Annual Consolidated Financial Report 2022

Avant
By doctors for doctors

Avant Mutual Group Limited ABN 58 123 154 898

(A company limited by guarantee)

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Directors' report
30 June 2022

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 financial year ended 30 June 2022.

Directors

The following persons were Directors of the Company during the financial year ended 30 June 2022 and up to the date of this report (unless as otherwise stated):

- Dr Beverley Rowbotham AO (Chair)
- Mr Peter Beck
- Dr Jan Dudley
- Dr Gillian Farrell
- Dr William Glasson AO
- Dr Steven Hambleton
- Mr Peter Polson
- Dr Douglas Travis
- Mr Duncan West

Principal activities

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

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

The wholly-owned controlled entity, The Doctors' Health Fund Pty Ltd ("DHF"), provides doctors and the medical community, their employees and families and Avant employees with access to the market leading suite of health insurance products.

The wholly owned controlled entity, Doctors Financial Services Pty Limited ("DFS"), provides general and personal financial advice on life insurance (death cover, TPD, trauma and income protection and business expense). From 30 June 2022, DFS ceased operation of its financial advice business but continued with the provision of advice on life insurance.

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.

The wholly-owned controlled entity, MyPracticeManual Pty Ltd ("MPM") provides an online practice management platform that integrates best practice policies and procedures, task management, a secure document management system including a templates library, personalised training and compliance modules and customisable registers.

The other non-wholly owned entities provide business and technology solutions for doctors and their practices, including private lending solutions, a medical supplies business and a software platform for health professionals and administrators to communicate.

Dividends paid or recommended

During the year, the Board declared dividends under the Retirement Reward Plan ("RRP") totalling $11,100,000 to eligible retiring members. These were the dividends determined under the RRP, and this marked the seventh time the Board has determined to pay franked dividends to members.

Directors' report
30 June 2022

Directors' report (continued)

Review of operations

The Group's result for the financial year ended 30 June 2022 is a net loss after tax of $48,100,000 (2021: net profit after tax of $161,800,000). The total members' accumulated equity as at 30 June 2022 is $1,317,500,000 (2021: $1,376,100,000). This Directors' report is to provide members with analysis to supplement the financial report and assist members in understanding the operations, financial position, business strategies and prospects of an entity. The Directors have confidence that the financial report truly reflects the Company's business strategies, and prospects for future financial years.

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 $26,600,000 to the RRP in respect to the year ended 30 June 2021. This brings the total assets notionally allocated to the RRP of $382,900,000 as at 30 June 2022.

Matters subsequent to the end of the financial year

DHF give-back initiative

As part of the DHF COVID-19 member support and giveback program, DHF returned $3,000,000 in COVID-19 claims savings to current and former eligible members through one-off cash payments made in August 2022.

Retirement Reward Plan

Having considered the financial position and projected outlook for Avant, the Board resolved to notionally contribute a further $28,100,000 to the RRP in respect of the year ended 30 June 2022.

In addition, at that meeting, the Board also resolved to determine dividends and authorise payments for Retirement Reward Dividends totalling $14,400,000 to eligible retiring members. These are the eighth dividends determined under the RRP, and this continues the tradition of being the first medical defence organisation in Australia to pay fully franked dividends to members.

Investments market

Since balance date, the Group continues to experience volatility in the investments market affecting its investment returns. Investments market risks are considered and managed as part of the ongoing capital management of the Group and there has not been a need to alter the investments strategy as a result.

Other than those described above, no other matter or circumstance has arisen since 30 June 2022 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

The global COVID-19 pandemic is continuing to cause disruption to society, the practice of medicine and financial markets. We have considered the potential impacts of the crisis on our accounts in detail, and believe the accounts are appropriate as stated. The accounts are, of course, still subject to some uncertainty as always, and where COVID-19 has materially affected this uncertainty we have considered specific allowances for this. More detail is provided in the notes to the financial statements where relevant.

In the opinion of the Directors, other than described above, there were no significant changes in the state of affairs of the Group that occurred during the financial year ended 30 June 2022.

Likely developments and expected results of operations

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental regulation

The Group is not subject to any significant environmental regulation in respect of its activities.

Directors' report
30 June 2022

Directors' report (continued)

Information on Directors

Dr Beverley Rowbotham AO, MBBS (Hons 1) MD, FRACP, FRCPA, FAICD	
Experience and expertise	Dr Rowbotham was elected the Chair of Avant Mutual in July 2019 and is a Director of a number of Avant Group subsidiaries. She is a clinical and laboratory haematologist and was awarded Officer of the Order of Australia in 2019 for her distinguished service to medicine through roles with professional associations, to pathology and to medical education. She chairs the Australian Government's National Pathology Accreditation Advisory Council, is a director of Blue Skipper Pty Limited and Bolton Clarke and its subsidiaries. Dr Rowbotham is Associate Professor at the University of Queensland and is a Fellow of the Australian Institute of Company Directors.
Avant Directorships	Dr Rowbotham is the Chair of Avant Mutual Group Limited, Avant Group Holdings Limited and is a Director of Avant Insurance Limited, The Doctors' Health Fund Pty Ltd, Professional Insurance Australia Pty Limited, Medical Defence Association of Victoria Limited, The Medical Defence Union Pty Limited, United Medical Protection Pty Limited and the Avant Foundation Limited. Dr Rowbotham is also a Member of the Group Remuneration Committee, Group Nominations Committee, DHF Risk Committee, DHF Audit Committee, New Ventures Advisory Committee and Chairs the DHF Remuneration Committee.
Mr Peter Beck BSc, FIA, FIAA, FSA, FASFA	
Experience and expertise	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. Mr Beck is also a director of QInsure.
Avant Directorships	Mr Beck is a Director of Avant Mutual Group Limited, Avant Group Holdings Limited, Avant Insurance Limited, Professional Insurance Australia Pty Limited, Chair of The Doctors' Health Fund Limited Chair of the Group Risk Committee, Chair of the Group Audit Committee and a Member of the Group Investment Committee and DHF Remuneration Committee.
Dr Jan Dudley MBBS, FRANZCOG, GAICD	
Experience and expertise	Dr Dudley is a VMO Obstetrician and Gynaecologist, with over 35 years' experience working in NSW Health across tertiary public and private hospitals. Dr Dudley was awarded an OAM in 2021 for services to Obstetrics and Gynaecology. Dr Dudley has significant governance experience at a local hospital level and was a longstanding member of Avant's NSW Medical Experts committee. Dr Dudley was elected on to the Avant Board in 2014. Dr Dudley is a director of South East Sydney Local Area Health District. Dr Dudley is a graduate of the Australian Institute of Company Directors.
Avant Directorships	Dr Dudley is a Director of Avant Mutual Group Limited, Avant Group Holdings Limited, Avant Insurance Limited, Professional Insurance Pty Limited and a Member of the Group Risk Committee, Group Audit Committee and Group Investment Committee.
Dr Gillian Farrell MBBS, FRACS	
Experience and expertise	Dr Farrell is a plastic and reconstructive surgeon who works as a Senior Oncological Surgeon at Peter MacCallum Cancer Centre and at Royal Darwin Hospital. She is an Associate Professor at Monash University School of Epidemiology and Preventative Medicine, Chair of the Ethics Committee of the Australian Society of Plastic Surgeons, APS Clinical Lead at the Australian Breast Device Registry, a Clinical Advisor at the Prostheses List, and a Member of TGA Breast Implant Expert Working Group, TGA Advisory Committee on Medical Devices and Clinical Implementation Reference Group Prostheses Policy Section.
Avant Directorships	Dr Farrell is a Director of Avant Mutual Group Limited, Avant Group Holdings Limited, Professional Insurance Pty Limited, The Doctors' Heath Fund and a Member of the DHF Audit Committee, DHF Risk Committee and DHF Remuneration Committee.

