Avant mutual
by doctors for doctors

Financial Report
2017/2018

Avant Mutual Group Limited ABN 58 123 154 898

(A company limited by guarantee)

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Avant Mutual Group Limited is a company limited by guarantee, incorporated and domiciled in Australia. Its registered office and principal place of business is Level 6, Darling Park 3, 201 Sussex Street, Sydney, NSW 2000, Australia.

The financial report was authorised for issue by the Directors on 27 September 2018.

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

Directors' report

30 June 2018

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 2018.

Directors

The following persons were Directors of the Company during the financial year ended 30 June 2018 and up to the date of this report:

Professor Simon Willcock (Chairman)

Mr Peter Beck

Dr Jan Dudley

The Hon John Fahey

Dr William Glasson

Dr Steven Hambleton

Mr Peter Polson

Dr Beverley Rowbotham

Dr Douglas Travis

Principal activities

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

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

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

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

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

Dividends paid or recommended

During the year the Board declared dividends under the Retirement Reward Plan (RRP) totalling $7,569,612 to eligible retiring members. These were the dividends determined under the RRP, and this marked the third time the Board has determined to pay franked dividends to members.

Review of operations

The Group's result for the year ended 30 June 2018 is a net profit after tax of $94,957,466 (2017: $80,041,386). The total members' accumulated equity as at 30 June 2018 is $1,192,937,234 (2017: $1,105,573,162).

Retirement Reward Plan

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

During the year the Company resolved to notionally contribute an additional $21,004,993 to the RRP in respect to the year ended 30 June 2018. This brings the total assets notionally allocated to the RRP of $334,233,999 as at 30 June 2018.

Directors' report (continued)

30 June 2018

Matters subsequent to the end of the financial year

a) Retirement Reward Plan

For the fourth consecutive year, having considered the financial position and projected outlook for Avant, the Board resolved to notionally contribute a further $22,819,318 to the RRP in respect of the year ended 30 June 2018.

In addition, at that meeting, the Board also resolved to determine dividends and authorise payments for Retirement Reward Dividends totalling $8,486,080 to eligible retiring members. These are the fourth dividends determined under the RRP, and this historically continues the tradition of being the first medical defence organisation in Australia to pay fully franked dividends to members.

b) Liquidation of unit trust

AIL held an investment of $54,532,451 in the absolute return bond manager GAM at 30 June 2018. Following the suspension of their main portfolio manager on 31 July 2018 AIL lodged a statement of redemption of the investment. GAM have given notice that the trust has frozen redemptions, the fund's trustee Equity Trustees is proceeding to wind up the fund and have begun liquidating the master trust that houses AIL's holding and have advised that no material client detriment has been identified to date.

Equity Trustee stated on 13 August 2018 that it expected unitholders will periodically receive interim distributions as cash becomes available throughout the liquidation process. On 13 September AIL received a 60% redemption of the holding.

c) Other

Other than those described above, no other matter or circumstance has arisen since 30 June 2018 that has significantly affected or may significantly affect:

i. the operations of the Group in future financial years, or

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

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

Significant changes in the state of affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the Group that occurred during the financial year ended 30 June 2018.

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)

30 June 2018

Information on Directors

Professor Simon Willcock MBBS (Hons I), PhD, FRACGP, Dip. Obs. RANZCOG/RACGP, GAICD	
Experience and expertise	Professor Simon Willcock is the Chair of AMGL and AGHL, and a Director of AIL and DHF. He is a General Practitioner who has worked in both rural and urban NSW. Professor Willcock is currently the Director of Primary Care at Macquarie University Hospital, and his educational and research interests include musculoskeletal medicine, the health of doctors and generational change in the medical workforce. In 2013, Professor Willcock was inducted into the AMA's Roll of Fellows, in recognition of his contribution to the medical profession. Professor Willcock is a graduate of the Australian Institute of Company Directors.
Avant Directorships	Avant Mutual Group Limited (Chair), Avant Group Holdings Limited (Chair), Avant Insurance Limited, The Doctors' Health Fund Pty Ltd, The Medical Defence Association of Victoria Limited, The Medical Defence Union Pty. Ltd., Professional Insurance Australia Pty Ltd and United Medical Protection Limited (formerly UMP NSW).

Mr Peter Beck BSc, FIA, FIAA, FSA, FASFA	
Experience and expertise	Mr Peter Beck is a Director of AMGL, AGHL and AIL. Mr Beck is an actuary by profession and has over 40 years' experience in banking, insurance, superannuation and investments working in Australia, New Zealand, Asia, South Africa and the United Kingdom. He was formerly CEO of Pillar Administration, CEO of CommInsure, and Group General Manager, Strategic Development and Group Appointed Actuary at Colonial.
Avant Directorships	Avant Mutual Group Limited, Avant Group Holdings Limited, Avant Insurance Limited and Professional Insurance Australia Pty Ltd.

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

The Hon John Fahey AC	
Experience and expertise	The Hon John Fahey is a Director of AMGL, AGHL and AIL, and is the Chair of DHF. He was the Premier of NSW for three years, and then Federal Minister for Finance and Administration (1996-2001). Prior to Parliament, he practised as a solicitor. In 2002 he was awarded a Companion in the Order of Australia. He was appointed President of the World Anti-Doping Authority in 2007, a position he held until the end of 2013. In 2014, he was appointed as Chancellor of the Australian Catholic University. He is the current Chair of the Sydney Olympic Park Authority.
Avant Directorships	Avant Mutual Group Limited, Avant Group Holdings Limited, Avant Insurance Limited, The Doctors' Health Fund Pty Ltd (Chair), The Medical Defence Association of Victoria Limited, Professional Insurance Australia Pty Ltd, and United Medical Protection Limited (formerly UMP NSW).

Dr William Glasson MBBS (Qld), FRANZCO, FRACS, FRACGP, FRCOphth, DipAppSc(Opt), GAICD	
Experience and expertise	Dr William Glasson is a Director of AMGL and AGHL. Dr Glasson is a practising Ophthalmologist working in urban, rural and regional Australia as well as in East Timor. Dr Glasson is the former Federal President of the Australian Medical Association and was awarded the Gold Medal for his services in 2017. As AMA President he led the AMA Presidential Medical Indemnity Task-force during the medical indemnity crisis of 2005. Dr Glasson is also a former President of the Royal Australian and New Zealand College of Ophthalmologists. He has been awarded an Order of Australia for his services to rural and regional medicine. Dr Glasson has significant skills and knowledge in finance, management and governance. He has served on a number of Boards, including the Medical and Allied Professional Superannuation Fund, Cancer Australia, St John Australia, Australian Medical Association, Royal Australia and NZ College of Ophthalmologists Board and QLD Urban Indigenous Health.
Avant Directorships	Avant Mutual Group Limited and Avant Group Holdings Limited.

Directors' report (continued)

30 June 2018

Dr Steven Hambleton MBBS, FAMA, FRACGP (Hon), FAICD	
Experience and expertise	Dr Steve Hambleton is a Director of AMGL and AGHL. He is a former Federal President of the Australian Medical Association (AMA May 2011 to May 2014). Dr Hambleton is a current member of the Implementation Advisory Group for the Health Care Home and the Australian Commission on Safety and Quality in Health Care Atlas of Clinical Variation working group and is Deputy Chair of the Medicare Benefits Schedule Review Taskforce.
Avant Directorships	Avant Mutual Group Limited and Avant Group Holdings Limited.
Mr Peter Polson BCom, MBL, PMD	
Experience and expertise	Mr Peter Polson is a Director of AMGL and AGHL and is the Chair of AIL. He has an extensive background in banking, insurance and financial services. He was formerly Managing Director of Colonial First State Investments, and with the Commonwealth Bank Group as Group Executive responsible for all Investment and Insurance Services.
Avant Directorships	Avant Mutual Group Limited, Avant Group Holdings Limited, Avant Insurance Limited (Chair) and Professional Insurance Australia Pty Limited.
Dr Beverley Rowbotham MBBS (Hons 1) MD, FRACP, FRCPA, FAICD	
Experience and expertise	Dr Beverley Rowbotham is a Director of AMGL, AGHL, AIL and DHF. She is a Director of Haematology and a member of the Executive Advisory Committee at Sullivan Nicolaides Pathology. She is the Chair of the AMA Federal Council, the National Pathology Accreditation Advisory Committee and is a past President of the Royal College of Pathologists of Australasia. Dr Rowbotham is an Associate Professor at the University of Queensland, and is a member of the MBS Review Taskforce and other government committees. Dr Rowbotham is a Fellow of the Australian Institute of Company Directors.
Avant Directorships	Avant Mutual Group Limited, Avant Group Holdings Limited, Avant Insurance Limited, Avant Foundation Limited, The Doctors' Health Fund Pty Ltd, The Medical Defence Association of Victoria Limited, Professional Insurance Australia Pty Limited, and United Medical Protection Limited (formerly UMP NSW).
Dr Douglas Travis MBBS, FRACS, FAMA GAICD	
Experience and expertise	Dr Douglas Travis is a Director of AMGL and AGHL. He is a urological consultant practising in both the public and private health systems in Victoria. Dr Travis currently holds the position of Honorary Consultant at Melbourne's Western Health in parallel with working as a urological consultant at his own practice in Melbourne's Western suburbs. Dr Travis is the Chair of Better Care Victoria, a Victorian State Government innovation for healthcare. In 2014 he was appointed by the new Victorian Government to head the Travis Review, a study to increase the capacity of the Victorian public hospital system for better patient outcomes. Dr Travis held the position of AMA Victoria State President 2007-2009 and was Chair of the Federal AMA Audit Committee until 2012. He is a former member of Avant's Medical Experts Committee.
Avant Directorships	Avant Mutual Group Limited and Avant Group Holdings Limited.

