policyholders 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.

Note 1. Summary of significant accounting policies (continued)

(j) Income tax

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

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

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

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

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

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

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

The Company and its controlled entities AGHL, The Medical Defence Association of Victoria Limited ("MDAV") and UNITED Medical Protection of New South Wales Limited ("UMP NSW"), are limited by guarantee and operate for the mutual benefit of their members. These entities have been treated as 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 AGHL, is taxed in accordance with normal taxation rules applicable to an insurance company.

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

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

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

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

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

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

Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

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

Note 1. Summary of significant accounting policies (continued)

(p) Financial assets

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

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

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

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

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

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

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

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

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

Note 1. Summary of significant accounting policies (continued)

(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.

(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.

Note 1. Summary of significant accounting policies (continued)

(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. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(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.

(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 in the balance sheet.

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.

Note 1. Summary of significant accounting policies (continued)

(w) Accumulated surpluses

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

The Group accumulated surpluses are generated from either:

(i) Mutual, tax exempt activities

(ii) Mutual, but taxable activities.

(x) Functional and presentation currency

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

(y) 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 schemes will not be withdrawn in whole or in part with retrospective effect.

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

Note 3. Insurance risk and actuarial assumptions

The Group has an objective to 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 specialization 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)

(a) Insurance risk (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:

	2011	2010
Normal inflation rate	4.06%	3.75%
Superimposed inflation	2.0 - 4.0%	2.0 - 4.0%
Average weighted discount rate	5.09%	4.85%
Average weighted term to settlement – known claims	2.80 years	2.90 years
Average weighted term to settlement – IBNR claims	11.0 years	7.7 years
Estimated ultimate number of claims	1,858	1,951
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 $500,000) and claims with an estimated cost of $500,000 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)

(b) 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%	(22,492)	(8,949)	(8,949)
	-1%	21,129	8,552	8,552
Superimposed inflation	2%	(56,024)	(20,172)	(20,172)
	-2%	30,528	13,212	13,212
Discount rates	1%	19,668	7,806	7,806
	-1%	(21,420)	(8,379)	(8,379)
Ultimate number of claims for incidents notified	10%	(22,848)	(11,021)	(11,021)
	-10%	22,932	11,198	11,198

Note 4. Net claims incurred

	Consolidated			Company		
	Current period	Prior periods	Total	Current period	Prior periods	Total
	$'000	$'000	$'000	$'000	$'000	$'000
2011						
Undiscounted claims incurred:						
Gross claims incurred	(190,219)	38,326	(151,893)	-	-	-
Reinsurance recoveries	74,646	(37,607)	37,039	-	-	-
Net claims incurred	(115,573)	719	(114,854)	-	-	-
Discount movement:						
Gross claims incurred	36,119	(26,295)	9,824	-	-	-
Reinsurance recoveries	(18,919)	21,889	2,970	-	-	-
Net discount movement	17,200	(4,406)	12,794	-	-	-
Net discounted claims	**(98,373)**	**(3,687)**	**(102,060)**	**-**	**-**	**-**
Discounted claims expense:						
Gross claims expense	(154,100)	12,031	(142,069)	-	-	-
Reinsurance recoveries	55,727	(15,718)	40,009	-	-	-
Net discounted claims expense	**(98,373)**	**(3,687)**	**(102,060)**	**-**	**-**	**-**

	Consolidated			Company		
	Current period	Prior periods	Total	Current period	Prior periods	Total
	$'000	$'000	$'000	$'000	$'000	$'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)**	**-**	**-**	**-**

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	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Employee related costs	(34,546)	(31,918)	-	-
Director related costs	(1,624)	(1,346)	(801)	(672)
Rental expense relating to operating leases	(2,685)	(2,545)	-	-
Other rent related outgoings	(645)	(790)	-	-
Depreciation and amortisation	(1,117)	(1,261)	-	-
General & administration expenses	(9,738)	(8,665)	(2,003)	(1,222)
Management fees paid	-	-	(2,703)	(2,844)
Investment management fees paid	(1,902)	(1,528)	-	-
Impairment loss on goodwill	-	(1,607)	-	-
Provision for impairment	(679)	(506)	-	-
	(52,936)	**(50,166)**	**(5,507)**	**(4,738)**
Acquisition costs	(12,889)	(10,892)	-	-
Other underwriting expenses	(35,435)	(34,654)	-	-
Other operating expenses	(4,612)	(4,620)	(5,507)	(4,738)
	(52,936)	**(50,166)**	**(5,507)**	**(4,738)**

Note 6. Investment income

	Consolidated		Company	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Interest	32,477	31,259	559	334
Dividends and distributions from unit trusts	38,234	12,205	-	-
Other	1,133	392	-	-
	71,844	43,856	559	334
Change in fair value of investments held at fair value through profit or loss	26,414	26,112	-	-
	98,258	**69,968**	**559**	**334**