Directors' report
30 June 2022

Directors' report (continued)

Information on Directors

Dr William Glasson AO, MBBS (UQ), FRANZCO, FRACS, FRACGP, FRCOphth, DipAppSc(Opt), GAICD	
Experience and expertise	Dr Glasson is a practising Ophthalmologist working in urban, rural and regional Australia as well as in East Timor. Dr Glasson is the former Federal President of the Australian Medical Association (AMA) and was awarded the Gold Medal for his services in 2017. As AMA President, he led the AMA Presidential Medical Indemnity Taskforce during the medical indemnity crisis of 2005. Dr Glasson is also a former President of the Royal Australian and New Zealand College of Ophthalmologists. He has been awarded an Order of Australia for his services to rural and regional medicine. Dr Glasson has significant skills and knowledge in finance, management and governance. He is a director of Institute of Urban and Indigenous Health, Anglican Grammar School Board, Fresenius Medical Care Day Hospitals Holding Pty Limited and the Ophthalmic Research Institute of Australia. He is a past member of Cancer Australia Advisory Committee.
Avant Directorships	Dr Glasson is a Director of Avant Mutual Group Limited, Avant Group Holdings Limited, Professional Insurance Australia Pty Limited and a Member of the Group Nominations Committee and Group Remuneration Committee.
Dr Steven Hambleton MBBS, FAMA, FRACGP (Hon), FAICD	
Experience and expertise	Dr Hambleton is a Specialist General Practitioner and former Federal President of the AMA. He is currently the Chief Clinical Advisor for the Australian Digital Health Agency, is a director of the Digital Health CRC and Mercy Community Services and a member of the Clinical Advisory Group for Better Access Evaluation and Strengthening Medicare Taskforce.
Avant Directorships	Dr Hambleton is a Director of Avant Mutual Group Limited, Avant Group Holdings Limited, Professional Insurance Australia Limited and a Member of the Group Risk Committee, Group Audit Committee and Group Investment Committee.
Mr Peter Polson BCom, MBL, PMD	
Experience and expertise	Mr Polson has an extensive background in banking, insurance and financial services. He was formerly Managing Director of Colonial First State Investments and the Commonwealth Bank Group as Group Executive responsible for all Investment and Insurance Services. Mr Polson is the Chair of IDP Education Limited, Challenger Limited, Challenger Life Company Limited and Very Special Kids. He is currently a director of several entities at the Copia group.
Avant Directorships	Mr Polson is a Director of Avant Mutual Group Limited, Avant Group Holdings Limited, Avant Insurance Limited (Chair), Professional Insurance Australia Pty Limited (Chair) and a Chair of the Group Investment Committee and New Ventures Advisory Committee, Member of the Group Remuneration Committee and the Group Nominations Committee.
Dr Douglas Travis MBBS, FRACS, FAMA GAICD	
Experience and expertise	Dr Travis is a Urological consultant practising in the public health system in Victoria. He is a director of HealthShare Victoria. In 2014, he was appointed by the Victorian Government to head the Travis Review, a study to increase the capacity of the Victorian public hospital system for better patient outcomes.
Avant Directorships	Dr Travis is a Director Avant Mutual Group Limited, Avant Group Holdings Limited, Professional Insurance Australia Pty Limited and a Member of the Group Audit Committee and Group Risk Committee.
Mr Duncan West ANZIIF (Snr Assoc.), CIP, FCII, BSc (Econ), GAICD	
Experience and expertise	Mr West has over 35 years' experience in general and life insurance. He has worked in the UK, India and Australia including as CEO of Vero Insurance and CGU Insurance. Most recently he was Executive General Manager of Retail Wealth for NAB. Mr West holds a Graduate Diploma in Business and a Bachelor of Science in Economics. He is a Senior Associate of the Australia and New Zealand Institute of Insurance and Finance and an honorary life member. Mr West is Chair of Habitat for Humanity Australia. He is a director of Challenger Limited, Genworth Mortgage Insurance Limited, Suncorp Group Limited, Suncorp Insurance Holdings Limited, AAI Limited, Suncorp Metway Limited, Suncorp Life Holdings Limited and SBGH Limited.
Avant Directorships	Mr West is a Director of Avant Group Holdings Limited, Avant Insurance Limited, Professional Insurance Australia Pty Limited, Chair of the Group Remuneration Committee, and Member of the Group Risk Committee, Group Audit Committee, Group Nominations Committee and New Ventures Advisory Committee.

Directors' report
30 June 2022

Directors' report (continued)

Meeting of Directors

The number of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2022, and the number of meetings attended by each Director are set out in the tables below.

	Avant Mutual Group Board		Group Audit Committee		Group Risk Committee	
	Full meeting		Full meeting		Full meeting	
	A	B	A	B	A	B
Dr Beverley Rowbotham AO (Chair)	6 (c)	6	5	5	5	*
Mr Peter Beck	6	6	5 (c)	5	5 (c)	5
Dr Jan Dudley	6	6	5	5	5	5
Dr Gillian Farrell	6	6	5	5	5	3
Dr William Glasson AO	6	6	1	*	1	*
Dr Steven Hambleton	5	6	4	5	4	5
Mr Peter Polson	6	5	1	*	1	*
Mr Douglas Travis	6	6	5	5	5	5
Mr Duncan West	6	6	5	5	5	5

	Group Investment Committee		Group Remuneration Committee		Group Nominations Committee		New Ventures Advisory Committee	
	Full meeting		Full meeting		Full meeting		Full meeting	
	A	B	A	B	A	B	A	B
Dr Beverley Rowbotham AO (Chair)	*	*	4	4	6 (c)	6	2	2
Mr Peter Beck	4	4	*	*	*	*	1	*
Dr Jan Dudley	4	4	*	*	*	*	1	*
Dr Gillian Farrell	*	*	*	*	*	*	*	*
Dr William Glasson AO	*	*	4	4	6	6	*	*
Dr Steven Hambleton	4	4	*	*	*	*	1	*
Mr Peter Polson	4 (c)	4	4	4	6	6	2 (c)	2
Mr Douglas Travis	*	*	*	*	*	*	*	*
Mr Duncan West	*	*	4 (c)	4	4	4	2	2

A = Number of meetings attended
B = Number of meetings held during the time the Director held office or was a member of the committee in the year.
* Not a member of the relevant committee
(c) = Chairman of the Board/Committee

Directors' report
30 June 2022

Directors' report (continued)

Company Secretary

Throughout the period, Mr Patrick Esplin and Mrs Zana Jordan served as Company Secretary of the Company and continue in office as at the date of this report.

Proceedings on behalf of the Company

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

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

Insurance of officers

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

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

Auditor

Deloitte Touche Tohmatsu continues in office in accordance with section 327 of the *Corporations Act 2001(Cth)*.

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 one hundred thousand dollars.

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

Beverley Rowbotham

Dr Beverley Rowbotham AO
Chair
Sydney
29 September 2022

Deloitte.

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Australia

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Board of Directors
Avant Mutual Group Limited
Darling Park Tower 3, Level 6
201 Sussex St
Sydney NSW 2000

Dear Board Members

Auditor's Independence Declaration to Avant Mutual Group Limited

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

As lead audit partner for the audit of the financial report of Avant Mutual Group Limited for the year ended 30 June 2022, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stuart Alexander
Partner
Chartered Accountants

29 September 2022

Consolidated statement of comprehensive income
For the year ended 30 June 2022

	Note	2022 $'million	2021 $'million
Gross written premium		430.6	404.6
Member giveback		(5.1)	–
Unearned premium movement		(11.2)	(11.7)
Gross earned premium		414.3	392.9
Outward reinsurance premium expense		(7.1)	(7.9)
Net earned premium (a)		407.2	385.0
Gross claims expense	4(b)	(356.4)	(350.4)
Reinsurance and other recoveries revenue	4(b)	61.2	18.1
Net claims incurred (b)	4(b)	(295.2)	(332.3)
Acquisition costs	4(i)	(39.3)	(36.8)
Other underwriting expenses	4(i)	(41.4)	(35.8)
Run-off Cover Scheme (ROCS) levy		(11.8)	(11.5)
Underwriting expenses (c)		(92.5)	(84.1)
Underwriting result (a) + (b) + (c)		**19.5**	**(31.4)**
Investment (loss)/income – policyholders funds	3(a)	(14.3)	9.8
Investment expenses – policyholders funds	3(a)	(1.3)	(0.8)
Net investment (loss)/income – policyholders funds		(15.6)	9.0
Insurance income/(loss)		**3.9**	**(22.4)**
Other income	5(a)	62.3	45.9
Other operating expenses	4(i)	(69.0)	(44.7)
Net other (loss)/income		(6.7)	1.2
Investment (loss)/income – members funds	3(a)	(77.3)	252.0
Investment expenses – members funds	3(a)	(7.2)	(8.1)
Net investment (loss)/income – members funds		(84.5)	243.9
Share of results of associates		0.8	1.4
Gain on disposal of investment in associate		10.8	–
Finance costs	5(f)	(0.7)	(0.7)
Amortisation of intangible assets	10	(0.5)	(0.5)
(Loss)/Profit before income tax		**(76.9)**	**222.9**
Income tax benefit/(expense)	8(a)	28.8	(61.1)
(Loss)/Profit after income tax		**(48.1)**	**161.8**
Other comprehensive income after income tax		–	–
Total comprehensive (loss)/income after income tax		**(48.1)**	**161.8**
Total comprehensive (loss)/income for the period attributable to:			
Members of Avant Mutual Group Limited		(44.3)	163.1
Non-controlling interests		(3.8)	(1.3)
		(48.1)	**161.8**