Directors' report (continued)

30 June 2018

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 2018, and the number of meetings attended by each Director are set out in the tables below.

	Avant Mutual Group Board Full meeting		Group Audit Committee Full meeting		Group Risk Committee Full meeting	
	A	B	A	B	A	B
Professor Simon Willcock (Chairman)	7	7 (c)	*	*	*	*
Mr Peter Beck	6	7	5	5	5	5
Dr Jan Dudley	7	7	*	*	*	*
The Hon John Fahey	7	7	*	*	*	*
Dr William Glasson	6	7	*	*	*	*
Dr Steven Hambleton	7	7	5	5	5	5
Mr Peter Polson	7	7	*	*	*	*
Dr Beverley Rowbotham	6	7	*	*	*	*
Mr Douglas Travis	6	7	*	*	*	*

	Group Investment Committee Full meeting		Remuneration Committee Full meeting		Nominations Committee Full meeting	
	A	B	A	B	A	B
Professor Simon Willcock (Chairman)	*	*	4	5	3	3 (c)
Mr Peter Beck	5	5	*	*	*	*
Dr Jan Dudley	*	*	5	5	3	3
The Hon John Fahey	4	5	5	5	*	*
Dr William Glasson	3	5	*	*	*	*
Dr Steven Hambleton	*	*	*	*	*	*
Mr Peter Polson	5	5 (c)	5	5	3	3
Dr Beverley Rowbotham	*	*	*	*	*	*
Mr Douglas Travis	5	5	*	*	*	*

A = Number of meetings attended

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

*Not a member of the relevant committee

(c) = Chairman of the Board / Committee

Directors' report (continued)

30 June 2018

Company Secretary

Ms Suzanne Barron BScLLB, served as Group Company Secretary for all Avant group entities until 28 September 2017.

Mr Patrick Esplin was appointed as the Group Company Secretary for all Avant group entities on 28 September 2017 and continues in office until the date of this report.

Proceedings on behalf of the Company

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

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

Insurance of officers

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

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

Auditor

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 7.

Rounding of amounts

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

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

Professor Simon Willcock
Chairman
Sydney

27 September 2018

Auditor's Independence Declaration

As lead auditor for the audit of Avant Mutual Group Limited for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

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

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

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

SK Fergusson
Partner
PricewaterhouseCoopers

Sydney
27 September 2018

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Consolidated statement of comprehensive income

For the year ended 30 June 2018

	Note	2018 $'million	2017 $'million
Gross written premium		346.7	331.9
Unearned revenue movement		(19.5)	(36.2)
Gross earned revenue		327.2	295.7
Outward reinsurance premium expense		(8.5)	(12.2)
Net earned premium (a)		318.7	283.5
Gross claims expense	4(b)	(233.4)	(221.7)
Reinsurance and other recoveries revenue	4(b)	24.6	2.2
Net claims incurred (b)	4(b)	(208.8)	(219.5)
Acquisition costs	4(i)	(27.5)	(25.2)
Other underwriting expenses	4(i)	(40.8)	(41.3)
Run-off Cover Scheme (ROCS) levy		(10.5)	(9.6)
Underwriting expenses (c)		(78.8)	(76.1)
Underwriting result (a) + (b) + (c)		**31.1**	**(12.1)**
Investment income - policyholders funds	3(a)	12.3	9.4
Investment expenses - policyholders funds	3(a)	(0.6)	(0.8)
Net investment income - policyholders funds		11.7	8.6
Insurance profit / (loss)		**42.8**	**(3.5)**
Other income		21.9	19.8
Other operating expenses	4(i)	(16.7)	(14.6)
Net other operating expense		5.2	5.2
Investment income - members funds	3(a)	90.6	120.3
Investment expenses - members funds	3(a)	(7.2)	(6.8)
Net investment income - members funds		83.4	113.5
Amortisation of intangible assets	10	(0.6)	(0.9)
Profit before income tax		**130.8**	**114.3**
Income tax expense	8(a)	(35.9)	(34.2)
Profit after income tax		**94.9**	**80.1**
Other comprehensive income after income tax		-	-
Total comprehensive income after income tax		**94.9**	**80.1**

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

Consolidated balance sheet

As at 30 June 2018

	Note	2018 $'million	2017 $'million
Assets			
Cash and cash equivalents	3(b)	85.3	97.1
Receivables	5(a)	103.2	94.6
Investments held at fair value through profit or loss	3(c)	1,788.0	1,622.6
Reinsurance and other recoveries	4(e)	280.3	297.1
Deferred expenses	4(h)	19.5	18.0
Deferred tax assets	8(c)	3.0	0.4
Property and equipment	9	18.2	14.0
Intangible assets	10	2.1	2.6
TOTAL ASSETS		**2,299.6**	**2,146.4**
Liabilities			
Trade and other payables	5(b)	71.1	63.9
Current tax liabilities	8(d)	23.6	2.3
Unearned income	4(g)	215.7	194.6
Insurance contract liabilities	4(d)	787.0	770.7
Employee related provisions	5(d)	7.7	7.0
Other provisions	5(c)	1.6	2.3
TOTAL LIABILITIES		**1,106.7**	**1,040.8**
NET ASSETS		**1,192.9**	**1,105.6**
Equity			
Reserves	11(a)	54.6	54.6
Accumulated surpluses	11(b)	1,138.3	1,051.0
TOTAL EQUITY		**1,192.9**	**1,105.6**

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

Consolidated statement of changes in equity

For the year ended 30 June 2018

	Note	Reserves $'million	Accumulated surpluses $'million	Total $'million
Balance as at 30 June 2016	11	54.6	978.3	1,032.9
Profit for the year		-	80.1	80.1
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	80.1	80.1
Retirement reward dividend/payments		-	(7.4)	(7.4)
Transaction with owners in their capacity as owners		-	(7.4)	(7.4)
Balance as at 30 June 2017	**11**	**54.6**	**1,051.0**	**1,105.6**
Profit for the year		-	94.9	94.9
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	94.9	94.9
Retirement reward dividend/payments		-	(7.6)	(7.6)
Transaction with owners in their capacity as owners		-	(7.6)	(7.6)
Balance as at 30 June 2018	**11**	**54.6**	**1,138.3**	**1,192.9**

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

Consolidated statement of cash flows

For the year ended 30 June 2018

	Note	2018 $'million	2017 $'million
Cash flows from operating activities			
Premium and subscription income received		385.0	357.7
Reinsurance premium paid		(8.7)	(13.2)
Claims paid	4(d)	(217.1)	(230.6)
Reinsurance and other recoveries received	4(d)	41.4	35.4
Run-off Cover Scheme paid		(10.7)	(9.8)
Dividends and distributions received		68.4	61.1
Interest received		28.1	27.6
Sundry income		5.7	4.3
Income tax paid		(14.8)	(16.4)
Underwriting and administrative expenses paid		(94.3)	(85.0)
Goods and services tax paid		(19.3)	(14.7)
Net cash flows from operating activities	**2**	**163.7**	**116.4**
Cash flows from investing activities			
Purchase of investments		(285.9)	(285.1)
Proceeds from sale of investments		130.3	136.9
Purchase of fixed assets		(7.8)	(12.9)
Sale of fixed assets		-	-
Net cash flows from investing activities		**(163.4)**	**(161.1)**
Cash flows from financing activities			
Retirement reward dividend payment		(7.6)	(7.4)
Payments for shares acquired		(4.5)	(8.8)
Net cash flows from financing activities		**(12.1)**	**(16.2)**
Net movement in cash and cash equivalents		**(11.8)**	**(60.9)**
Cash and cash equivalents at the beginning of the year		97.1	158.0
Cash and cash equivalents at the end of the year	**3(b)**	**85.3**	**97.1**

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

Notes to the financial statements

30 June 2018

Note 1. About this report

a) Basis of preparation

This Financial Report is a general purpose financial report which:

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

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

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

iv. includes comparative amounts. Those amounts have been reclassified during the year to reflect the revised format, and the effect of the changes in accounting estimates and errors.

   For the first time, the Group is showing a full insurance format in its Statement of comprehensive income and has included the amount of net investment income that relates to assets backing net policy liabilities. Net investment income is investment income less investment management fees.

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

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

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

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

Notes to the financial statements (continued)

30 June 2018

Note 1. About this report (continued)

b) Accounting policies

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

i. *New and amended accounting standards adopted by the Group*

The Group adopted the following new or revised accounting standards which became effective for the annual reporting period commencing on 1 July 2017:

Title	
AASB 2016-1	Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for Unrealised losses
AASB 2016-2	Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107.