Note 7. Other Income

	Consolidated		Company	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Membership subscription revenue	7,583	7,451	7,583	7,451
Government Support Scheme Fee income	1,778	3,043	-	-
Other income	260	763	-	-
	9,621	**11,257**	**7,583**	**7,451**

Note 8. Income tax

	Consolidated		Company	
	2011	2010	2011	2010
(a) Income tax expense	**$'000**	**$'000**	**$'000**	**$'000**
Current tax expense	(16,063)	(9,453)	(71)	(49)
Deferred tax expense	(12,853)	(23,098)	-	-
Over provision in prior years	397	58	-	-
Income tax expense attributable to profit from continuing operations	**(28,519)**	**(32,493)**	**(71)**	**(49)**

(b) Numerical reconciliation of income tax expense to prima facie tax payable

Profit from continuing operations before income tax	93,439	116,351	2,635	3,047
Tax at Australian tax rate of 30% (2010: 30%)	(28,032)	(34,905)	(790)	(914)
Other permanent differences	(3,813)	578	719	865
Effect of excess franking offset converted to tax loss	-	1,776	-	-
Effect of franking credits	2,929	-	-	-
Current year income tax expense	(28,916)	(32,551)	(71)	(49)
Over provision in prior years	397	58	-	-
Income tax expense	**(28,519)**	**(32,493)**	**(71)**	**(49)**

(c) Deferred tax assets

The balance comprises temporary differences attributable to:

Amounts recognised in the profit or loss:

Accruals and provisions	14,793	13,318	-	-
Financial assets	9,040	18,339	-	-
Non Financial assets	-	482	-	-
Investments	75	75	-	-
	23,908	32,214	-	-
Deferred tax recognised on losses	121	121	121	121
Total deferred tax assets	**24,029**	**32,335**	**121**	**121**

Movements:

Opening balance at the beginning of the year	32,335	53,790	121	10,891
Acquisitions	-	306	-	-
Prior year over provision	446	58	-	58
Charged to the income statement	(8,306)	(21,819)	-	-
Utilisation of prior year tax losses	(446)	-	-	(10,949)
Amounts payable to Group members under tax sharing and funding agreement	-	-	-	121
Closing balance at the end of the year	**24,029**	**32,335**	**121**	**121**

Note 8. Income tax (continued)

	Consolidated		Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
(d) Deferred tax liabilities				
Financial assets	4,642	532	-	-
Interest receivable	38	46	-	-
Investment in associates	1,505	1,506	-	-
Investments	-	-		
Total deferred tax liabilities	**6,185**	**2,084**	**-**	**-**
Movements:				
Opening balance at the beginning of the year	2,084	878	-	-
Charged to the income statement	4,101	1,206	-	-
Closing balance at the end of the year	**6,185**	**2,084**	**-**	**-**
(e) Set-off of deferred tax balances				
Set-off of deferred tax assets against deferred tax liabilities pursuant to set-off provisions:				
Deferred tax assets	24,029	32,335	121	121
Deferred tax liabilities	(6,185)	(2,084)	-	-
Total deferred tax asset after set-off	**17,844**	**30,251**	**121**	**121**
(f) Franking credits				
Franking credits available for the subsequent financial years based on a tax rate of 30% (2010: 30%)	**161,197**	**138,746**	**138,746**	**138,746**

(g) 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	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Cash at bank and in hand	125,423	175,209	8,087	11,932
	125,423	**175,209**	**8,087**	**11,932**
Reconciliation to cash at the end of the year				
The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:				
Balances as above	125,423	175,209	8,087	11,932
Balances per statement of cash flows	**125,423**	**175,209**	**8,087**	**11,932**

Note 10. Receivables

	Consolidated		Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Premium and subscription debtors	37,957	42,822	179	168
Provision for impairment	(919)	(481)	(178)	(54)
Net premium and subscription revenue debtors	37,038	42,341	1	114
Sundry debtors	3,034	2,890	-	-
Receivable from related entity	-	-	14,898	9,814
Net receivables	**40,072**	**45,231**	**14,899**	**9,928**

All receivables that are more than 90 days 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	
		2011	2010	2011	2010
		$'000	$'000	$'000	$'000
Investments held at fair value through profit or loss					
Short duration interest bearing securities		85,353	156,678	-	-
Fixed interest securities		405,569	372,328	-	-
Unlisted unit trusts		501,457	290,222	-	-
		992,379	**819,228**	**-**	**-**
Investments held at cost					
Investments in controlled entities	26	-	-	508,602	508,602
		-	**-**	**508,602**	**508,602**
		992,379	**819,228**	**508,602**	**508,602**
		-			
Current financial assets		162,151	161,685	-	-
Non-current financial assets		830,228	657,543	508,602	508,602
		992,379	**819,228**	**508,602**	**508,602**