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

Consolidated statement of financial position

As at 30 June 2022

	Note	2022 $'million	2021 $'million
Assets			
Cash and cash equivalents		99.6	96.8
Trade and other receivables	5(b)	231.3	121.6
Investments and derivatives	3(b)	1,981.8	2,145.0
Reinsurance and other recoveries	4(e)	269.6	266.4
Deferred expenses	4(h)	22.7	19.8
Deferred tax assets (net)	8(c)	51.0	–
Right-of-use lease assets	5(f)	29.4	24.2
Property and equipment	9	7.9	10.9
Intangible assets	10	8.6	9.3
TOTAL ASSETS		**2,701.9**	**2,694.0**
Liabilities			
Trade and other payables	5(c)	146.8	82.4
Derivatives	3(b)	2.7	0.3
Current tax liabilities	8(d)	26.3	30.7
Unearned income	4(g)	268.1	254.9
Insurance contract liabilities	4(d)	892.6	898.1
Lease liabilities	5(f)	33.3	29.4
Employee related provisions	5(e)	12.9	10.7
Other provisions	5(d)	1.7	2.6
Deferred tax liabilities (net)	8(c)	–	8.8
TOTAL LIABILITIES		**1,384.4**	**1,317.9**
NET ASSETS		**1,317.5**	**1,376.1**
Equity			
Reserves	11(a)	54.6	54.6
Accumulated surpluses	11(b)	1,267.1	1,322.5
Capital and reserves attributable to members of Avant Mutual Group Limited		1,321.7	1,377.1
Non-controlling interests		(4.2)	(1.0)
TOTAL EQUITY		**1,317.5**	**1,376.1**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity
For the year ended 30 June 2022

		Attributable to owners of Avant Mutual Group Limited				
	Note	**Reserves $'million**	**Accumulated surpluses $'million**	**Total $'million**	**Non-controlling interests $'million**	**Total $'million**
Balance as at 30 June 2020	11	54.6	1,170.6	1,225.2	1.3	1,226.5
Income/(loss) for the year		–	163.1	163.1	(1.3)	161.8
Other comprehensive income		–	–	–	–	–
Total comprehensive income/(loss) for the year	–	163.1	163.1	(1.3)	161.8	161.8
Non-controlling interest on acquisition of subsidiary					(0.9)	(0.9)
Dividend declared/paid					(0.1)	(0.1)
Retirement reward dividend/payments		–	(11.2)	(11.2)	–	(11.2)
Transaction with members in their capacity as members		–	(11.2)	(11.2)	(1.0)	(12.2)
Balance as at 30 June 2021	11	**54.6**	**1,322.5**	**1,377.1**	**(1.0)**	**1,376.1**
Loss for the year		–	(44.3)	(44.3)	(3.8)	(48.1)
Other comprehensive income		–	–	–	–	–
Total comprehensive loss for the year	–	–	(44.3)	(44.3)	(3.8)	(48.1)
Non-controlling interest – share capital		–	–	–	0.6	0.6
Retirement reward dividend/payments		–	(11.1)	(11.1)	–	(11.1)
Transaction with members in their capacity as members		–	(11.1)	(11.1)	0.6	(10.5)
Balance as at 30 June 2022	11	**54.6**	**1,267.1**	**1,321.7**	**(4.2)**	**1,317.5**

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 2022

	Note	2022 $'million	2021 $'million
Cash flows from operating activities			
Premium and subscription income received		462.6	438.8
Reinsurance premium paid		(7.7)	(7.0)
Claims paid	4(d)	(367.0)	(356.4)
Reinsurance and other recoveries received	4(d)	58.0	45.4
Run-off Cover Scheme paid		(11.7)	(11.5)
Interest received		14.1	18.7
Subscription and other income		20.1	13.6
Income tax paid		(32.3)	(5.5)
Underwriting and administrative expenses paid		(149.6)	(109.8)
Net cash inflows from operating activities	2	**(13.5)**	**26.3**
Cash flows from investing activities			
Purchase of investments		(450.0)	(468.8)
Proceeds from sale of investments		406.0	406.3
Dividends and distributions received		61.3	110.0
Acquisition of a subsidiary, net of cash acquired	19(b)	–	(0.2)
Purchase of fixed assets and intangibles		(2.0)	(2.4)
Proceeds from disposal of investment in associate		35.0	–
Payments for investment in associates		(17.1)	(2.1)
Net cash inflows from investing activities		**33.2**	**42.8**
Cash flows from financing activities			
Lease payments	5(f)	(6.4)	(7.6)
Sublease receipts	5(f)	0.7	0.7
Retirement reward dividend payment		(11.1)	(11.2)
Net cash outflows from financing activities		**(16.8)**	**(18.1)**
Net movement in cash and cash equivalents		**2.8**	**51.0**
Cash and cash equivalents at the beginning of the year		96.8	45.8
Cash and cash equivalents at the end of the year		**99.6**	**96.8**

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

Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 1. About this report

a) Information about the company

Avant Mutual Group Holdings Limited ("the Company") is a company limited by guarantee, incorporated in Australia under the *Corporations Act 2001*. The Company and its subsidiaries (referred to as the Group) vision is to be the most trusted professional partner in supporting doctors throughout their lives and careers through the provision of medical indemnity, private health insurance, practice management, and other financial services.

The address of the Company's registered office and principal place of business are as follows:

Level 6 Darling Park
Tower 3,
201 Sussex Street,
Sydney, NSW, Australia

The financial report was authorised for issue by the Directors on 29 September 2022.

b) Basis of preparation

This Financial Report is a general-purpose financial report (tier 1) 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 financial statements are for the Group consisting of the Company and its subsidiaries. The Company is a for-profit entity for the purpose of preparing the financial statements;

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

iii. has required the use of certain critical accounting estimates and management 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;

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 one hundred thousand dollars in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*.

The consolidated 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 17.

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.

c) 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

New or revised accounting standards, which became effective for the annual reporting period commencing on 1 July 2021, have not affected any of the amounts recognised in the current period or any prior period.

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

AASB 9 *Financial Instruments* was issued in 2014 and replaced AASB 139 *Financial Instruments: Recognition and Measurement*. It revised the classification and measurement of financial instruments and introduced a new expected credit loss ("ECL") model which replaced AASB 139's incurred loss approach for calculating impairment on financial assets.

This standard is effective for annual reporting periods beginning on or after 1 January 2018. As the Group is predominantly connected with insurance and meets the requirements in AASB 2016-6 *Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments* with AASB 4 *Insurance Contracts*, it has elected to defer the adoption of AASB 9 until AASB 17 *Insurance Contracts* is mandatorily effective for the Group for annual reporting periods beginning on or after 1 July 2023.

Notes to the consolidated financial statements

For the year ended 30 June 2022

Note 1. About this report (continued)

c) Accounting policies (continued)

The expected impacts on the adoption of AASB 9 are as follows:

- The Group's investments, except investments in controlled entities and associates, are currently designated as at fair value through profit or loss on initial recognition and are subsequently measured to fair value at each reporting date, reflecting the business model applied by the Group to manage and evaluate its investment portfolio. Under this business model, the adoption of AASB 9 is not expected to result in significant changes to accounting for investments;
- The Group's other financial instruments (i.e. receivables and payables) are held at amortised cost. Under the current business model, the adoption of AASB 9 does not materially change the accounting for other financial instruments;
- For financial assets at amortised cost other than qualifying trade and lease receivables, a provision for expected credit losses is recognised for the amount of expected credit losses within 12 months after the reporting date unless there is a significant increase in credit loss since initial recognition in which case an amount of expected credit losses over the expected life of the receivable is recognised.
- For qualifying trade and lease receivables, the Group will adopt the simplified approach to calculate ECLs based on lifetime expected credit losses.

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

AASB 17 *Insurance Contracts* is a new accounting standard that applies to all insurance contracts. It replaces existing accounting standards AASB 4 *Insurance Contracts* and AASB 1023 *General Insurance Contracts* applicable to the Group. It will be mandatory and effective for the Group for annual reporting periods beginning on or after 1 July 2023.

The new standard requires the application of new measurement models and introduces significant changes to the presentation and disclosure of insurance contracts. AASB 17 introduces a general model that measures insurance contracts based on the fulfilment cash flows (present value of estimated future cash flows with a provision for risk) and the contractual service margin (the unearned profit that will be recognised over the coverage period). A simplified measurement model (premium allocation approach) is permitted in certain circumstances and is similar to the current measurement model used for general insurance.

Regulators are considering their response to the new standard which will result in changes to the capital and reporting prudential standards. As part of APRA's consultation process, the Group responded to the December 2021 APRA Quantitative Impact Study as applicable to general insurers and private health insurers. APRA responded to the submissions and final standards were issued on 27 September 2022 with an effective date of 1 July 2023.

The Group has commenced and is continuing to assess and implement the requirements of AASB 17. An impact assessment of the standard has been completed. Further work is required on the technical interpretation and application of the requirements to determine new accounting policies and the design of systems and processes.