None of the amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2017 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

ii. *New accounting standards and amendments issued but not yet effective*

Title		Operative date
AASB 9	Financial instruments	1 January 2018
AASB 2014-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)	1 January 2018
AASB 15	Revenue from contracts with customers	1 January 2018
AASB 2014-5	Amendments to Australian Accounting Standards arising from AASB 15	1 January 2018
AASB 2016-3	Amendments to Australian Accounting Standards - Clarifications to AASB 15	1 January 2018
AASB 16	Leases	1 January 2019
AASB 2016-6	Amendments to Australian Accounting Standards - applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts	1 January 2018
AASB 17	Insurance Contracts	1 January 2021

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

AASB 9 was issued during 2014 and will replace the existing accounting requirements for financial instruments. In October 2016, the AASB published an amendment to AASB 4 which provides an option of temporary exemption from AASB 9 for entities that meet certain requirements (applied at the reporting entity level). The Group's investments are currently designated as at fair value through profit or loss on initial recognition and are subsequently measured to fair value at each reporting date, reflecting the business model applied by the Group to manage and evaluate its investment portfolio. Under this business model, the adoption of AASB 9 is not expected to result in significant changes to accounting for investments. The Group has assessed the applicability of the exemption and concluded that it meets the necessary requirements to defer the adoption of AASB 9 to 1 January 2021 at the latest. As such, AASB 9 will be adopted together with AASB 17 on the latter's effective date.

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

Notes to the financial statements (continued)

30 June 2018

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

Overview

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

	2018 $'million	2017 $'million
Profit after income tax	**94.9**	**80.1**
Depreciation, amortisation and impairment loss	4.1	2.6
Change in fair value of investments held at fair value through profit or loss	(5.3)	(40.0)
Write down of fixed assets	0.1	0.3
Decrease / (increase) in:		
Receivables	(8.6)	(18.7)
Reinsurance and other recoveries	16.8	33.2
Deferred expenses	(1.5)	(1.6)
Deferred tax assets	(2.6)	10.8
Increase / (decrease) in:		
Reinsurance premiums payable	0.2	(0.3)
Outstanding claims	16.3	(8.9)
Unearned premiums	21.1	38.3
Income tax payable	21.3	5.9
Provisions	-	(0.9)
Other operating liabilities	6.9	15.6
Net cash flows from operating activities	**163.7**	**116.4**

Notes to the financial statements (continued)

30 June 2018

Note 3. Investing activities

Overview

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

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

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

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

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

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

How we account for the numbers

Cash and cash equivalents

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

Measurement of financial assets at fair value through profit or loss

Both at initial recognition, and subsequently at each Balance Sheet date, the Group measures a financial asset at its fair value.

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

Measurement of fair value

The fair value of financial instruments is measured and disclosed as per requirements of AASB 13 *Fair value measurement* which uses a hierarchy of inputs used for the determination of fair value. Level 1 financial instruments are those traded in active markets (such as trading securities), and fair value is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for fixed interest securities for disclosure purposes. The Group values unlisted unit trusts using pricing provided by the responsible entity or management company of the trust. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. These instruments are included in level 2.

In circumstances where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in level 3.

Recognition and derecognition

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

Notes to the financial statements (continued)

30 June 2018

Note 3. Investing activities (continued)

Critical accounting estimates and judgements

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

a) Investment income and expenses

	2018 $'million	2017 $'million
Investment income		
Interest	27.8	27.5
Distributions from unit trusts	66.0	58.6
Dividends from equities	3.8	3.6
	97.6	89.7
Change in fair value of investments	5.3	40.0
Total investment income	**102.9**	**129.7**
Investment income - policyholders funds	12.3	9.4
Investment income - members funds	90.6	120.3
Total investment income	**102.9**	**129.7**
Investment expenses - policyholders funds	(0.6)	(0.8)
Investment expenses - members funds	(7.2)	(6.8)
Total investment expenses	**(7.8)**	**(7.6)**

b) Cash and cash equivalents

	2018 $'million	2017 $'million
Cash at bank and in hand	85.3	97.1
	85.3	**97.1**

Notes to the financial statements (continued)

30 June 2018

Note 3. Investing activities (continued)

c) Investments

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

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

As at 30 June 2017	Level 1 $'million	Level 2 $'million	Level 3 $'million	Total $'million
Investments at fair value through profit or loss				
Fixed interest securities	118.3	609.1	-	727.4
Unit trusts	-	816.9	-	816.9
Equities	69.5	-	-	69.5
	187.8	**1,426.0**	**-**	**1,613.8**
Investments at cost				
Equities				8.8
				8.8
Total investments				**1,622.6**
Current investments				203.0
Non-current investments				1,419.6
				1,622.6

There were no investments valued within the level 3 fair value hierarchy as at 30 June 2018 and 30 June 2017.

Notes to the financial statements (continued)

30 June 2018

Note 4. Underwriting activities

a) Insurance contract revenue

How we account for the numbers

Premium revenue

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

Loyalty Reward Plan

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

Run-off Cover Scheme

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

Premium Support Subsidy

The Medical Indemnity Act 2002 establishes a Premium Support Subsidy (PSS) for policyholders whose insurance costs exceed a set proportion of their gross income. AIL is responsible for administering the subsidy and in this role it obtains details of estimated gross income to determine that portion to be collected from Medicare Australia. In subsequent years, AIL obtains actual gross income details from policyholders and either collects monies from policyholders for reimbursement to Medicare Australia or seeks additional subsidies from Medicare Australia to be passed through to the policyholder. Amounts due to and from Medicare Australia and the policyholders are recognised in the balance sheet as receivables and presented as part of premium debtors in Note 5(a).

Membership subscription revenue

Subscription revenue is the amount charged to members, excluding taxes collected on behalf of third parties, and 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 income.

Reinsurance service expenses

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

Notes to the financial statements (continued)

30 June 2018

Note 4. Underwriting activities (continued)

b) Net claims incurred

Overview

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

How we account for the numbers

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

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

	2018			2017		
	Current period $'million	Prior periods $'million	Total $'million	Current period $'million	Prior periods $'million	Total $'million
Undiscounted claims expense:						
Gross claims expense	316.9	(82.6)	234.3	284.7	(50.7)	234.0
Reinsurance recoveries	(53.8)	29.8	(24.0)	(51.5)	44.3	(7.2)
Net claims expense	263.1	(52.8)	210.3	233.2	(6.4)	226.8
Discount movement:						
Gross claims expense	(16.3)	15.4	(0.9)	(15.1)	2.8	(12.3)
Reinsurance recoveries	6.4	(7.0)	(0.6)	6.4	(1.4)	5.0
Net discount movement	(9.9)	8.4	(1.5)	(8.7)	1.4	(7.3)
Discounted claims expense:						
Gross claims expense	300.6	(67.2)	233.4	269.6	(47.9)	221.7
Reinsurance recoveries	(47.4)	22.8	(24.6)	(45.1)	42.9	(2.2)
Net discounted claims expense	**253.2**	**(44.4)**	**208.8**	**224.5**	**(5.0)**	**219.5**

Notes to the financial statements (continued)

30 June 2018

Note 4. Underwriting activities (continued)

c) Insurance risk

Overview

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

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

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

In accordance with Prudential Standards CPS 220 *Risk Management* and GPS 230 *Reinsurance Management* issued by the Australian Prudential Regulation Authority ('APRA'), the Board and senior management of the Group have developed, implemented and maintain a sound and prudent Risk Management Strategy (RMS) and a Reinsurance Management Strategy (REMS). Annually, the Board certifies to APRA that adequate strategies have been put in place to monitor those risks, that the Group has systems in place to ensure compliance with legislative and prudential requirements and that the Board has satisfied itself as to the compliance with the RMS and REMS.

Concentration (credit) risk

Credit risk exposure arises because the Group's business is exclusively sourced from health industry participants and is exposed to large losses arising from groups of claims resulting from a common dependent source (for example, a large number of claims arising from a class action related to a faulty medical procedure). This exposure is monitored on a regular basis with a formal review of potential and emerging exposure at least annually.

Underwriting risk

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

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

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

Claims payment and reserving risk

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

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

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

Reinsurance risk

Reinsurance risk includes credit risk regarding the reinsurance company used.

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

Notes to the financial statements (continued)

30 June 2018

Note 4. Underwriting activities (continued)

c) Insurance risk (continued)

Sensitivity analysis of changes to actuarial assumptions

How we account for the numbers

The Group conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed in note 4(d).The movement in any key variable will impact the performance and equity of the Group. The tables below describe how a change in each assumption will affect the insurance liabilities and show analysis of the sensitivity of the profit /(loss) and equity to changes in these assumptions both gross and net of reinsurance.