Note 12. Reinsurance and other recoveries

	Consolidated		Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Expected future reinsurance and other recoveries undiscounted on:				
Paid claims	65,415	80,279	-	-
Outstanding claims	504,570	431,496	-	-
	569,985	511,775	-	-
Discount to present value	(144,489)	(74,521)	-	-
Provision for impairment of reinsurance and other recoveries	(58,492)	(57,732)	-	-
Reinsurance and other recoveries on claims	**367,004**	**379,522**	**-**	**-**
Reinsurance and other recoveries receivable - current	82,897	81,517	-	-
Less: Provision for impairment of reinsurance assets	(26,056)	(19,881)	-	-
	56,841	**61,636**	**-**	**-**
Reinsurance and other recoveries receivable - non current	342,599	355,737	-	-
Less: Provision for impairment of reinsurance assets	(32,436)	(37,851)	-	-
	310,163	**317,886**	**-**	**-**
	367,004	**379,522**	**-**	**-**

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 $12,468,000 (2010: $12,971,000) in respect of these recoveries have been offset against the recoveries as at 30 June 2011.

The provision for impairment has been made on the best information available to 30 June 2011 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 which HIH company the recovery is due, provisions of between 35.0% and 67.0% have been made (2010: 37.5% and 66.5%).

Note 13. Deferred Expenses

	Consolidated		Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Deferred reinsurance premiums	6,685	6,427	-	-
Deferred ROCS expense	2,976	3,227	-	-
Deferred acquisition costs	4,138	4,105	-	-
	13,799	**13,759**	**-**	**-**

Note 14. Property, plant and equipment

	Consolidated		Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Gross carrying value				
At the beginning of the year	4,384	6,461	-	-
Additions	1,889	1,018	-	-
Reclassification	154	-	-	-
Written off in the year	-	(3,095)	-	-
At the end of the year	**6,427**	**4,384**	**-**	**-**
Accumulated depreciation				
At the beginning of the year	(1,854)	(3,838)	-	-
Written off in the year	-	3,095	-	-
Depreciation expense for the year	(967)	(1,111)	-	-
At the end of the year	**(2,821)**	**(1,854)**	**-**	**-**
Net carrying value at the end of the year	**3,606**	**2,530**	**-**	**-**

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	Office & computer equipment	IT software	Leasehold improve-ments	Total
	$'000	$'000	$'000	$'000	$'000
Consolidated					
Net carrying value at 1 July 2010	1,255	655	499	121	2,530
Additions	130	688	790	281	1,889
Reclassification	-	-	154	-	154
Depreciation	(62)	(403)	(386)	(116)	(967)
Net carrying value at 30 June 2011	**1,323**	**940**	**1,057**	**286**	**3,606**

Note 15. Intangible assets

	Consolidated		Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Gross carrying value				
At the beginning of the year	4,348	2,482	-	-
Additions	567	1,866	-	-
Reclassification	(154)	-	-	-
At the end of the year	**4,761**	**4,348**	**-**	**-**
Accumulated amortisation				
At the beginning of the year	(3,039)	(1,282)	-	-
Amortisation charge	(150)	(150)	-	-
Impairment	-	(1,607)	-	-
At the end of the year	**(3,189)**	**(3,039)**	**-**	**-**
Net carrying value at the end of the year	**1,572**	**1,309**	**-**	**-**

Reconciliations

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

	IT development and software	Value of customer relationships	Total
	$'000	$'000	$'000
Consolidated			
Net carrying value at 1 July 2010	259	1,050	1,309
Additions	567	-	567
Reclassification	(154)	-	(154)
Amortisation	-	(150)	(150)
Net carrying value at 30 June 2011	**672**	**900**	**1,572**

*Amortisation of $150,000 (2010: $150,000) is included in depreciation and amortisation expense in the statement of comprehensive income

Note 16. Payables

	Consolidated		Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Sundry creditors and accruals	23,626	20,377	565	50
Reinsurance premiums payable	4,507	4,341	-	-
ROCS levy payable	2,352	2,548	-	-
Payable to related entity	-	-	1,242	1,287
	30,485	**27,266**	**1,807**	**1,337**

Note 17. Outstanding claims liabilities

	Consolidated		Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
(a) Outstanding claims liabilities				
Central estimate	795,429	722,626	-	-
Discount to present value	(182,231)	(149,369)	-	-
	613,198	573,257	-	-
Risk margin	135,543	137,913		-
Gross outstanding claims liabilities - discounted	**748,741**	**711,170**	**-**	**-**
Current outstanding claims liabilities	143,379	129,919	-	-
Non-current outstanding claims liabilities	605,362	581,251	-	-
	748,741	**711,170**	**-**	**-**
Gross claims outstanding – undiscounted	**931,590**	**860,539**	**-**	**-**

Note 17. Outstanding claims liabilities (continued)

(b) Risk margin

The process used to determine the risk margin is explained in note 3. The probability of adequacy at 30 June 2011 is 85% (2010: 85%).

The risk margin included in gross outstanding claims at 30 June 2011 is 17.04% (2010: 19.08%) on a weighted average basis to the underlying liabilities.