The Group expects to be eligible to use the premium allocation approach for all its general insurance and private health insurance contracts. The financial impact of adopting AASB 17 is not reasonably estimable at the date of this report.

Other new or amended standards that are not yet effective are not expected to have a material impact on the Group in the current or future reporting periods.

Notes to the consolidated financial statements
For the year ended 30 June 2022

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

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

	2022 $'million	2021 $'million
(Loss)/profit after income tax	**(48.1)**	**161.8**
Depreciation and amortisation – property and equipment and intangibles	2.5	4.9
Depreciation of right-of-use assets	5.6	6.3
Change in fair value of investments held at fair value through profit or loss	170.1	(124.3)
Dividends and distributions received net of franking credits	(61.3)	(117.6)
Share of profit of associates	(0.8)	(1.4)
Write down of fixed assets	3.1	0.6
Gain on disposal of investment in associate	(10.8)	–
(Increase)/decrease in:		
Receivables	(23.0)	(10.6)
Reinsurance and other recoveries	(3.2)	27.3
Deferred expenses	(2.9)	1.1
Current tax assets	(4.4)	33.1
Deferred tax assets/liabilities	(59.8)	24.7
Increase/(decrease) in:		
Reinsurance premiums payable	1.4	(1.3)
Insurance contract liabilities	(5.5)	(6.0)
Unearned income	13.2	20.6
Employee related and other provisions	1.3	1.2
Other operating liabilities	9.1	5.9
Net cash inflows from operating activities	**(13.5)**	**26.3**

Notes to the consolidated financial statements

For the year ended 30 June 2022

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 13 *Fair Value Measurement* 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).

AASB 128 *Investments in Associates and Joint Ventures* sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

How we account for the numbers

Cash and cash equivalents

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

Investments at fair value through profit or loss ("FVTPL")

Measurement of investments at FVTPL

Both at initial recognition, and subsequently at each statement of financial position date, the Group measures its investments classified as financial assets at FVTPL at its fair value.

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

Measurement of fair value

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

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for fixed interest securities for disclosure purposes. The Group values unlisted collective investment schemes 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 consolidated financial statements
For the year ended 30 June 2022

Note 3. Investing activities (continued)

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Investments in associates are accounted for using the equity method. Under this method, an investment in associate is recognised initially in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, for part of the Group's investment in associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest, if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When the Group entity transacts with an associate of the Group, profits or losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associates that are not related to the Group.

Impairment

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

Critical accounting estimates and judgements

The Directors have reviewed all of the Group's existing financial assets in line with the requirements of AASB 139 and have assessed that all financial assets are measured at fair value through profit and loss, with the exception of investments in associate which are accounted using the equity method.

Notes to the consolidated financial statements

For the year ended 30 June 2022

Note 3. Investing activities (continued)

a) Investment income and expenses

	2022 $'million	2021 $'million
Investment income/(loss)		
Interest income	14.1	18.7
Distributions from collective investment schemes	62.6	115.7
Dividend income	1.8	3.1
	78.5	137.5
Change in fair value of investments	(170.1)	124.3
Total investment income/(loss)	**(91.6)**	**261.8**
Investment (loss)/income – policyholders funds	(14.3)	9.8
Investment (loss)/income – members funds	(77.3)	252.0
Total investment (loss)/income	**(91.6)**	**261.8**
Investment expenses – policyholders funds	(1.3)	(0.8)
Investment expenses – members funds	(7.2)	(8.1)
Total investment expenses	**(8.5)**	**(8.9)**

b) Investments

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

As at 30 June 2022	Level 1 $'million	Level 2 $'million	Level 3 $'million	Total $'million
Financial assets at fair value through profit or loss				
Fixed interest securities	147.9	507.3	–	655.2
Collective investment schemes	–	1,077.3	77.2	1,154.5
Equities	149.0	–	–	149.0
Derivatives	0.1	5.1	–	5.2
	297.0	**1,589.7**	**77.2**	**1,963.9**
Investment in associates[1 2]				**17.9**
Total investments				**1,981.8**
Financial liabilities at fair value through profit or loss				
Derivatives liability	–	2.7	–	2.7
Total investments liabilities				**2.7**
Current investments				189.2
Non-current investments				1,789.9
Net investments				**1,979.1**

[1] In July 2021, the Company disposed all of its 24.3% interest in Noble Oak Life Limited.
[2] A 25% interest in Team Medical Supplies Unit Trust and Team Medical Supplies Pty Ltd was acquired in December 2021.

Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 3. Investing activities (continued)

b) Investments (continued)

As at 30 June 2021	Level 1 $'million	Level 2 $'million	Level 3 $'million	Total $'million
Financial assets at fair value through profit or loss				
Fixed interest securities	116.0	524.5	–	640.5
Collective investment schemes	67.1	1,323.1	7.4	1,397.6
Equities	81.2	–	–	81.2
Derivatives	–	1.5	–	1.5
	264.3	**1,849.1**	**7.4**	**2,120.8**
Investment in associates[1]				**24.2**
Total investments				**2,145.0**
Financial liabilities at fair value through profit or loss				
Derivatives liability	–	0.3	–	0.3
Total investments liabilities				**0.3**
Current investments				137.4
Non-current investments				2,007.3
Net investments				**2,144.7**

***Details of associates**

Name of associate	Principal activity	Place of incorporation and principal place of business	Proportion of ownership interest and voting rights held by the Group	
			2022	**2021**
NobleOak Life Limited	Life insurer	Sydney, Australia	0%[1]	24%
Team Medical Supplies Unit Trust and Team Medical Supplies Pty Ltd	Medical suppliers	Sydney, Australia	25%[2]	0%

[1] In July 2021, the Company disposed all of its 24.3% interest in Noble Oak Life Limited.
[2] A 25% interest in Team Medical Supplies Unit Trust and Team Medical Supplies Pty Ltd was acquired in December 2021.

Notes to the consolidated financial statements
For the year ended 30 June 2022

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 statement of financial position as an unearned premium liability.

Loyalty Reward Plan

AIL operates a loyalty reward plan to reward members of the Company for their loyalty while 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 statement of financial position as part of the unearned premium liability.

Run-off Cover Scheme

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

Premium Support Subsidy

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

Doctors' Health Fund Premium Rebate

The Australian Government contributes a rebate towards an eligible policyholder's premium and pays this directly to the Company. The rebate is recognised within premium revenue. 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 statement of financial position as an unearned premium liability.

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 consolidated financial statements

For the year ended 30 June 2022

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 increase relates 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.

	2022			2021		
	Current period $'million	Prior periods $'million	Total $'million	Current period $'million	Prior periods $'million	Total $'million
Undiscounted claims expense:						
Gross claims expense	428.8	(11.4)	417.4	401.3	(41.3)	360.0
Reinsurance and other recoveries	(67.6)	(18.2)	(85.8)	(62.0)	40.3	(21.7)
Net claims expense	**361.2**	**(29.6)**	**331.6**	**339.3**	**(1.0)**	**338.3**
Discount movement:						
Gross claims expense	(27.1)	(33.9)	(61.0)	(9.0)	(0.6)	(9.6)
Reinsurance and other recoveries	9.5	15.1	24.6	3.9	(0.3)	3.6
Net discount movement	**(17.6)**	**(18.8)**	**(36.4)**	**(5.1)**	**(0.9)**	**(6.0)**
Discounted claims expense:						
Gross claims expense	401.7	(45.3)	356.4	392.3	(41.9)	350.4
Reinsurance and other recoveries	(58.1)	(3.1)	(61.2)	(58.1)	40.0	(18.1)
Net discounted claims expense	**343.6**	**(48.4)**	**295.2**	**334.2**	**(1.9)**	**332.3**

Notes to the consolidated financial statements

For the year ended 30 June 2022

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 risk, underwriting and pricing of insurance contracts, claims payment and reserving, and reinsurance.

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

Concentration/credit risk

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

Underwriting risk

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

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

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

The provision of private health insurance in Australia is governed by the *Private Health Insurance Act 2007* (the Act) which is premised on the principle of community rating. The community rating principle applies to the setting of Australian private health insurance premiums. In principle, the premium charged may not improperly discriminate between people. Premiums may not be set on the basis of age, gender, occupation, race, existing illness or other characteristics of a person likely to vary the need for hospital or general treatment. The principles of community rating are specified in the Act. In these circumstances, Doctors' Health Fund ("DHF") adopts a prudent approach to pricing its products; a process which requires approval by the Minister for Health and Aged Care. Pricing is typically determined annually and at levels which at least cover the projected benefit payments and management expenses of operating DHF.

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

Notes to the consolidated financial statements

For the year ended 30 June 2022

Note 4. Underwriting activities (continued)

c) Insurance risk (continued)

Overview (continued)

Reinsurance risk

Reinsurance risk includes credit risk regarding the reinsurance the Group 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.