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

Impact of changes in key variables		FINANCIAL IMPACT*			
	Movement in variable %	Profit/(loss) 2018 $'million	Equity 2018 $'million	Profit/(loss) 2017 $'million	Equity 2017 $'million
Inflation and superimposed inflation rates	1% +	(11.9)	(11.9)	(8.9)	(8.9)
	1% -	11.2	11.2	8.3	8.3
Discount rates	1% +	9.7	9.7	9.3	9.3
	1% -	(10.4)	(10.4)	(10.1)	(10.1)

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

d) Insurance contract liabilities

Overview

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

How we account for the numbers

The provision for outstanding claims is measured as the central estimate of the present value of expected future claims payments plus a risk margin. The expected future claims payments include those in relation to claims reported but not yet paid; claims incurred but not reported (IBNR); claims incurred but not enough reported (IBNER); anticipated claims handling costs and allowances for the Risk Equalisation Special Account for health insurance outstanding claims liabilities. Claims handling costs exclude costs that can be associated directly with individual claims, such as legal and other professional fees (which are included within claim payments), but include costs that can only be indirectly associated with individual claims, such as claims administration costs.

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

Notes to the financial statements (continued)

30 June 2018

Note 4. Underwriting activities (continued)

d) Insurance contract liabilities (continued)

How we account for the numbers (continued)

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

Critical accounting estimates and judgements

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

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

The assessment of the anticipated claims liability is sensitive to a number of factors, including the ultimate number of claims, average claim cost, inflation rates, discount factors, and changes in the medico-legal environment.

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

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

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

	2018	**2017**
Normal inflation rate	2.5%	2.5%
Superimposed inflation	2.00%	2.00%
Average weighted discount rate	2.32%	2.29%
Average weighted term to settlement - known claims	3.2 years	3.2 years
Average weighted term to settlement - IBNR claims	4.5 years	4.5 years
Estimated ultimate number of claims	3,761	3,368
Claims handling expense percentage	7.00%	7.00%

Process used to determine assumptions

Methodology

Claims are split into six claim groups; legal expenses claims, non-civil claims, large claims (those with an estimated cost over $1,500,000 in June 2011 dollars), medium claims (estimate cost to have exceeded $300,000 adjusted for inflation since June 2011 dollars), small claims and infant claims. Civil claims are separated into different state based jurisdictions. Since 2016, the valuation methodology has been updated to separate infant claims by state and into small, medium and large claims.

Inflation and discount rates

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

Claims handling expense

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

Average term to settlement

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

Notes to the financial statements (continued)

30 June 2018

Note 4. Underwriting activities (continued)

d) Insurance contract liabilities (continued)

	2018 $'million	2017 $'million
Insurance contract liabilities		
Central estimate	679.8	669.0
Discount to present value	(52.4)	(52.7)
	627.4	616.3
Risk margin discounted	159.6	154.4
Gross outstanding claims liabilities discounted	**787.0**	**770.7**
Current outstanding claims liabilities	189.5	178.5
Non-current outstanding claims liabilities	597.5	592.2
	787.0	**770.7**
Gross claims outstanding undiscounted central	679.8	669.0
Risk margin undiscounted	175.5	168.6
Total gross claims undiscounted	**855.3**	**837.6**

The following table reconciles opening to closing insurance contract liabilities:

	2018			2017		
	Gross $'million	Re-insurance $'million	Net $'million	Gross $'million	Re-insurance $'million	Net $'million
Opening balance	770.7	(297.1)	473.6	779.6	(330.3)	449.3
Current year claims expense	300.6	(47.4)	253.2	269.6	(45.1)	224.5
Prior year claims expense	(67.2)	22.8	(44.4)	(47.9)	42.9	(5.0)
Claim payments / recoveries during the year	(217.1)	41.4	(175.7)	(230.6)	35.4	(195.2)
Closing balance	**787.0**	**(280.3)**	**506.7**	**770.7**	**(297.1)**	**473.6**

Risk margin

The process used to determine the risk margin is explained in note 4(d). The probability of adequacy at 30 June 2018 is 85% (2017: 85%) for AIL, AGHL, Medical Defence Association of Victoria Limited ("MDAV") and DHF and 99.5% for Professional Insurance Australia Pty Limited ("PIA") (2017: 99.5%).

The discounted risk margin included in gross outstanding claims at 30 June 2018 is 25.4% (2017: 25.1%). The discounted risk margin included on net outstanding claims at 30 June 2018 is 20.1% (2017: 22.2%).

Notes to the financial statements (continued)

30 June 2018

Note 4. Underwriting activities (continued)

e) Reinsurance and other recoveries

How we account for the numbers

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

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

The HIH liquidators finalised the Established Scheme of Arrangement in May 2014. As the Scheme is very close to being wound up and the outstanding net debtor close to final, the HIH balance has been reflected as a debtor net of default at 30 June 2018.

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

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

Critical accounting estimates and judgements

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

	2018 $'million	2017 $'million
Expected future reinsurance		
Paid claims	14.7	26.2
Outstanding claims	297.6	303.4
	312.3	329.6
Discount to present value	(32.0)	(32.5)
Reinsurance contract and other recoveries asset	**280.3**	**297.1**
Amounts receivable:		
Within 12 months	47.6	60.9
After more than 12 months	232.7	236.2
	280.3	**297.1**

Notes to the financial statements (continued)

30 June 2018

Note 4. Underwriting activities (continued)

f) Claims development tables

Overview

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

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

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

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

Information for the consolidated claims development tables is shown on a financial year basis and is extracted from claims administration systems and actuarial models. IBNR liabilities have been included in the "2008 and prior" column.

GROSS $'million	**FY of notification of incident ending 30 June**											
	2008 & Prior	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Gross ultimate claims incurred												
Original Estimate		133.2	126.4	185.2	183.2	196.8	214.4	212.0	236.6	224.8	256.9	
1 year later		122.6	135.6	169.3	184.3	194.5	215.6	209.1	232.4	222.0		
2 years later		126.2	101.0	166.8	170.1	182.3	201.6	187.7	233.5			
3 years later		112.9	95.2	171.7	168.4	178.3	196.2	191.5				
4 years later		112.5	90.6	167.4	164.7	175.2	194.3					
5 years later		110.4	93.1	165.4	177.1	172.6						
6 years later	1,612.9	115.6	87.4	169.6	168.2							
7 years later	1,597.3	113.2	92.6	165.7								
8 years later	1,562.0	114.0	93.5									
9 years later	1,642.9	115.0										
10 years later	1,603.6											
Central estimate of ultimate undiscounted claims cost	1,603.6	115.0	93.5	165.7	168.2	172.6	194.3	191.5	233.5	222.0	256.9	3,416.8
Less: Cumulative payments to date	(1,541.3)	(108.0)	(78.9)	(151.8)	(147.1)	(149.7)	(151.1)	(135.6)	(145.6)	(98.5)	(85.5)	(2,793.1)
Central estimate of undiscounted outstanding claims liability	62.3	7.0	14.6	13.9	21.1	22.9	43.2	55.9	87.9	123.5	171.4	623.7
Discount (for all notification years combined)												(48.0)
Claims handling expenses (for all notification years combined)												40.2
Risk margin (for all notification years combined)												159.6
GST												11.5
Gross discounted outstanding claims provision including claims handling expenses and risk margin												**787.0**
Claims development in the year	**(39.3)**	**1.0**	**0.9**	**(3.9)**	**(8.9)**	**(2.6)**	**(1.9)**	**3.8**	**1.1**	**(2.8)**	**256.9**	**204.3**

Notes to the financial statements (continued)

30 June 2018

Note 4. Underwriting activities (continued)

f) Claims development tables (continued)

NET $'million	FY of notification of incident ending 30 June											
	2008 & Prior	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Net ultimate claims incurred												
Original Estimate		89.3	82.0	126.8	137.2	147.1	170.7	175.3	196.6	189.0	221.9	
1 year later		82.0	84.0	130.0	138.0	148.8	169.4	173.3	190.1	187.4		
2 years later		81.8	76.4	122.5	129.9	139.8	161.9	159.1	187.3			
3 years later		76.9	72.1	125.0	128.7	137.7	160.7	161.0				
4 years later		76.4	70.3	120.9	124.1	137.3	159.2					
5 years later		74.4	72.5	118.9	129.9	135.3						
6 years later	1,306.6	74.9	69.3	122.8	126.6							
7 years later	1,289.8	73.8	72.4	120.1								
8 years later	1,266.7	75.3	70.5									
9 years later	1,364.1	75.8										
10 years later	1,342.2											
Central estimate of ultimate undiscounted claims cost	1,342.2	75.8	70.5	120.1	126.6	135.3	159.2	161.0	187.3	187.4	221.9	2,787.3
Less: Cumulative payments to date	(1,332.9)	(71.5)	(63.8)	(111.9)	(114.6)	(120.5)	(131.2)	(121.9)	(125.7)	(95.0)	(84.9)	(2,373.9)
Central estimate of undiscounted outstanding claims liability	9.3	4.3	6.7	8.2	12.0	14.8	28.0	39.1	61.6	92.4	137.0	413.4
Discount (for all notification years combined)												(28.0)
Claims handling expenses (for all notification years combined)												36.8
Risk margin (for all notification years combined)												84.5
Net discounted outstanding claims provision including claims handling expenses and risk margin												**506.7**
Reconciliation to the consolidated balance sheet:												
Gross outstanding claims liabilities												787.0
Reinsurance and other recoveries												(280.3)
Net outstanding claims liabilities												**506.7**
Claims development in the year	**(21.9)**	**0.5**	**(1.9)**	**(2.7)**	**(3.3)**	**(2.0)**	**(1.5)**	**1.9**	**(2.8)**	**(1.6)**	**221.9**	**186.6**