(c) Reconciliation of movement in discounted outstanding claims liability

Consolidated			2011			2010
	Gross	Re-insurance	Net	Gross	Re-insurance	Net
	$'000	$'000	$'000	$'000	$'000	$'000
Brought forward	711,170	(353,205)	357,965	734,297	(376,124)	358,173
Outstanding claims / recoveries managed claims in run-off	10,270	(4,823)	5,447	12,481	(4,110)	8,371
Effect of changes in assumptions	12,031	(15,718)	(3,687)	(55,721)	31,936	(23,785)
Increase in claims incurred /						
Recoveries anticipated over the year	143,702	(60,485)	83,217	157,861	(82,933)	74,928
Claim payments / recoveries during the year	(128,432)	79,143	(49,289)	(137,748)	78,026	(59,722)
Carried forward	**748,741**	**(355,088)**	**393,653**	**711,170**	**(353,205)**	**357,965**

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	**2002 and prior** **$'000**	**2003** **$'000**	**2004** **$'000**	**2005** **$'000**	**2006** **$'000**	**2007** **$'000**	**2008** **$'000**	**2009** **$'000**	**2010** **$'000**	**2011** **$'000**	**Total** **$'000**
Estimate of ultimate claims cost											
At end of accident year	542,054	21,086	20,246	36,954	32,815	50,601	60,471	61,764	59,383	**71,042**	
One year later	508,466	38,965	45,984	67,709	91,781	106,065	117,502	113,337	**132,990**		
Two years later	469,608	33,393	47,033	84,331	80,098	95,524	112,097	**117,343**			
Three years later	417,979	37,432	88,621	63,164	79,818	89,353	**118,348**				
Four years later	377,686	47,495	71,625	76,646	71,452	**88,495**					
Five years later	497,691	49,033	66,900	79,926	**67,214**						
Six years later	506,238	45,827	59,151	**79,720**							
Seven years later	501,453	41,054	**68,223**								
Eight years later	488,439	**44,285**									
Nine years later	**495,429**										
Current estimate of cumulative claims cost	495,429	44,285	68,223	79,720	67,214	88,495	118,348	117,343	132,990	71,042	1,283,089
Cumulative payments	(430,653)	(39,363)	(45,896)	(51,657)	(40,892)	(48,230)	(49,562)	(32,532)	(13,566)	(1,784)	(754,135)
Outstanding claims- undiscounted	64,776	4,922	22,327	28,063	26,322	40,265	68,786	84,811	119,424	69,258	528,954
Discount											(98,665)
Claims handling expenses											33,163
Risk margin											89,723
Claims managed in run-off											16,261
GST											12,586
Total gross outstanding claims											582,022

i) Net	**2002 and prior** **$'000**	**2003** **$'000**	**2004** **$'000**	**2005** **$'000**	**2006** **$'000**	**2007** **$'000**	**2008** **$'000**	**2009** **$'000**	**2010** **$'000**	**2011** **$'000**	**Total** **$'000**
Estimate of ultimate claims cost											
At end of accident year	235,749	19,271	16,814	27,435	24,185	39,522	44,690	43,353	41,044	**45,300**	
One year later	217,287	34,057	35,483	49,428	70,040	73,121	87,281	80,261	**87,122**		
Two years later	177,424	30,244	35,490	59,134	58,004	69,504	79,916	**77,866**			
Three years later	128,311	28,478	58,073	46,902	57,130	65,416	**80,864**				
Four years later	89,252	38,058	49,625	48,882	52,484	**63,952**					
Five years later	166,278	36,968	45,419	49,869	**49,771**						
Six years later	169,046	33,720	41,475	**50,577**							
Seven years later	153,735	33,580	**42,874**								
Eight years later	151,081	**34,431**									
Nine years later	**149,622**										
Current estimate of cumulative claims cost	149,622	34,431	42,874	50,577	49,771	63,952	80,864	77,866	87,122	45,300	682,379
Cumulative payments	(130,921)	(32,209)	(37,471)	(38,701)	(34,059)	(41,264)	(38,675)	(26,747)	(13,097)	(1,767)	(394,911)
Outstanding claims- undiscounted	18,701	2,222	5,403	11,876	15,712	22,688	42,189	51,119	74,025	43,533	287,468
Discount											(39,665)
Claims handling expenses											32,456
Claims managed in run-off											11,438
Risk margin											47,064
Total net outstanding claims											338,761

Note 17. Outstanding claims liabilities (continued)

(d) Claims development table (continued)