Sensitivity analysis of changes to actuarial assumptions

How we account for the numbers

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

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

Impact of changes in key variables

		Financial impact[1]			
	Movement in variable %	Profit/(Loss) 2022 $'million	Equity 2022 $'million	Profit/(Loss) 2021 $'million	Equity 2021 $'million
Inflation and superimposed inflation rates	1% +	(17.5)	(17.5)	(17.7)	(17.7)
	1% –	16.8	16.8	18.5	18.5
Discount rates	1% +	10.5	10.5	13.0	13.0
	1% –	(11.0)	(11.0)	(7.6)	(7.6)

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

Notes to the consolidated financial statements

For the year ended 30 June 2022

Note 4. Underwriting activities (continued)

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, reinsurance premiums payable, a deferred claims liability and a liability for member giveback initiatives.

The member giveback liability was comprised of two amounts paid out to DHF health insurance members as part of the COVID-19 support member giveback initiatives, in line with DHF's commitment to return COVID-19 surpluses back to the membership. The first amount was a one-off cash payment which was paid to members in August 2022, whereby DHF returned $3.0m in COVID-19 claims savings to current and former eligible members. The second amount was comprised of savings to members from the postponement of annual premium rate rises from 1 April 2022 to 1 October 2022; the $2.1m relating to the remaining liability from 30 June to 1 October. These amounts have been recognised as a liability in the statement of financial position and as a reduction to revenue in the statement of comprehensive income at 30 June 2022. All amounts were payable to members who held policies at 30 June 2022, irrespective of them continuing to hold policies after that date.

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.

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.

Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 4. Underwriting activities (continued)

d) Insurance contract liabilities (continued)

How we account for the numbers (continued)

Critical accounting estimates and judgements (continued)

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

	2022	2021
Normal inflation rate	2.5%	2.00%
Superimposed inflation	2.00-2.50%	2.00%
Average weighted discount rate	3.19%	0.95%
Average weighted term to settlement – known claims	3.0 years	3.3 years
Average weighted term to settlement – IBNR claims	7.5 years	7.4 years
Estimated ultimate number of claims	3,381	3,631
Claims handling expense percentage	6.30 – 6.80%	6.40 – 6.72%
RESA component (private health insurance claims)	7.54%	5.50%

Process used to determine assumptions

Methodology

Claims are split into seven 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, infant claims and private health insurance 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. The impacts and possible need for adjustment arising from COVID-19 was considered and it was concluded that the models naturally respond, noting the claims made nature of cover. For private health insurance the Group holds a Deferred Claims Liability to allow for claims deferred by COVID-19.

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 consolidated financial statements

For the year ended 30 June 2022

Note 4. Underwriting activities (continued)

d) Insurance contract liabilities (continued)

Critical accounting estimates and judgements (continued)

Estimated ultimate number of claims

The ultimate number of claims is based on the number of current claims and an estimate of future claims emerging from past notifications. The number of future claims emerging is estimated in the valuation using a transition probability model to project claim transitions from past notifications into claims. The number of notifications to claim transitions is estimated by applying a vector of quarterly probabilities of transitions to the number of notifications not yet emerged as a claim. Transition probabilities are selected by analysing historic notification to claim emergence experience.

Risk Equalisation Special Account (RESA)

Under the provisions of the *Private Health Insurance Act 2007*, all health insurers must participate in the RESA, which charges a levy to all health insurers, and shares a proportion of the hospital claims of all persons aged 55 years and older and those with high cost claims amongst all registered health insurers. The amounts payable to and receivable from the RESA are determined by the Australian Prudential Regulation Authority (APRA) after the end of each quarter. Estimated provisions for amounts payable and receivable are recognised on an accrual basis.

To estimate the RESA component a factor of 7.54% (2021: 5.5%) was applied to the gross outstanding claims provision for hospital and medical benefits. This factor was determined as the ratio of the RESA payables to total hospital and medical benefits based on the recent experience.

Deferred Claims Liability

In March 2020 the Government announced the suspension to certain surgery procedures and social distancing measures in response to the COVID-19 pandemic. In response to COVID-19 and uncertainty on how to value the deferred claims liability (DCL), in June 2020 APRA issued prescriptive guidance on how it should be assessed for prudential purposes. As data has emerged on the impact of the pandemic, and valuation techniques have evolved, APRA has progressively relaxed its guidance and moved to a principles-based approach. This places greater reliance on insurers to manage their specific risks and to calculate their DCL.

The Company has adopted an approach based on APRA's previously prescribed method to value the liability at 30 June 2022. This method bases expected benefits (had COVID-19 not occurred) on those projected in the Premium Application for April 2020 for claims up to September 2020 and uses the Premium Application for 2021 and 2022 or the FY23 Budget for claims thereafter.

The liability requires the following components:

- "Claims that did not occur" in the above service months, split by hospital treatment and general treatment. This was determined by:
  - Estimating the hospital and general treatment claims that would have been expected to occur in those service months if COVID-19 had not happened.
  - Subtracting the estimated hospital and general treatment claims that ultimately did occur, based on payments to date and the outstanding claims liability for those service months.

Hospital and medical claims have been determined as 75% of the estimated 'claims that did not occur', excluding Apr-Jun 2021. General treatment claims have been estimated at 50%, excluding May-Jun 2021. These factors have been determined to approximate a 75 percent probability of sufficiency, including an implicit allowance for claims handling expenses. Risk equalisation transfers are included in the estimate of claims that did not occur.

Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 4. Underwriting activities (continued)

d) Insurance contract liabilities (continued)

	2022 $'million	2021 $'million
Insurance contract liabilities		
Central estimate	767.9	738.1
Discount to present value	(72.8)	(25.9)
	695.1	712.2
Risk margin discounted	180.6	178.8
Gross outstanding claims liabilities discounted	**875.7**	**891.0**
Other insurance liabilities		
Member giveback liability	5.1	–
Deferred claims liability	11.8	7.1
Other insurance liabilities	**16.9**	**7.1**
Current insurance contract liabilities	222.1	201.9
Non-current insurance contract liabilities	670.5	696.2
	892.6	**898.1**
Gross claims outstanding undiscounted central	779.7	745.2
Risk margin undiscounted	202.5	186.6
Total gross claims undiscounted	**982.2**	**931.8**

The following table reconciles opening to closing insurance contract liabilities:

	2022			2021		
	Gross $'million	Reinsurance $'million	Net $'million	Gross $'million	Reinsurance $'million	Net $'million
Opening balance	898.1	(266.4)	631.7	904.1	(293.7)	610.4
Current year claims expense/(recovery)	401.7	(58.1)	343.6	392.3	(58.1)	334.2
Prior year claims development	(45.3)	(3.1)	(48.4)	(41.9)	40.0	(1.9)
(Claim payments)/recoveries during the year	(367.0)	58.0	(309.0)	(356.4)	45.4	(311.0)
Gross earned premium – member giveback	5.1	–	–	–	–	–
Closing balance	**892.6**	**(269.6)**	**623.0**	**898.1**	**(266.4)**	**631.7**

Risk margin

The probability of adequacy at 30 June 2022 is 85% (2021: 85%) for AIL, AGHL, Medical Defence Association of Victoria Limited ("MDAV") and DHF. Professional Insurance Australia Pty Ltd ("PIA") assets and liabilities were transferred to AIL on 13 April 2022 pursuant to a Federal Court approved scheme ("Scheme Transfer") and the general insurance licence was revoked on 28 June 2022. As at 30 June 2021, PIA was considered a runoff portfolio and at this date the probability of adequacy was 99.5%. Following the Scheme Transfer, the outstanding claims liabilities transferred are recorded in AIL and are subject to a probability of adequacy of 85% as at 30 June 2022.

The probability of adequacy for the Deferred Claims Liability for DHF at 30 June 2022 is 75% (2021: 75%).

The discounted risk margin included in gross outstanding claims at 30 June 2022 is 26.0% (2021: 25.1%).

Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 4. Underwriting activities (continued)

e) Reinsurance and other recoveries

How we account for the numbers

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

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

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

Critical accounting estimates and judgements

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

	2022 $'million	**2021 $'million**
Expected future reinsurance and other recoveries undiscounted on:		
Paid claims	20.8	25.0
Outstanding claims	287.5	255.5
	308.3	280.5
Discount to present value	(38.7)	(14.1)
Reinsurance contract and other recoveries asset	**269.6**	**266.4**
Amounts receivable:		
Within 12 months	58.9	53.6
After more than 12 months	210.7	212.8
	269.6	**266.4**

Notes to the consolidated financial statements
For the year ended 30 June 2022

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 statement of financial position.

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 "2010 and prior" column.