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

	Gross $'million	**Re-insurance $'million**	**Net $'million**
Development tables claims movement	204.3	(17.7)	186.6
Adjusted for the effect of:			
Movement in discounting on claims	7.2	(1.3)	5.9
Movement in discounted risk margin	5.0	(6.5)	(1.5)
Discounted cost of claims handling expenses	16.9	0.9	17.8
Gross claims	**233.4**	**(24.6)**	**208.8**

Notes to the financial statements (continued)

30 June 2018

Note 4. Underwriting activities (continued)

g) Unearned income

How we account for the numbers

Unearned premiums

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

Liability adequacy test

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

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

AASB 1023 requires the inclusion of a risk margin in insurance liabilities, but does not prescribe a minimum level of margin. Whilst there is established practice in the calculation of the probability of sufficiency of the outstanding claims liabilities provision, no such guidance exists in respect of the level of risk margin to be used in determining the adequacy of net premium liabilities. The Group has adopted a risk margin for the purpose of the liability adequacy test to produce a 75% probability of sufficiency. The 75% basis is a recognised industry benchmark in Australia, for both general insurers and health insurers and is also the basis required for reporting to APRA.

Critical accounting estimates and judgements

The application of the liability adequacy test in respect of the net premium liabilities identified a surplus at 30 June 2018 and 2017.

	2018 $'million	**2017 $'million**
Unearned subscriptions	13.2	12.1
Unearned premiums	202.5	182.5
	215.7	**194.6**
Unearned premium liability at the beginning of the year	182.5	146.4
Deferral of premiums on contracts written in the period	202.5	182.5
Earnings of premiums written in previous periods	(182.5)	(146.4)
Unearned premium liability at the end of the year	**202.5**	**182.5**

Notes to the financial statements (continued)

30 June 2018

Note 4. Underwriting activities (continued)

h) Deferred expenses

How we account for the numbers

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

	2018 $'million	2017 $'million
Deferred reinsurance premiums	4.4	4.2
Deferred ROCS expense	7.7	7.0
Deferred acquisition costs	7.4	6.8
	19.5	**18.0**

All deferred expenses are classified as current assets.

i) Acquisition and other expenses

	2018 $'million	2017 $'million
Employee related costs	58.7	53.4
Director related costs	2.1	2.1
Depreciation and amortisation	4.1	2.6
Other general and administrative expenses	20.1	23.0
	85.0	**81.1**
Acquisition costs	27.5	25.2
Other underwriting expenses	40.8	41.3
Other operating expenses	16.7	14.6
	85.0	**81.1**

Notes to the financial statements (continued)

30 June 2018

Note 5. Other operating assets and liabilities

How we account for the numbers

Trade and other 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, and a provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. Due to the short-term nature of these receivables, the carrying value is assumed to be an approximation to the fair value.

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

Payables

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

Provisions

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

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

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

a) Trade and other receivables

	2018 $'million	2017 $'million
Premium and subscription debtors	97.3	88.9
Other	6.9	6.2
Provision for impairment of receivables	(1.0)	(0.5)
Receivables - Current	**103.2**	**94.6**

Notes to the financial statements (continued)

30 June 2018

Note 5. Other operating assets and liabilities (continued)

b) Trade and other payables

	2018 $'million	2017 $'million
Sundry creditors and accruals	23.0	19.7
Reinsurance premiums payable	3.0	2.8
ROCS levy payable	6.5	6.0
Lease incentive liability	12.3	10.6
GST payable	13.9	13.4
Stamp Duty payable	12.4	11.4
	71.1	**63.9**
Current payables	60.7	55.0
Non-current payables	10.4	8.9
	71.1	**63.9**

c) Other provisions

Overview

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

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

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 items.

	2018 $'million	2017 $'million
Opening provisions	2.3	3.9
Additional provisions recognised	-	3.7
Receipts / (payments)	0.2	(4.8)
Decrease from remeasurement	(0.9)	-
Release from provisions	-	(0.5)
Closing provisions	**1.6**	**2.3**
Current	0.7	0.9
Non-current	0.9	1.4
Closing provisions	**1.6**	**2.3**

Notes to the financial statements (continued)

30 June 2018

Note 5. Other operating assets and liabilities (continued)

c) Other provisions (continued)

Movement in other provisions	Current restoration provision $'million	Current reinsurance premiums $'million	Total current $'million	Non-current restoration provision $'million	Total other provisions $'million
Value as at 1 July 2016	1.2	1.9	3.1	0.8	3.9
Additional provisions recognised	-	2.8	2.8	0.9	3.7
Payments	(0.8)	(4.0)	(4.8)	-	(4.8)
Release from provisions	(0.5)	-	(0.5)	-	(0.5)
Transfer to current	0.3	-	0.3	(0.3)	-
Value as at 30 June 2017	**0.2**	**0.7**	**0.9**	**1.4**	**2.3**
Additional provisions recognised	-	-	-	-	-
(Payments) / receipts	(0.2)	0.4	0.2	-	0.2
Decrease from remeasurement	(0.1)	(0.6)	(0.7)	(0.2)	(0.9)
Transfer to current	0.3	-	0.3	(0.3)	-
Value as at 30 June 2018	**0.2**	**0.5**	**0.7**	**0.9**	**1.6**

Notes to the financial statements (continued)

30 June 2018

Note 5. Other operating assets and liabilities (continued)

d) Employee provisions

Overview

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

How we account for the numbers

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

Current provision includes all annual leave balances and all long service balances where employees have completed the required period of service, since the Group does not have unconditional right to defer settlement for any of these obligations. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The amounts included as current, but where leave is not to be expected to be taken or paid within the next 12 months are disclosed below.

Where employees have not completed the required period of service for long service leave, provisions are considered to be non-current and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

Critical accounting estimates and judgements

In calculating non-current long service leave provisions, consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Re-measurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

	Current $'million	Non-current $'million	Total $'million
Value as at 1 July 2016	4.1	2.2	6.3
Additional provisions recognised	9.0	0.2	9.2
Payments	(8.7)	-	(8.7)
Increase from remeasurement	0.1	0.1	0.2
Value as at 30 June 2017	**4.5**	**2.5**	**7.0**
Additional provisions recognised	9.2	0.2	9.4
Payments	(8.9)	-	(8.9)
Reclassification	0.3	(0.3)	-
Increase from remeasurement	0.2	-	0.2
Value as at 30 June 2018	**5.3**	**2.4**	**7.7**

	2018 $'million	2017 $'million
Current leave obligation expected to be settled after 12 months	2.3	1.9

Notes to the financial statements (continued)

30 June 2018

Note 6. Financial risk management

Overview

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

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

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

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

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

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

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

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

	2018 $'million	**2017 $'million**
Financial assets		
Cash and cash equivalents	85.3	97.1
Trade and other receivables	103.2	94.6
Investments	1,788.0	1,622.6
Reinsurance and other recoveries	280.3	297.1
	2,256.8	**2,111.4**
Financial liabilities		
Trade and other payables	71.1	63.9
Insurance contract liabilities	787.0	770.7
Provisions	9.3	9.3
	867.4	**843.9**
Net financial assets	**1,389.4**	**1,267.5**

Notes to the financial statements (continued)

30 June 2018

Note 6. Financial risk management (continued)

a) Credit risk

Overview

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

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

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

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

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

c) Credit risk is addressed by limiting the aggregate exposure to any single counterparty by prescribing the credit quality of the counterparties, and by prescribing credit policies to direct management in managing credit exposures. Also, a minimum of two participants on any layer of reinsurance is required, with a minimum of five reinsurers on the program. No reinsurer will be allocated a share equal to more than 50% of any original insurance policy claim exposure. Participants in the current year's reinsurance program must have a minimum Standard 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. The "Not rated" investment category includes unlisted unit trusts as at 30 June 2018 of $958.4m (30 June 2017: $816.9m) which are primarily used to hold listed securities as detailed in note 3(c).