Mutual entities

i) Gross	2002 and prior $'000	2003 $'000	2004 $'000	2005 $'000	2006 $'000	2007 $'000	2008 $'000	2009 $'000	2010 $'000	2011 $'000	Total $'000
Estimate of ultimate claims cost											
At end of accident year	1,118,734	42,376	19,919	10,929	7,239	14,780	8,619	6,449	5,157	**6,558**	
One year later	938,566	53,267	26,101	22,235	27,906	32,768	12,555	10,325	**11,918**		
Two years later	686,491	43,373	17,847	28,689	26,883	26,997	9,434	**9,628**			
Three years later	505,732	43,373	59,221	35,718	22,394	30,796	**7,079**				
Four years later	423,534	81,993	44,483	29,118	20,126	**29,106**					
Five years later	598,441	76,831	36,915	26,178	**20,965**						
Six years later	583,328	72,603	40,499	**25,173**							
Seven years later	530,995	71,338	**44,131**								
Eight years later	473,809	**73,590**									
Nine years later	**437,303**										
Current estimate of cumulative claims cost	437,303	73,590	44,131	25,173	20,965	29,106	7,079	9,628	11,198	6,558	664,731
Cumulative payments	(331,151)	(59,299)	(30,616)	(21,246)	(8,963)	(16,752)	(1,013)	(2,375)	(219)	(26)	(471,660)
Outstanding claims- undiscounted	106,152	14,291	13,515	3,927	12,002	12,354	6,066	7,253	10,979	6,532	193,071
Discount											(50,362)
Claims handling expenses											10,005
Risk margin											38,371
GST											3,252
Total gross outstanding claims											**194,337**

i) Net	2002 and prior $'000	2003 $'000	2004 $'000	2005 $'000	2006 $'000	2007 $'000	2008 $'000	2009 $'000	2010 $'000	2011 $'000	Total $'000
Estimate of ultimate claims cost											
At end of accident year	109,387	0	0	0	0	2,627	947	669	133	**1,447**	
One year later	54,037	0	0	0	8,001	6,406	3,302	1,413	**1,867**		
Two years later	36,240	0	0	8,210	8,049	3,898	2,422	**1,045**			
Three years later	22,408	0	25,587	7,725	4,711	4,752	**3,750**				
Four years later	16,198	33,021	19,902	6,064	5,047	**4,690**					
Five years later	123,163	35,701	17,528	6,464	**5,362**						
Six years later	126,152	28,746	18,208	**6,898**							
Seven years later	115,919	30,107	**18,506**								
Eight years later	109,802	**33,384**									
Nine years later	**115,158**										
Current estimate of cumulative claims cost	115,158	33,384	18,506	6,898	5,362	4,690	3,750	1,045	1,867	1,447	192,107
Cumulative payments	(86,574)	(27,002)	(14,667)	(5,934)	(4,198)	(2,853)	(604)	(142)	(197)	(10)	(142,181)
Outstanding claims- undiscounted	28,584	6,382	3,839	964	1,164	1,837	3,146	903	1,670	1,437	49,926
Discount											(10,966)
Claims handling expenses											5,967
Risk margin											9,965
Total net outstanding claims											**54,892**

Note 17. Outstanding claims liabilities (continued)

(d) Claims development table (continued)

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	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Restoration provision	603	556	-	-
Employee entitlements	3,709	3,504	-	-
Provision for reinsurance premiums payable	8,676	11,269	-	-
	12,988	**15,329**	**-**	**-**
Current provision	4,290	7,328	-	-
Non-current provision	8,698	8,001	-	-
	12,988	**15,329**	**-**	**-**
Numbers of employees at reporting date	240	236	-	-

The restoration provision relates to the expected costs of restoring the current leased 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 entitlements Current	Provision for reinsurance premiums payable Current	Employee entitlements Non-current	Provision for reinsurance premiums payable Non-current	Restoration provision Non-current	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Carrying value 1 July 2010	1,623	5,705	1,881	5,564	556	15,329
Additional provisions recognised	4,795	-	144	-	-	4,939
Payments	(4,777)	(1,176)	(56)	-	-	(6,009)
Increase / (reductions) from remeasurement	-	(1,880)	99	463	47	(1,271)
Carrying value 30 June 2011	**1,641**	**2,649**	**2,068**	**6,027**	**603**	**12,988**

Note 19. Unearned income

	Consolidated		Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Unearned subscriptions	3,406	3,294	3,406	3,294
Unearned premiums	65,349	70,186	-	-
	68,755	**73,480**	**3,406**	**3,294**
Unearned premium liability at the beginning of the year	70,186	71,378	-	-
Deferral of premiums on contracts written in the period	65,349	70,186	-	-
Earnings of premiums written in previous periods	(70,186)	(71,378)	-	-
Unearned premium liability at the end of the year	**65,349**	**70,186**	**-**	

The application of the liability adequacy test in respect of the net premium liabilities identified a surplus at 30 June 2011 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:

2011		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	125,423	-	-	-	-	125,423
Receivables	-	-	-	-	40,072	40,072
Reinsurance and other recoveries	-	-	-	-	367,004	367,004
Financial assets - investments	91,415	161,196	141,884	101,659	496,225	992,379
Total financial assets	**216,838**	**161,196**	**141,884**	**101,659**	**903,301**	**1,524,878**
Weighted average interest rate	4.09%	4.74%	5.11%	5.10%		
Financial liabilities						
Payables	-	-	-	-	30,485	30,485
Provisions	-	-	-	-	12,988	12,988
Outstanding claims liabilities	-	-	-	-	748,741	748,741
Total financial liabilities	-	-	-	-	792,214	792,214
Net financial assets	**216,838**	**161,196**	**141,884**	**101,659**	**111,087**	**732,664**