GROSS $'million	FY of notification of incident ending 30 June											
	2012 & Prior	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Gross ultimate claims incurred												
Original estimate	–	196.8	214.4	212.0	236.6	224.8	256.3	275.0	285.5	331.4	334.5	
1 year later	–	194.5	215.6	209.1	232.4	222.0	249.4	294.6	304.9	353.9		
2 years later	2,155.7	182.3	201.6	187.7	233.5	215.9	255.9	315.9	326.3			
3 years later	2,141.8	178.3	196.2	191.5	249.0	227.5	263.3	328.9				
4 years later	2,092.7	175.2	194.3	191.9	257.2	228.3	261.9					
5 years later	2,192.8	172.6	192.3	191.3	254.1	228.6						
6 years later	2,145.9	172.6	190.0	188.5	252.6							
7 years later	2,136.0	171.5	189.2	188.8								
8 years later	2,132.7	167.6	185.7									
9 years later	2,126.0	166.1										
10 years later	2,138.3											
Central estimate of ultimate undiscounted claims cost	2,138.3	166.1	185.7	188.8	252.6	228.6	261.9	328.9	326.3	353.9	334.5	4,765.6
Less: Cumulative payments to date	(2,082.6)	(161.1)	(181.2)	(176.8)	(227.6)	(200.8)	(220.5)	(244.5)	(221.3)	(195.9)	(131.2)	(4,043.5)
Central estimate of undiscounted outstanding claims liability	55.7	5.0	4.5	12.0	25.0	27.8	41.4	84.4	105.0	158.0	203.3	722.1
Discount (for all notification years combined)												(66.9)
Claims handling expenses (for all notification years combined)												43.9
Risk margin (for all notification years combined)												180.6
GST												12.9
Gross discounted outstanding claims provision including claims handling expenses and risk margin												**892.6**
Claims development in the year	**12.3**	**(1.5)**	**(3.5)**	**0.3**	**(1.5)**	**0.3**	**(1.4)**	**13.0**	**21.4**	**22.5**	**334.5**	**396.4**

Notes to the consolidated financial statements

For the year ended 30 June 2022

Note 4. Underwriting activities (continued)

f) Claims development tables (continued)

NET $'million	FY of notification of incident ending 30 June											
	2012 & Prior	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Gross ultimate claims incurred												
Original estimate	–	147.1	170.7	175.3	196.6	189.0	221.9	245.2	257.4	290.8	296.7	
1 year later	–	148.8	169.4	173.3	190.1	186.7	213.8	252.4	274.2	303.2		
2 years later	1,706.0	139.8	161.9	159.1	187.3	182.4	218.1	270.8	280.7			
3 years later	1,686.7	137.7	160.7	161.0	197.0	190.0	225.9	274.2				
4 years later	1,652.7	137.3	159.2	161.1	200.3	191.5	222.3					
5 years later	1,745.6	135.3	157.7	159.2	200.2	188.8						
6 years later	1,749.9	135.6	155.6	156.7	198.6							
7 years later	1,743.0	134.8	154.9	156.6								
8 years later	1,740.5	132.6	153.0									
9 years later	1,722.0	131.5										
10 years later	1,716.7											
Central estimate of ultimate undiscounted claims cost	1,716.7	131.5	153.0	156.6	198.6	188.8	222.3	274.2	280.7	303.2	296.7	3,922.3
Less: Cumulative payments to date	(1,717.7)	(128.9)	(150.5)	(149.4)	(182.5)	(169.8)	(193.3)	(210.7)	(201.1)	(180.6)	(128.4)	(3,412.9)
Central estimate of undiscounted outstanding claims liability	(1.0)	2.6	2.5	7.2	16.1	19.0	29.0	63.5	79.6	122.6	168.3	509.4

Discount (for all notification years combined)	(43.5)
Claims handling expenses (for all notification years combined)	40.5
Risk margin (for all notification years combined)	116.6
Net discounted outstanding claims provision including claims handling expenses and risk margin	**623.0**
Reconciliation to the consolidated balance sheet:	
Gross outstanding claims liabilities	892.6
Reinsurance and other recoveries	(269.6)
Net outstanding claims liabilities	623.0

	2012 & Prior	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Claims development in the year	**(5.3)**	**(1.1)**	**(1.9)**	**(0.1)**	**(1.6)**	**(2.7)**	**(3.6)**	**3.4**	**6.5**	**12.4**	**296.7**	**302.7**

There is no data disclosed in the Gross and Net Claims Development tables for the "2012 & prior" column relating to the Original Estimate and 1 year later due to incomplete information.

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

	Gross $'million	Reinsurance $'million	Net $'million
Development tables claims	396.4	(93.7)	321.8
Adjusted for the effect of:			
Movement in discounting on claims	(61.1)	34.9	(26.2)
Movement in discounted risk margin	1.9	(1.4)	0.5
Discounted cost of claims handling expenses	19.2	(1.0)	18.2
Gross claims	**356.4**	**(61.2)**	**295.2**

Notes to the consolidated financial statements

For the year ended 30 June 2022

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. While there is established practice in the calculation of the probability of sufficiency of the outstanding claims liabilities provision, no such guidance exists in respect of the level of risk margin to be used in determining the adequacy of net premium liabilities. The Group has adopted a risk margin for the purpose of the liability adequacy test to produce a 75% probability of sufficiency. The 75% basis is a recognised industry benchmark in Australia, for both general insurers and health insurers and is also the basis required for reporting to APRA.

Unearned subscriptions/member service fee

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

Critical accounting estimates and judgements

The application of the liability adequacy test in respect of the net premium liabilities identified a surplus at 30 June 2022 and 2021.

	2022 $'million	2021 $'million
Unearned premium liability at the beginning of the year	225.7	213.4
Deferral of premiums on contracts written in the period	237.7	225.7
Earnings of premiums written in previous periods	(225.7)	(213.4)
Unearned premium liability at the end of the year	**237.7**	**225.7**
Unearned subscriptions/member service fee	30.4	29.2
Unearned premium liability	237.7	225.7
Total unearned income liability	**268.1**	**254.9**

Notes to the consolidated financial statements

For the year ended 30 June 2022

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.

	2022 $'million	2021 $'million
Deferred reinsurance premiums	4.0	2.6
Deferred ROCS expense	9.1	8.1
Deferred acquisition costs	9.6	9.1
Deferred expenses	**22.7**	**19.8**

All deferred expenses are classified as current assets.

i) Acquisition and other expenses

How we account for the numbers

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

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

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

	Note	2022 $'million	2021 $'million
Employee-related costs		101.2	86.5
Director-related costs		2.0	2.1
Depreciation and amortisations – Right-of-use lease asset	5(f)	5.6	6.3
Depreciation and amortisations – Property and equipment and intangibles		2.5	4.9
Other general and administrative expenses		38.4	17.5
		149.7	**117.3**
Acquisition costs		39.3	36.8
Other underwriting expenses		41.4	35.8
Other operating expenses		69.0	44.7
		149.7	**117.3**

Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 5. Other operating activities

a) Other income

Overview

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

How we account for the numbers

Membership subscription revenues and fees

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

Other

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

	2022 $'million	2021 $'million
Membership subscription revenues and fees	42.1	32.3
Income from other services	20.2	13.6
Other income	**62.3**	**45.9**

How we account for the numbers

Trade and other receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment.

Receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly, and a provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. Due to the short-term nature of these receivables, the carrying value is assumed to be an approximation to the fair value.

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

Finance lease receivables

Finance lease receivables are initially recognised at the amount equal to the net investment in the sublease. Subsequently, finance income is recognised at a constant rate on the net investment. Net investment in the sublease is the gross investment in the sublease discounted at the interest implicit in the lease. The gross investment in the sublease is the sum of the lease payments receivable by the sublessor under a finance lease. The interest rate implicit in the lease is the rate used to calculate the present value of the lease payments.

Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 5. Other operating activities (continued)

How we account for the numbers (continued)

Trade and other payables

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

Provisions

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

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

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

b) Trade and other receivables

	Note	2022 $'million	2021 $'million
Premium and subscription debtors		131.9	112.0
Finance lease receivable	5(f)	1.3	2.0
Investments settlement and other receivables		96.0	8.1
Loans receivable		3.0	–
Provision for impairment of receivables		(0.9)	(0.5)
Receivables – current		**231.3**	**121.6**

Reconciliation of provision for impairment of receivables		
Opening provision	(0.5)	(0.8)
(Additional)/release of provision recognised	(0.4)	0.3
Closing provision	**(0.9)**	**(0.5)**

Notes to the consolidated financial statements

For the year ended 30 June 2022

Note 5. Other operating activities (continued)

c) Trade and other payables

	2022 $'million	2021 $'million
Sundry creditors and accruals	43.3	36.9
Investments settlement payable	53.3	–
Reinsurance premiums payable	3.1	1.7
ROCS levy payable	7.9	6.8
Lease incentive liability	4.9	7.9
GST payable	19.1	16.2
Stamp Duty payable	15.2	12.9
	146.8	**82.4**
Current payables	144.0	76.5
Non-current payables	2.8	5.9
	146.8	**82.4**

d) Other provisions

Overview

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

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

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.