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

As at 30 June 2017	CREDIT RATING					
	AAA $'million	AA $'million	A $'million	BBB $'million	Not rated $'million	Total $'million
Cash at bank and short-term bank deposits	-	96.1	1.0	-	-	97.1
Receivables	-	-	-	-	94.6	94.6
Investments	355.7	245.0	68.2	38.9	914.8	1,622.6
Reinsurance and other recoveries	271.9	11.6	10.9	-	2.7	297.1
	627.6	**352.7**	**80.1**	**38.9**	**1,012.1**	**2,111.4**

Notes to the financial statements (continued)

30 June 2018

Note 6. Financial risk management (continued)

b) Market risk

Overview

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

i. Interest rate risk

Overview

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

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

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

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

Notes to the financial statements (continued)

30 June 2018

Note 6. Financial risk management (continued)

b) Market risk (continued)

i. Interest rate risk (continued)

2017	Floating interest rate $'million	Fixed interest maturing in: 1 year or less $'million	1 to 5 years $'million	Over 5 years $'million	Non-interest bearing $'million	Total $'million
Financial assets						
Cash and cash equivalents	97.1	-	-	-	-	97.1
Receivables	-	-	-	-	94.6	94.6
Investments	57.9	179.1	338.3	153.2	894.1	1,622.6
Reinsurance and other recoveries	-	-	-	-	297.1	297.1
Total financial assets	**155.0**	**179.1**	**338.3**	**153.2**	**1,285.8**	**2,111.4**
Financial liabilities						
Payables	-	-	-	-	63.9	63.9
Provisions	-	-	-	-	9.3	9.3
Outstanding claims liabilities	-	-	-	-	770.7	770.7
Total financial liabilities	**-**	**-**	**-**	**-**	**843.9**	**843.9**
Net financial assets	**155.0**	**179.1**	**338.3**	**153.2**	**441.9**	**1,267.5**

Reconciliation of net financial assets to net assets

	2018 $'million	2017 $'million
Net financial assets as above:		
Interest bearing	833.7	825.6
Non-Interest bearing	555.7	441.9
Net financial assets	1,389.4	1,267.5
Net non-financial liabilities	(196.5)	(161.9)
Net assets	**1,192.9**	**1,105.6**

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

		FINANCIAL IMPACT*			
	Movement in variable %	Profit/(loss) 2018 $'million	Equity 2018 $'million	Profit/(loss) 2017 $'million	Equity 2017 $'million
Interest rate movement	100 bpt+	(4.9)	(4.9)	(4.5)	(4.5)
- interest bearing financial assets	100 bpt-	4.9	4.9	4.5	4.5

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

Notes to the financial statements (continued)

30 June 2018

Note 6. Financial risk management (continued)

b) Market risk (continued)

ii. Price risk

Overview

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

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

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

The potential impact of movements in the market value of unit trusts and equities on the Group's statement of comprehensive income and balance sheet is shown in the sensitivity analysis below:

		FINANCIAL IMPACT*			
	Movement in variable %	**Profit/(loss) 2018 $'million**	**Equity 2018 $'million**	**Profit/(loss) 2017 $'million**	**Equity 2017 $'million**
Unit trusts	20% +	135.1	135.1	114.4	114.4
	20% -	(135.1)	(135.1)	(114.4)	(114.4)
Equities	20% +	10.7	10.7	11.0	11.0
	20% -	(10.7)	(10.7)	(11.0)	(11.0)

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

Notes to the financial statements (continued)

30 June 2018

Note 6. Financial risk management (continued)

c) Liquidity risk

Overview

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

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

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

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

The tables below summarise the maturity profile of certain financial liabilities of the Group based on the remaining undiscounted contractual obligations. The impact of discounting on the financial liabilities shown in the table is not significant, except in the case of outstanding claims liabilities (disclosed undiscounted below).

As at 30 June 2018	1-3 months $'million	3-6 months $'million	6-12 months $'million	1-2 years $'million	Over 2 years $'million	Total $'million
Payables	59.3	0.5	1.0	1.9	8.4	71.1
Provisions	-	-	3.9	2.3	3.1	9.3
Insurance contract liabilities	56.5	49.0	88.4	167.1	494.3	855.3
	115.8	**49.5**	**93.3**	**171.3**	**505.8**	**935.7**

As at 30 June 2017	1-3 months $'million	3-6 months $'million	6-12 months $'million	1-2 years $'million	Over 2 years $'million	Total $'million
Payables	52.9	0.4	0.9	1.7	7.2	63.1
Provisions	-	-	5.5	1.4	2.4	9.3
Insurance contract liabilities	52.8	46.7	88.4	158.9	490.8	837.6
	105.7	**47.1**	**94.8**	**162.0**	**500.4**	**910.0**

Notes to the financial statements (continued)

30 June 2018

Note 7. Capital Management

Overview

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

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

The Group allocates its consolidated net assets to a number of purposes including:

a) Capital in APRA regulated insurance subsidiaries (AIL and PIA) held to meet APRA regulatory and target surplus capital requirements within the entities. The amount of capital at 30 June 2018 and its basis for determination is summarised in section (a) below.

b) Capital in DHF held to meet APRA regulatory and target surplus capital requirements within the entity. The amount of capital at 30 June 2018 and its basis for determination is summarised in section (b) below.

c) Intercompany undertakings: As part of a group-wide initiative to centrally manage capital, the Company agreed to support capital undertakings from AGHL to AIL of $102,000,000 and to DHF of $7,000,000 in the event that the entities' regulatory capital adequacy multiple falls below a minimum ratio of 1.5. An additional $20,000,000 is held as prudential margin on the guarantees.

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

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

In summary, the net assets as at 30 June 2018 are allocated to the above objectives as follows:

	$'million
APRA regulated MDO capital base	349.7
APRA regulated health fund capital base	21.4
Intercompany capital undertakings	129.0
Notional RRP assets	334.2
Other capital reserves	358.6
Total	**1,192.9**

Notes to the financial statements

30 June 2018

Note 7. Capital Management (continued)

a) APRA Capital Adequacy Multiple

Overview

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

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

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

AIL manages its capital to achieve the following objectives:

- continuation as a going concern;
- ongoing compliance with APRA prudential framework and the applicable Australian Accounting standards;
- remaining within the Company's risk appetite boundaries as set out in the RAS ("Risk Appetite Statement") including the capital boundary;
- compliance with the financial requirements of the Australian Financial Services Licence issued by the Australian Securities and Investments Commission; and
- compliance with the capital management framework and strategy of the Group.

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

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

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

i) AIL	2018 $'million	2017 $'million
Eligible Tier 1 Capital as defined by APRA		
Contributed equity	215.6	215.6
Retained profits[1]	109.2	75.9
Insurance liability surplus (deficit)	34.1	31.4
Total equity	358.9	322.9
Less: APRA deductions	(20.6)	(15.4)
Total APRA capital base	**338.3**	**307.5**
APRA prudential capital requirement	**149.3**	**139.7**
APRA capital adequacy multiple	**2.27**	**2.20**

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

Notes to the financial statements

30 June 2018

Note 7. Capital Management (continued)

a) APRA Capital Adequacy Multiple (continued)

ii) PIA	2018 $'million	2017 $'million
Eligible Tier 1 Capital as defined by APRA		
Contributed equity	7.5	7.5
Retained profits[1]	1.6	1.5
Insurance liability surplus (deficit)	2.4	2.4
Total equity	11.5	11.4
Less: APRA deductions	(0.1)	(0.1)
Total APRA capital base	**11.4**	**11.3**
APRA prudential capital requirement	**5.0**	**5.0**
APRA capital adequacy multiple	**2.28**	**2.25**

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

Insurance Liability Surplus

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

i. (GPS 210 requires a prudential margin with a probability of sufficiency of 75% (the level adopted by the Company for accounting purposes is 85% (2017: 85%) for AIL and 99.5% (2017: 99.5%) for PIA ; and

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

b) APRA Capital Adequacy and Solvency requirements - DHF

Overview

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

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

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

	2018 $'million	2017 $'million
Total assets	66.6	60.3
Total liabilities	45.2	39.2
Net assets	**21.4**	**21.1**
APRA capital adequacy reserve	**9.7**	**8.7**
APRA capital adequacy multiple	**2.22**	**2.43**

Notes to the financial statements (continued)

30 June 2018

Note 8. Income tax

Overview

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

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

Tax consolidation legislation

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

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

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

How we account for the numbers

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

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

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

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

Notes to the financial statements (continued)

30 June 2018

Note 8. Income tax (continued)

a) Income tax expense	2018 $'million	2017 $'million
Current tax expense	40.0	24.0
Deferred tax (benefit) / expense	(2.8)	10.0
(Over) / under provision in prior years	(1.3)	0.2
Income tax expense attributable to profit from continuing operations	**35.9**	**34.2**

b) Numerical reconciliation of income tax expense to prima facie tax payable	2018 $'million	2017 $'million
Profit from continuing operations before income tax	130.8	114.3
Tax at Australian tax rate of 30% (2017: 30%)	39.2	34.3
Other permanent differences	(0.6)	0.9
Effect of franking credits	(1.4)	(1.2)
Current year income tax expense	**37.2**	**34.0**
(Over) / under provision in prior years	(1.3)	0.2
Income tax expense	**35.9**	**34.2**

c) Deferred tax* The balance comprises temporary differences attributable to:	2018 $'million	2017 $'million
Amounts recognised in the profit or loss relating to:		
Deferred tax assets:		
Accruals and provisions	21.6	19.8
Other	0.4	0.2
Total deferred tax assets before application of set-off	**22.0**	**20.0**
Set-off against deferred tax liabilities	(19.0)	(19.6)
Total deferred tax assets after set-off	**3.0**	**0.4**
Deferred tax liabilities:		
Financial assets	17.5	18.1
Investment in associates	1.5	1.5
Total deferred tax liabilities before application of set-off	**19.0**	**19.6**
Set-off against deferred tax assets	(19.0)	(19.6)
Total deferred tax liabilities after set-off	**-**	**-**
Net deferred tax asset movements		
Opening balance at the beginning of the year	0.4	11.2
Prior year over provision	(0.2)	(0.8)
Charged to the income statement	2.8	(10.0)
Closing balance at the end of the year	**3.0**	**0.4**