Note 20. Financial risk management (continued)

(a) Market risk (continued)

(i) Interest rate risk (continued)

2010			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	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**

Reconciliation of net financial assets to net assets	2011	2010
	$'000	$'000
Net financial assets as above		
Interest bearing	621,577	708,469
Non-Interest bearing	111,087	(43,044)
Net financial assets	732,664	665,425
Net non-financial liabilities	(39,367)	(37,048)
Net assets	**693,297**	**628,377**

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:

	Movement in variable	FINANCIAL IMPACT * Profit/ (Loss) 2011 $'000	Equity 2011 $'000	Profit / (Loss) 2010 $'000	Equity 2010 $'000
Interest rate movement - interest bearing financial assets	100 bpt +	(7,479)	(7,479)	(8,344)	(8,344)
	100 bpt -	7,488	7,488	8,354	8,354

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

(ii) Price Risk

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

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

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

The potential impact of movements in the market value of 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% (2010: 20%) with all other variables held constant.

	Movement in variable %	FINANCIAL IMPACT * Profit / (Loss) 2011 $'000	Equity 2011 $'000	Profit / (Loss) 2010 $'000	Equity 2010 $'000
Unit trusts	20% +	70,204	70,204	40,634	40,634
	20% -	(70,204)	(70,204)	(40,634)	(40,634)

* 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 2011	CREDIT RATING					
	AAA	AA	A	BBB	Not rated	TOTAL
	$'000	$'000	$'000	$'000	$'000	$'000
Cash at bank and short-term bank deposits		125,423	-	-	-	125,423
Receivables	-	-	-	-	40,072	40,072
Financial assets	319,723	57,928	96,891	7,498	510,339	992,379
Reinsurance and other recoveries	306,230	22,529	35,525	-	2,720	367,004

Note 20. Financial risk management (continued)

(b) Credit risk (continued)

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	-	-	-	-	45,231	45,231
Financial assets	356,224	65,268	70,910	15,850	310,976	819,228
Reinsurance and other recoveries	325,444	13,942	30,516	-	9,620	379,522

(c) Liquidity risk

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

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

As at 30 June 2011	1-3 months	3-6 months	6-12 months	Between 1-2 years	Over 2 years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Payables	30,485	-	-	-	-	30,485
Provisions	-	-	4,290	6,026	2,672	12,988

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	-	-	7,329	5,563	2,437	15,329

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.

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

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

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

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

The following tables represent the Group's assets measured and recognised at fair value at 30 June 2011 and 30 June 2010.

As at 30 June 2011	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Financial assets at fair value through profit or loss				
Short duration interest bearing securities	7,786	77,567	-	85,353
Fixed interest securities	53	404,510	1,006	405,569
Unlisted unit trusts	-	501,457	-	501,457
	7,839	**983,534**	**1,006**	**992,379**

As at 30 June 2011	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'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 unit trust	7	290,222	-	290,229
	20,614	**797,615**	**1,006**	**819,235**

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 Group is the current bid price. These instruments are included in level 1.

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

The following table present the change in level 3 instruments for the years ended 30 June 2011 and 30 June 2010:

Reconciliation of Level 3 transactions	Total $'000
Opening balance at 1 July 2009	-
Transfers into level 3	1,006
Closing balance at 30 June 2010	1,006
Transfers into level 3	-
Closing balance at 30 June 2011	1,006

The Group continues to classify two fixed interest securities as level 3 as the assets have not been traded in the market in over a year.

Note 21. Equity

	Consolidated		Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
(a) Reserves				
Available-for-sale reserve				
At the beginning of the year	-	97	-	-
Effect of change in accounting policy for classification and measurement of financial assets, net of tax	-	(97)	-	-
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	**54,598**	**508,602**	**508,602**
(b) Accumulated surpluses				
At the beginning of the year				
- Mutual - Tax exempt	219,620	216,534	7,526	4,731
- Mutual - Taxable	354,159	273,290	371	168
	573,779	489,824	7,897	4,899
Effect of change in accounting policy for classification and measurement of financial assets, net of tax				
- Mutual - Tax exempt	-	-	-	-
- Mutual - Taxable	-	97	-	-
	-	97	-	-
Total comprehensive income for the year				
- Mutual - Tax exempt	(8,023)	3,086	2,216	2,794
- Mutual - Taxable	72,943	80,772	348	204
	64,920	83,858	2,564	2,998
At the end of the year				
- Mutual - Tax exempt	211,597	219,620	9,742	7,526
- Mutual - Taxable	427,102	354,159	719	371
	638,699	**573,779**	**10,461**	**7,897**

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

Note 21. Equity (continued)

(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	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Short-term employee benefits				
Cash salary and fees	4,078	3,893	933	799
Post-employment benefits				
Superannuation	367	350	84	72
Termination benefits	114	-	6	-
Total remuneration	4,559	4,243	1,023	871