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 2020	–	0.5	0.5	1.7	2.2
Additional provisions recognised	–	0.4	0.4	0.1	0.5
Release from provisions	(0.1)	–	(0.1)	–	(0.1)
Transfer to current	0.1	–	0.1	(0.1)	–
Value as at 30 June 2021	**-**	**0.9**	**0.9**	**1.7**	**2.6**
Payments	–	(0.6)	(0.6)	–	(0.6)
Release from provisions	–	–	–	(0.3)	(0.3)
Value as at 30 June 2022	**-**	**0.3**	**0.3**	**1.4**	**1.7**

Notes to the consolidated financial statements

For the year ended 30 June 2022

Note 5. Other operating activities (continued)

e) Employee related provisions

Overview

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

How we account for the numbers

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

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

Critical accounting estimates and judgements

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

	Current $'million	Non-current $'million	Total $'million
Value as at 1 July 2020	7.0	2.9	9.9
Additional provisions recognised	11.3	0.2	11.5
Payments	(10.6)	(0.1)	(10.7)
Reclassification	0.4	(0.4)	–
Value as at 30 June 2021	**8.1**	**2.6**	**10.7**
Additional provisions recognised	14.9	0.3	15.2
Payments	(12.9)	(0.1)	(13.0)
Reclassification	0.5	(0.5)	–
Value as at 30 June 2022	**10.6**	**2.3**	**12.9**

	2022 $'million	2021 $'million
Current leave obligation expected to be settled after 12 months	4.5	3.8

Notes to the consolidated financial statements

For the year ended 30 June 2022

Note 5. Other operating activities (continued)

f) Leases

Overview

AASB 16 *Leases*

AASB 16 requires lessees to recognise most leases on the statement of financial position as lease liabilities, with corresponding right of use assets being recognised. Lessees have the option not to recognise certain type of leases such as short-term leases and leases for which the underlying asset is of low value.

How we account for the numbers

Recognition and measurement

Right-of-use lease asset ('ROU')

Initial recognition

ROU lease assets are measured as if AASB 16 had been applied since the commencement date of the lease. The asset is initially measured as the present value of the future lease payments less any lease incentives received and discounted using the Group's incremental borrowing rate at the date of recognition.

Subsequent measurement

The ROU lease asset is measured at cost less accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability.

Depreciation of ROU lease asset is calculated using the straight-line method to allocate their cost over their estimated useful lives being the lesser of the remaining lease term and the life of the asset. This is presented as part of other underwriting expenses in the consolidated statement of comprehensive income.

Lease liabilities

Initial recognition

The lease liabilities are measured at the present value of the future lease payments, net of cash lease incentives, discounted using the Group's incremental borrowing rate at the date of recognition (or date when entering the lease).

Subsequent measurement

Lease liability is measured by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amounts to reflect any reassessment or lease modifications.

Lease payments exclude service fees for cleaning and other costs.

Lease modifications are accounted for as a new lease.

Interest expense on lease liabilities is presented as financing cost in the consolidated statement of comprehensive income.

The Group has elected not to recognise ROU lease asset and lease liabilities for leases where the lease term is less than or equal to 12 months. Payments for such leases are recognised as an expense on a straight-line basis over the lease term.

Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 5. Other operating activities (continued)

f) Leases (continued)

The following tables detail the carrying amount of right-of-use lease assets, lease liabilities and finance lease receivable and the movements during the year.

Right-of-use lease assets:

The ROU lease asset recognised by the Group are buildings.

	2022 $'million	2021 $'million
Opening balance	24.2	33.1
Net addition during the year	10.8	–
Subleased during the year	–	(2.6)
Depreciation expense	(5.6)	(6.3)
Closing balance – Non current	**29.4**	**24.2**

Finance lease receivable:

The asset subleased by the Group are buildings.

	2022 $'million	2021 $'million
Opening balance	2.0	–
Subleased during the year	–	2.6
Interest earned from sublease	–	0.1
Sublease receipts	(0.7)	(0.7)
Closing balance	**1.3**	**2.0**
Current payables	0.7	0.7
Non-current payables	0.6	1.3
	1.3	**2.0**

Lease liabilities:

	2022 $'million	2021 $'million
Opening balance	29.4	36.3
Net addition during the year	10.3	–
Interest expense	0.7	0.7
Payments made	(6.4)	(7.6)
Closing balance	**33.3**	**29.4**
Current payables	5.5	7.2
Non-current payables	27.8	22.2
	33.3	**29.4**

Notes to the consolidated financial statements

For the year ended 30 June 2022

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 manages these risks within the agreed risk appetite.

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 statement of financial position date:

	2022 $'million	2021 $'million
Financial assets		
Cash and cash equivalents	99.6	96.8
Trade and other receivables	231.3	121.6
Investments (net of derivative liabilities)	1,979.1	2,144.7
Reinsurance and other recoveries	269.6	266.4
	2,579.6	**2,629.5**
Financial liabilities		
Trade and other payables	146.8	82.4
Insurance contract liabilities	892.6	898.1
Lease liabilities	33.3	29.4
	1,072.7	**1,009.9**
Net financial assets	**1,506.9**	**1,619.6**

Notes to the consolidated financial statements
For the year ended 30 June 2022

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) The Avant Group Risk Management Strategy and the Risk Appetite Statement define what constitutes credit risk for the Group. The Risk Appetite Statement also sets certain tolerances for credit risk from reinsurers. 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 and financial liabilities included in the consolidated statement of financial position represent the Group's maximum exposure to credit risk in relation to these assets and liabilities. 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-.

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

The following tables provide information regarding the aggregate credit risk exposure of the Group at the statement of financial position 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. The 'not rated' investment category includes unlisted collective investment schemes as at 30 June 2022 of $1,506.4m (30 June 2021: $1,331.7m) where credit ratings are not applicable. These have been included in the table for completeness.

As at 30 June 2022	Credit rating					
	AAA $'million	AA $'million	A $'million	BBB $'million	Not rated $'million	Total $'million
Cash at bank and short-term bank deposits	–	94.4	5.2	–	–	99.6
Receivables	–	–	–	–	231.3	231.3
Investments (net of derivative liabilities)	47.0	60.2	125.1	240.4	1,506.4	1,979.1
Reinsurance and other recoveries	261.2	4.5	3.3	–	0.6	269.6
	308.2	**159.1**	**133.6**	**240.4**	**1,738.3**	**2,579.6**

As at 30 June 2021	Credit rating					
	AAA $'million	AA $'million	A $'million	BBB $'million	Not rated $'million	Total $'million
Cash at bank and short-term bank deposits	–	92.6	4.2	–	–	96.8
Receivables	–	–	–	–	121.6	121.6
Investments (net of derivative liabilities)	64.5	59.5	184.5	243.8	1,592.4	2,144.7
Reinsurance and other recoveries	251.8	7.0	5.8	–	1.8	266.4
	316.3	**159.1**	**194.5**	**243.8**	**1,715.8**	**2,629.5**

Notes to the consolidated financial statements
For the year ended 30 June 2022

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.

A genuinely long-term investment perspective allows Avant to match liability movements over the longer term with superior risk adjusted returns under a capital management framework. Interest rate risk is actively managed as part of the investment portfolios to achieve a balance between the return objective of the portfolios and the appetite for interest rate risk at the Group level.

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

Exposure to interest rate risk and the weighted average interest rate by maturity period is set out in the following table. Any investments in collective investment schemes are assumed to be non-interest bearing. Reinsurance and other recoveries and insurance contract and insurance contract liabilities are subject to discounting and the sensitivity analysis is disclosed in Note 4 (c). They have been included in the below table as non-interest bearing for reconciliation purposes.