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

Notes to the financial statements (continued)

30 June 2018

Note 8. Income tax (continued)

d) Current tax liabilities

	2018 $'million	2017 $'million
Opening balance at the beginning of the year	(2.3)	3.6
Payment of the prior year tax liabilities	0.8	(4.2)
Payment of current year tax liabilities	15.0	20.5
Over provision	1.5	0.6
Effect of franking credits	1.4	1.2
Current year provision	(40.0)	(24.0)
Closing balance at the end of the year	**(23.6)**	**(2.3)**

e) Franking credits

	2018 $'million	2017 $'million
Franking credits available for the subsequent financial years based on a tax rate of 30% (2017: 30%)	316.0	301.3

f) Tax consolidation legislation

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

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

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

The amount receivable/payable under the tax funding agreement is due upon receipt of the funding advice from the Company, which is issued as soon as practicable after the end of each financial year. The Company may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Notes to the financial statements (continued)

30 June 2018

Note 9. Property and equipment

Overview

The Group uses property and equipment to assist in carrying out its primary operating activities. Recommended early adoption of the accounting standard AASB 116 requires disclosure of the carrying value (Gross – cost and depreciation, and also net) and movements in the year, by class. Avant group holds assets in the classes of office furniture & fittings, office computer equipment, IT software and leasehold improvements.

These disclosures are met by the tables at the bottom of this note.

How we account for the numbers

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

Depreciation on the assets is calculated using the straight-line method so as to write off the net cost of each item over its expected useful life to the Group, or for leasehold improvements, over the unexpired period of the lease, if this is shorter. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

Critical accounting estimates and judgements

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

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

2018	Office furniture and fittings $'million	Office and computer equipment $'million	IT software $'million	Leasehold improvements $'million	Total $'million
Cost					
At the beginning of the year	0.8	3.8	6.0	13.6	24.2
Additions	-	1.1	1.3	5.4	7.8
Written off in the year	(0.1)	-	-	(0.2)	(0.3)
At the end of the year	**0.7**	**4.9**	**7.3**	**18.8**	**31.7**
Depreciation					
At the beginning of the year	0.6	3.1	4.9	1.6	10.2
Written off in the year	(0.1)	-	-	(0.1)	(0.2)
Depreciation expense for the year	0.1	0.4	0.6	2.4	3.5
At the end of the year	**0.6**	**3.5**	**5.5**	**3.9**	**13.5**
Net carrying value at 30 June 2018	**0.1**	**1.4**	**1.8**	**14.9**	**18.2**

Notes to the financial statements (continued)

30 June 2018

Note 9. Property and equipment (continued)

2017	Office furniture and fittings $'million	Office and computer equipment $'million	IT software $'million	Leasehold improvements $'million	Total $'million
Cost					
At the beginning of the year	0.7	4.7	5.7	1.8	12.9
Additions	0.1	0.4	0.6	11.8	12.9
Written off in the year	-	(1.3)	(0.3)	-	(1.6)
At the end of the year	**0.8**	**3.8**	**6.0**	**13.6**	**24.2**
Depreciation					
At the beginning of the year	0.5	3.4	4.5	1.4	9.8
Written off in the year	-	(1.0)	(0.3)	-	(1.3)
Depreciation expense for the year	0.1	0.7	0.7	0.2	1.7
At the end of the year	**0.6**	**3.1**	**4.9**	**1.6**	**10.2**
Net carrying value at 30 June 2017	**70.2**	**0.7**	**1.1**	**12.0**	**14.0**

Note 10. Intangible assets

Overview

Intangible assets are identifiable non-physical assets which have expected future economic benefits that will flow to the entity and can be reliably measured. The fact that it is identifiable distinguishes it from goodwill. Avant group holds two types of intangible asset which are:

Customer relationships

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

Brands

Brands represent the revenue generating ability of acquired brands. The brand recognised in this set of financial statements relates to DHF, a registered private health insurer purchased by the Avant group in 2012. This is the fifth year following purchase, and in accordance with Avant groups policy of amortising brands over 5 years, the accounts now show a net carrying value of nil in relation to DHF Brand.

How we account for the numbers

Customer relationships

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

Brands

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

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

Notes to the financial statements (continued)

30 June 2018

Note 10. Intangible assets (continued)

Critical accounting estimates and judgements

Intangible assets held by Avant group are deemed to have a finite useful life.

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

The expected useful lives of intangible assets are as follows:

Customer relationships	10 years
Brands	5 years

	Brand $'million	Value of customer relationships $'million	Total $'million
Cost			
As at 30 June 2016	0.5	7.3	7.8
Addition on acquisition of subsidiary in the year	0.3	-	0.3
Written off in the year	-	(2.1)	(2.1)
As at 30 June 2017	0.8	5.2	6.0
Addition on acquisition of subsidiary in the year	0.1	-	0.1
Written off in the year	(0.3)	-	(0.3)
As at 30 June 2018	**0.6**	**5.2**	**5.8**
Accumulated amortisation			
As at 30 June 2016	0.4	4.2	4.6
Written off in the year	-	(2.1)	(2.1)
Amortisation expense for year ended 30 June 2017	0.4	0.5	0.9
As at 30 June 2017	0.8	2.6	3.4
Written off in the year	(0.3)	-	(0.3)
Amortisation expense for year ended 30 June 2018	0.1	0.5	0.6
As at 30 June 2018	**0.6**	**3.1**	**3.7**
Net carrying value at:			
30 June 2017	-	2.6	2.6
30 June 2018	**-**	**2.1**	**2.1**
Remaining years useful life at:			
30 June 2017	-	5 years	
30 June 2018	**-**	**4 years**	

Notes to the financial statements (continued)

30 June 2018

Note 11. Equity

Overview

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

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

How we account for the numbers

Business combination reserve

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

Accumulated surpluses

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

a) Reserves	2018 $'million	2017 $'million
Business combination reserve		
At the beginning and at the end of the year	**54.6**	**54.6**

b) Accumulated surpluses	2018 $'million	2017 $'million
At the beginning of the year		
Mutual - Tax exempt	222.8	224.4
Mutual - Taxable	828.2	753.9
	1,051.0	978.3
Total comprehensive income for the year		
Mutual - Tax exempt	9.2	(0.9)
Mutual - Taxable	85.7	81.0
	94.9	80.1
Dividends paid in the year		
Mutual - Tax exempt	(0.6)	(0.7)
Mutual - Taxable	(7.0)	(6.7)
	(7.6)	(7.4)
At the end of the year		
Mutual - Tax exempt	231.4	222.8
Mutual - Taxable	906.9	828.2
	1,138.3	**1,051.0**

Notes to the financial statements (continued)

30 June 2018

Note 12. Remuneration of key management personnel

Overview

AASB 124 *Related party disclosures* requires disclosure of the compensation of directors (executive and non- executive) and those persons having authority and responsibility for planning, directing and controlling the activities of the Group (collectively defined as key management personnel ("KMP")).

How we account for the numbers

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.

Critical accounting estimates and judgements

The key management personnel include the Company Directors, the Chief Executive Officer (CEO) and those executives that report solely and directly to the CEO.

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

	2018 $'000	**2017 $'000**
Short-term employee benefits		
Cash salary and fees	8,955	8,250
Post-employment benefits		
Superannuation	452	490
Termination benefits	265	-
Total remuneration	**9,672**	**8,740**

Notes to the financial statements (continued)

30 June 2018

Note 13. Remuneration of auditors

Overview

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

	2018 $'000	2017 $'000
Audit services		
PricewaterhouseCoopers Australian Firm:		
Audit of financial reports	593	594
Other assurance and non-assurance services		
PricewaterhouseCoopers Australian Firm:		
Audit of regulatory returns	80	80
Other non-assurance services	27	119
	700	**793**

Note 14. Commitments for expenditure

Overview

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

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

How we account for the numbers

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

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

Operating leases

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

	2018 $'million	2017 $'million
Within one year	6.4	5.8
Later than one year but not later than five years	24.5	20.8
Later than five years	8.6	9.7
	39.5	**36.3**
Lease payments recognised in the statement of comprehensive income:	**4.6**	**4.0**

Notes to the financial statements (continued)

30 June 2018

Note 15. Events occurring after the reporting period

Overview

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

Critical accounting estimates and judgements

The Group carefully considers material events which occur after the balance date. No other matter or circumstance has arisen since 30 June 2018 that has significantly affected or may significantly affect:

i. the operations of the Group in future financial years, or

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

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

Other than those discussed below.