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	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Audit services				
PricewaterhouseCoopers Australian Firm:				
Audit of financial reports	628	646	62	61
Other assurance services				
PricewaterhouseCoopers Australian Firm:				
Audit of regulatory returns	111	132	11	11
Other services				
PricewaterhouseCoopers Australian Firm:				
Taxation services	-	12	-	-
Actuarial services	54	69	-	-
	793	**859**	**73**	**72**

Note 24. Commitments for expenditure

	Consolidated		Company	
	2011	2010	2011	2010
	$'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	3,163	3,084	-	-
Later than one year but not later than five years	11,206	10,117	-	-
Later than five years	453	2,314	-	-
	14,822	**15,515**	**-**	**-**

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 $2,684,878 (2010: $2,545,000).

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 Beverly Rowbotham
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 2011, 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 2011, 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 2011.

Related party transactions

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

(a) A decrease in insurance recoveries paid or payable from AIL to AGHL for the period 1 July 2010 to 30 June 2011 of $1,556,000 (2010: decrease of $2,373,000) in respect of claims arising from the indemnity risks insured by AIL. Included in outstanding claims liabilities (note 17) is an amount payable to AGHL by AIL of $4,932,000 (2010: $6,488,000).

(b) Included in reinsurance and other recoveries (note 12) is an amount receivable from AGHL by AIL of $1,416,000 (2010: $2,888,000).

(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 $2,702,884 (2010: $2,843,790) paid to the controlled entity.

(e) At 30 June 2011, AIL is due to receive $151,559 (2010: $656,123) from Avant Law Pty Limited ("Avant Law") for the settlement of inter-company transactions.

(f) At 30 June 2011, AIL is due to receive $3,326,780 (2010: pay $14,559) from The Medical Defence Association of Victoria Limited ('MDAV') for the settlement of inter-company transactions.

(g) At 30 June 2011, AIL is due to receive $729,097 (2010: pay $137,821) from AGHL for the settlement of inter-company transactions.

(h) At 30 June 2011, AGHL is due to pay $44,757 (2010: $322,350) to Avant Law for the settlement of inter-company transactions.

(i) At 30 June 2011, AGHL is due to receive $12,593 (2010: $28,612) from MDAV for the settlement of inter-company transactions.

(j) At 30 June 2011, United Medical Protection Limited ("UMP") (formerly AMRAS Limited) is due to receive $600,000 (2010: $nil) from AGHL for the settlement of inter-company transactions.

(k) At 30 June 2011, The Medical Defence Union Pty Ltd ("MDU") is due to receive $nil (2010: $7,843) from MDAV for the settlement of inter-company transactions.

(l) The Company is due to receive $6,364,568 (2010: pay $8,947,558) from AIL; $6,802 (2010: pay $114,002) from UMP; $357,300 (2010: $nil) from MDAV; $311,027 (2010: $759,042) from MDU; $2,823,225 (2010: $nil) from AGHL; $35,453 (2010: $107,969) from UMP NSW in respect of the controlled entities' income tax liabilities and $5,000,000 from AGHL in respect of intercompany funding; and due to pay $397,386 (2010: $114,002) to Avant Law in respect of the controlled entity's income tax receivable and $844,476 to PIA.

Note 26. Investments in controlled entities

Name of Entity	Country of incorporation	Class of shares	Ownership Interest 2011 %	2010 %
Avant Group Holdings Limited (formerly *UNITED Medical Protection Limited*)	Australia	Ordinary	100	100
The Medical Defence Association of Victoria	Australia	Ordinary	100	100
Investments in controlled entities of Avant Group Holdings Limited				
Avant Insurance Limited	Australia	Ordinary	100	100
The Medical Defence Union Pty Ltd	Australia	Ordinary	100	100
United Medical Protection of New South Wales Limited*	Australia	-	-	-
United Medical Protection Limited (*formerly 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	100

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

Note 27. Investments in associates

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 and classified as investment in associates. 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	
	2011	2010
	$'000	$'000
Movements		
At the beginning of the year	-	14,831
Transferred to investments held at cost	-	(14,831)
Balance at the end of the year	-	-
Share of associates' profit		
Profit before tax	-	4,499
Income tax (expense) / benefit	-	(1,314)
Net profit	-	3,185
Less: dividends received/receivable	-	-
	-	**3,185**
Summarised financial information of associates		
Revenues	-	7,649
Net profit	-	4,540
Assets	-	46,189
Liabilities	-	(19,130)

Note 28. Business combination

On 29 June 2010, The MDU, a wholly owned subsidiary within the Avant Mutual Group, acquired the remaining shares (33.42%) in 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:

	2011 $'000	2010 $'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	$'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

a) At the request of the Group, Westpac Banking Corporation Limited has undertaken to pay on demand amounts up to $1,327,886 (2010: $1,134,473) in respect of lease payments payable. This bank guarantee is secured by a fixed charge over the Group's cash deposits.