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

a) Retirement Reward Plan

For the fourth consecutive year, having considered the financial position and projected outlook for Avant, the Board resolved to notionally contribute a further $22.8 million to the RRP in respect of the year ended 30 June 2018.

In addition, at that meeting, the Board also resolved to determine dividends and authorise payments for Retirement Reward Dividends totalling $8.5 million to eligible retiring members. These are the fourth dividends determined under the RRP, and this historically continues the tradition of being the first medical defence organisation in Australia to pay fully franked dividends to members.

b) Liquidation of unit trust

AIL held an investment of $54.5 million in the absolute return bond manager GAM at 30 June 2018. Following the suspension of their main portfolio manager on 31 July 2018 AIL lodged a statement of redemption of the investment. GAM have given notice that the trust has frozen redemptions, the fund's trustee Equity Trustees is proceeding to wind up the fund and have begun liquidating the master trust that houses AIL's holding and have advised that no material client detriment has been identified to date.

Equity Trustee stated on 13 August 2018 that it expected unitholders will periodically receive interim distributions as cash becomes available throughout the liquidation process. On 13 September AIL received a 60% redemption of the holding.

Note 16. Contingent liabilities

Overview

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

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

At the request of the Group, Westpac Banking Corporation Limited has undertaken to pay on demand amounts up to $7.3 million (2017: $7.8 million) in respect of lease payments payable. This bank guarantee is secured by a fixed charge over the Group's cash deposits.

Notes to the financial statements (continued)

30 June 2018

Note 17. Summarised financial data of the ultimate parent entity

Overview

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

Statement of comprehensive income:	**2018 $'million**	**2017 $'million**
Earned membership subscription revenue	16.2	15.5
Interest income	0.1	0.2
Dividends from subsidiary	7.8	7.3
Director related costs	(1.0)	(1.0)
General & administration expenses	(4.7)	(4.6)
Management fees paid	(6.7)	(8.6)
Other income	3.1	2.3
Profit before income tax	**14.8**	**11.1**
Income tax expense	-	(0.8)
Profit for the year	**14.8**	**10.3**
Other comprehensive income for the year	-	-
Total comprehensive income for the year	**14.8**	**10.3**
Balance sheet:		
Current assets		
Cash and cash equivalents	1.7	5.2
Receivables from related entity	55.4	16.4
Other receivables	0.1	0.2
Other investments	3.0	10.0
Deferred tax assets	-	0.1
Total current assets	**60.2**	**31.9**
Non-current assets		
Investments in controlled entities	508.6	508.6
Total non-current assets	**508.6**	**508.6**
Current liabilities		
Current tax liability	(23.6)	(2.3)
Payables to related entity	(1.5)	(3.3)
Other payables	(1.0)	(0.5)
Unearned income	(13.2)	(12.1)
Total current liabilities	**(39.3)**	**(18.2)**
Net Assets	**529.5**	**522.3**
Equity		
Reserves	508.6	508.6
Accumulated surpluses	20.9	13.7
Total Equity	**529.5**	**522.3**

Notes to the financial statements (continued)

30 June 2018

Note 18. Investments in controlled entities

Overview

This section lists all of the Groups controlled entities. The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the Company as at 30 June 2018 and the results for the financial year then ended, or for the period during which control existed if the entity was acquired or disposed of during the financial year.

How we account for the numbers

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

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

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

Name of Entity	Country of incorporation	Class of shares	Ownership interest 2018 %	2017 %
Avant Group Holdings Limited	Australia	Ordinary	100	100
The Medical Defence Association of Victoria Limited	Australia	Ordinary	100	100
Investments in controlled entities of Avant Group Holdings Limited				
Avant Insurance Limited	Australia	Ordinary	100	100
The Doctors' Health Fund Pty Ltd	Australia	Ordinary	100	100
The Medical Defence Union Pty Ltd	Australia	Ordinary	100	100
United Medical Protection Pty Limited * (formerly United Medical Protection Limited)	Australia	-	-	-
Doctors Financial Services Pty Limited	Australia	Ordinary	100	100
Avant Services Co. Pty Limited	Australia	Ordinary	100	100
MyPracticeManual Pty Ltd	Australia	Ordinary	100	100
Avant Foundation Limited**	Australia	-	-	-
Investments in controlled entities of Avant Insurance Limited				
Avant Law Pty Limited	Australia	Ordinary	100	100
Investments in controlled entities of Avant Law Pty Limited				
Avant Law (SA) Pty Limited	Australia	Ordinary	100	100
Investments in controlled entities of The Medical Defence Union Pty Ltd				
Professional Insurance Australia Pty Ltd	Australia	Ordinary	100	100

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

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

Notes to the financial statements (continued)

30 June 2018

Note 19. Related parties

Key management personnel

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

Remuneration

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

Transactions with Directors

For the year ended 30 June 2018, member services provided by the Company were also available to all member Directors on the same terms and conditions available to other members. No member services were provided to the other key management personnel.

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

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

Group structure

Up to 30 June 2018, the ultimate Australian parent entity within the Group was Avant Mutual Group Limited. Refer to Note 18 for the details and ownership interests of the controlled entities of the Company up to 30 June 2018.

Intercompany capital undertakings

Information on intercompany capital undertakings is disclosed in Note 7.

Related party transactions

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

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

b) The provision of management services by the controlled entity, AIL, for the Company with management fees of $6,696,831 (2017: $8,590,356) paid to the controlled entity.

c) At 30 June 2018, AIL is due to pay $4,323,741 (2017: pay $5,354,459) to Avant Law Pty Limited ("Avant Law") for the settlement of inter-company transactions.

d) At 30 June 2018, AIL is due to pay $954,389 (2017: pay $468,200) to Avant Law (SA) Pty Limited ("Avant Law SA") for the settlement of inter-company transactions.

e) At 30 June 2018, AIL is due to receive $526,187 (2017: pay $13,087) from The Medical Defence Association of Victoria Limited ('MDAV') for the settlement of inter-company transactions.

f) At 30 June 2018, AIL is due to receive $1,808,356 (2017: receive $756,980) from AGHL for the settlement of inter-company transactions.

g) At 30 June 2018, AIL is due to pay $14,486,879 (2017: pay $3,200,729) to the Company for the settlement of inter-company transactions.

h) At 30 June 2018, AIL is due to receive $20,591 (2017: receive $52,461) from Professional Insurance Australia Pty Ltd ("PIA") for the settlement of inter-company transactions.

i) At 30 June 2018, AIL is due to receive $544,865 (2017: receive $329,891) from DHF for the settlement of inter-company transactions.

j) At 30 June 2018, AIL is due to receive $589,817 (2017: receive $690,155) from DFS for the settlement of inter-company transactions.

k) At 30 June 2018, AIL is due to receive $171,593 (2017: receive $192,198) from MyPracticeManual Pty Ltd ("MPM") for the settlement of inter-company transactions.

l) At 30 June 2018, AGHL is due to receive $121 (2017: receive $87) from MDAV; due to pay $84,550 (2017: pay $84,550) to United Medical Protection Pty Limited ("UMP"); due to pay $2,792,301 (2017: pay $2,792,301) to The Medical Defence Union Pty Ltd ("MDU"); due to pay $500,000 (2017:pay $nil) to MPM; due to pay $1,196,316 (2017: pay $6,502) to DFS for the settlement of inter-company transactions. .

Notes to the financial statements (continued)

30 June 2018

Note 19. Related parties (continued)

m) As at 30 June 2018, the Company is due to pay $90,322 (2017: receive $384,337) to DHF; due to pay $182,734 (2017: pay $367,360) to MPM; due to receive $50,105 (2017: receive $57,190) from PIA; due to receive $376 (2017: receive $376) from UMP; due to pay $510,673 (2017: pay $1,297,096) to Avant Law; due to pay $694,634 (2017: pay $1,585,706) to DFS; due to receive $40,610,881 (2017: receive $12,601,069) from AGHL; due to receive $3,107 (2017: receive $3,105) from MDU; due to receive $286,317 (2017: receive $140,460) from Avant Law SA for the settlement of inter-company transactions.

n) During the year ALAW declared and paid a dividend amounting $7,100,000 (2017: $2,000,000) to AIL.

o) During the year AGHL declared a $7,800,000 (2017: $7,344,032) dividend payable to the Company.

p) During the year DHF declared and paid a dividend amounting $5,000,000 (2017: $2,000,000) to AGHL.

q) During the year PIA declared and paid $nil (2017: $10,000,000) dividend to MDU.

r) During the year MDU declared and paid $nil (2017: $10,000,000) dividend to AGHL.

Directors' declaration

In the Directors' opinion:

a) the financial statements and notes set out on pages 8 to 55 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 2018 and of their performance for the financial year ended on that date; and

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

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

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

Professor Simon Willcock
Chairman
Sydney

27 September 2018

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Independent auditor's report

To the members of Avant Mutual Group Limited

Our opinion

In our opinion:

The accompanying financial report of Avant Mutual Group Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended

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

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2018
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual financial report for the year ended 30 June 2018, including the Directors' report, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

SK Fergusson
Partner

Sydney
27 September 2018

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