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

   In June 2003, the insurance agreement between the MDAV and PIA expired and was not renewed. As a consequence pursuant to the conditions of the agreement, the PIA'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 reverted back to the PIA from 1 July 2011.

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

a) Proposed acquisition of The Doctors' Health Fund

On 12 August 2011, AGHL, a wholly owned subsidiary of the Company, announced its intention to acquire The Doctors' Health Fund Limited, a registered private health insurer. An Implementation Deed has been signed with the acquisition subject to regulatory and Court approvals and the approval of the members of The Doctors' Health Fund Limited.

b) Market volatility

The Group holds investments in a diversified portfolio of Australian and international unlisted trusts and is consequently exposed to the market risk associated with these investments.

Since the balance date Australian and international markets have experienced a period of significant falls, impacting on the valuation of the Group's investment portfolio.

As investments are measured at their 30 June 2011 fair values in the financial report, these subsequent falls in value are not reflected in the statement of comprehensive income or the balance sheet.

Note 20 Financial Risk Management, provides a sensitivity analysis of the potential impact of movements in market values of unlisted trusts on the Group's statement of comprehensive income.

The Group has a robust investment strategy which includes a diversified investment portfolio with defensive assets supporting insurance operations and surplus assets invested in a balanced growth portfolio. This investment strategy has and is expected to serve the Group well over the long term.

c) Loyalty reward plan

On 30 September 2011, the Directors determined that the LRP for members who renew during calendar year 2012 will be between 5.5% and 11.0% of the premium payable dependent upon the member's years of continuous membership.

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 eceive any announced reward under the LRP as a deduction from their premium on the member's next renewal notice.

d) Other

Other than those described above, no other matter or circumstance has arisen since 30 June 2011 that has significantly affected or may significantly affect:

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

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

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

Note 32. Reconciliation of profit from continuing operations after income tax to net cash inflow from operating activities

	Consolidated		Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Profit from continuing operations after income tax	**64,920**	**83,858**	**2,564**	**2,998**
Depreciation, amortisation and impairment loss	1,117	2,868	-	-
Change in fair value of investments held at fair value through profit or loss	(26,414)	(26,112)		
Share in net profit of associates	-	(3,185)	-	-
Net movement in amounts due to related parties	-	-	(5,129)	(20,680)
Decrease / (increase) in:				
Receivables	5,230	6,581	113	70
Reinsurance and other recoveries	(17,923)	20,713	-	-
Deferred expenses	11	(580)	-	-
Deferred tax assets	12,407	22,698	-	10,769
Other operating assets	2,114	3,666	-	-
Increase / (decrease) in:				
Reinsurance premiums payable	463	(3,715)	-	-
Outstanding claims	66,305	(15,210)	521	-
Unearned premiums	(4,771)	(1,280)	113	(88)
Income tax payable	(3,984)	10,881	(2,020)	10,881
Provisions	(2,803)	670	-	-
Other operating liabilities	2,812	(2,185)	(7)	(39)
Net cash inflow / (outflow) from operating activities	**99,484**	**99,668**	**(3,845)**	**3,911**

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:

	2011 $'000	2010 $'000
Tier 1 capital		
Contributed equity	149,000	149,000
Retained earnings	230,765	252,852
Current year earnings (net of tax)	57,352	69,676
Intangible assets, net deferred tax liabilities	(16,697)	(21,159)
Excess technical provisions (net of tax)	14,321	14,711
Total premium surplus/ (deficit)	7,254	-
Net Tier 1 capital	441,995	465,080
Total capital base	**441,995**	**465,080**
Minimum capital requirement		
Off balance sheet risk	27	68
Insurance risk	64,294	51,257
Investment risk	66,347	54,366
Maximum event retention risk charge	28,100	27,400
Total minimum capital requirement	**158,768**	**133,091**
Capital adequacy multiple	2.78	3.49

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 three 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%, 2010 85%); and

(b) GPS 210 requires an assessment of premium liability (unearned premium less deferred acquisition costs, deferred reinsurance expense and ROCS levy is used for accounting purposes).

(c) The surplus between the premium liabilities per APRA requirements and premium liabilities per AASB 1023 Premium Liabilities is included in tier 1 capital.

Directors' Declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 12 to 63 are in accordance with the Corporations Act 2001, including:

- (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (ii) giving a true and fair view of the Company's and Group's financial position as at 30 June 2011 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.

Stuart L Boland

Dr Stuart Boland
Chairman

Melbourne
30 September 2011

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

Report on the financial report

We have audited the accompanying financial report of Avant Mutual Group Limited (the company), which comprises the balance sheet as at 30 June 2011, 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 consolidated entity). The consolidated entity 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(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.

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

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

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 consolidated entity's financial position as at 30 June 2011 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).

PricewaterhouseCoopers

PricewaterhouseCoopers

S J Hadfield

S J Hadfield — Sydney
Partner — 30 September 2011

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