2022	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	99.6	–	–	–	–	99.6
Receivables		3.0	–	–	228.3	231.3
Investments (net of derivative liabilities)	299.2	12.5	95.5	218.5	1,353.4	1,979.1
Reinsurance and other recoveries	–	–	–	–	269.6	269.6
Total financial assets	**398.8**	**15.5**	**95.5**	**218.5**	**1,851.3**	**2,579.6**
Financial liabilities						
Trade and other payables	–	–	–	–	146.8	146.8
Insurance contract liabilities	–	–	–	–	892.6	892.6
Lease liabilities	–	–	–	–	33.3	33.3
Total financial liabilities	**–**	**–**	**–**	**–**	**1,072.7**	**1,072.7**
Net financial assets	**398.8**	**15.5**	**95.5**	**218.5**	**778.6**	**1,506.9**
Weighted average interest rate	3.41%	2.52%	3.12%	2.68%		

Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 6. Financial risk management (continued)

b) Market risk (continued)

(i) Interest rate risk (continued)

2021	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	96.8	–	–	–	–	96.8
Receivables	–	–	–	–	121.6	121.6
Investments (net of derivative liabilities)	325.7	48.9	101.6	164.1	1,504.4	2,144.7
Reinsurance and other recoveries	–	–	–	–	266.4	266.4
Total financial assets	**422.5**	**48.9**	**101.6**	**164.1**	**1,892.4**	**2,629.5**
Financial liabilities						
Trade and other payables	–	–	–	–	82.4	82.4
Insurance contract liabilities	–	–	–	–	898.1	898.1
Lease liabilities	–	–	–	–	29.4	29.4
Total financial liabilities	**-**	**-**	**-**	**-**	**1,009.9**	**1,009.9**
Net financial assets	**422.5**	**48.9**	**101.6**	**164.1**	**882.5**	**1,619.6**
Weighted average interest rate	0.95%	2.17%	2.92%	3.06%		

Reconciliation of net financial assets to net assets

	2022 $'million	2021 $'million
Net financial assets as above:		
Interest bearing	728.3	737.1
Non-interest bearing	778.6	882.5
Net financial assets	1,506.9	1,619.6
Net non-financial liabilities	(189.4)	(243.5)
Net assets	**1,317.5**	**1,376.1**

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. Any investments in collective investment schemes are assumed to be non-interest bearing:

	Movement in variable %	Financial impact* Profit/(loss) 2022 $'million	Equity 2022 $'million	Profit/(loss) 2021 $'million	Equity 2021 $'million
Interest rate movement	100 bpt+	(14.0)	(14.0)	(1.0)	(1.0)
– interest bearing financial assets	100 bpt-	14.0	14.0	1.0	1.0

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

Notes to the consolidated financial statements

For the year ended 30 June 2022

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 statement of financial position at fair value through profit or loss.

To manage price risk arising from investments in collective investment schemes 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 collective investment schemes and equities on the Group's statement of comprehensive income and statement of financial position is shown in the sensitivity analysis below:

		Financial impact*			
	Movement in variable %	Profit/(loss) 2022 $'million	Equity 2022 $'million	Profit/(loss) 2021 $'million	Equity 2021 $'million
Collective investment schemes	20% +	161.6	161.6	195.7	195.7
	20% –	(161.6)	(161.6)	(195.7)	(195.7)
Equities	20% +	20.9	20.9	11.4	11.4
	20% –	(20.9)	(20.9)	(11.4)	(11.4)

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

Notes to the consolidated financial statements

For the year ended 30 June 2022

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 2022	1-3 months $'million	3-6 months $'million	6-12 months $'million	1-2 years $'million	Over 2 years $'million	Total $'million
Trade and other payables	139.4	0.5	4.1	2.1	0.7	146.8
Insurance contract liabilities undiscounted	84.1	65.2	99.8	200.8	532.3	982.2
Lease liabilities	0.9	1.4	3.2	5.5	22.3	33.3
	224.4	**67.1**	**107.1**	**208.4**	**555.3**	**1,162.3**

As at 30 June 2021	1-3 months $'million	3-6 months $'million	6-12 months $'million	1-2 years $'million	Over 2 years $'million	Total $'million
Trade and other payables	75.0	0.5	1.1	2.1	3.7	82.4
Insurance contract liabilities undiscounted	72.7	54.5	87.3	177.3	540.0	931.8
Lease liabilities	1.8	1.8	3.6	7.7	14.5	29.4
	149.5	**56.8**	**92.0**	**187.1**	**558.2**	**1,043.6**

Notes to the consolidated financial statements

For the year ended 30 June 2022

Note 7. Capital Management

Overview

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

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

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

a) Capital in its APRA regulated insurance subsidiary (AIL) held to meet APRA regulatory and target surplus capital requirements within the entity. The amount of capital at 30 June 2022 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 2022 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, capital is held within AGHL which supports capital guarantees provided to AIL and DHF. This is managed through Deeds of Undertaking from AGHL to AIL of $260,000,000 and from AGHL to DHF of $14,000,000, and is part of a capital buffer layer in the event that the entities' regulatory capital adequacy multiple falls below a minimum ratio of 1.5.
d) Capital notionally held to support the Retirement Reward Plan noting that the directors maintain sole discretion to declare RRP dividends. The Company does not carry a present obligation to provide the amount at balance date other than any declared dividend amount in the period that has not yet been paid at balance date.
e) Other capital reserves held to support Group business initiatives to enhance and grow its membership offerings and services to policyholders including the Retirement Reward Plan.

In summary, the net assets as at 30 June 2022 are allocated to the above objectives as follows:

	$'million
APRA regulated MDO capital base	399.8
APRA regulated health fund capital base	33.7
Intercompany capital undertakings	274.0
Other capital reserves equivalent to notional RRP assets	382.9
Other capital reserves	230.1
Total	**1,320.5**

Notes to the consolidated financial statements

For the year ended 30 June 2022

Note 7. Capital Management (continued)

a) APRA Capital Adequacy Multiple

Overview

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

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

APRA Prudential Standard GPS 340 *Insurance Liability Valuation* establishes a set of principles for the consistent measurement and reporting of the insurance liabilities of all general insurers. GPS 340 requires that the Company establish on a basis that would be expected to secure the insurance liabilities of the insurer at a 75% level of sufficiency.

A Board-approved Internal Capital Adequacy Assessment Process (ICAAP) has been in place during the year to ensure 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 previously included PIA, formerly an APRA regulated general insurer. Following the Federal Court approved scheme to transfer over its assets and liabilities to AIL effective from 13 April 2022, APRA satisfied PIA's request to revoke its general insurance licence effective 28 June 2022. Accordingly, PIA is no longer subject to regulatory capital requirements.

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

(i) AIL

	2022 $'million	2021 $'million
Eligible Tier 1 Capital as defined by APRA		
Contributed equity[1]	223.7	149.0
Reserves	66.6	66.6
Retained profits[2]	122.0	134.5
Insurance liability surplus	24.4	24.6
Total equity	436.7	374.7
Less : APRA deductions	(41.9)	(23.6)
APRA capital base	**394.8**	**351.1**
Asset risk charge	112.8	125.1
Insurance risk charge	115.5	117.4
Insurance concentration risk charge	33.0	40.0
Operational risk charge	19.4	19.9
Aggregation benefit	(57.6)	(62.7)
APRA prudential capital requirement	**223.1**	**239.7**
APRA capital adequacy multiple	**1.77**	**1.46**

[1] Subsequent to the end of the financial year 2021, AIL issued AGHL an additional $70,000,000 of shares in AIL. The purpose of this additional capital was to return AIL to its target capital range as set out in its Internal Capital Adequacy Assessment Process (ICAAP).
[2] Retained profits are measured in accordance with APRA Prudential Standards.

Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 7. Capital Management (continued)

a) APRA Capital Adequacy Multiple (continued)

Insurance Liability Surplus

APRA Prudential Standard GPS 340 *Insurance Liability Valuation* requires that the Company establish reserves on a basis that would be expected to secure the insurance liabilities of the insurer at a 75% level of sufficiency.

The value of the insurance liabilities for outstanding claims required by GPS 340 differs from accounting purposes for the following reasons:

i. GPS 340 requires a prudential margin with a probability of sufficiency of 75%, the level adopted by the Company for accounting purposes is 85% (2021: 85%) for AIL. PIA assets and liabilities were transferred to AIL on 13 April 2022 and the general insurance licence was revoked in June 2022. PIA no longer required to prepare APRA returns at 30 June 2022 (2021: 99.5%); and

ii. GPS 340 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, has been regulated by APRA since 1 July 2015. The Private Health Insurance Administration Council (PHIAC) was the regulator up until 30 June 2015. Solvency and capital adequacy standards are established under the *Private Health Insurance Act 2007* (the Act), and are an integral component of the prudential reporting and management regime for private health insurers. DHF is subject minimum capital requirement prescribed by the APRA prudential standards for private health insurers. DHF maintains a target level of surplus capital in excess of that minimum. This is to ensure that under a range of adverse circumstances, DHF 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. APRA introduced changes to the private health insurance capital framework to be more aligned to those applicable to general insurers. APRA released the final standards on 27 September 2022 for implementation on 1 July 2023. Impact assessment from adopting the final standards is in progress.

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

	2022 $'million	2021 $'million
Total assets	118.6	109.9
Total liabilities	84.9	71.8
Net assets	**33.7**	**38.1**
APRA capital adequacy reserve	**15.3**	**14.7**
APRA capital adequacy multiple	**2.20**	**2.59**

Notes to the consolidated financial statements

For the year ended 30 June 2022

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 mutuals such that they are not liable for income tax on membership income nor are the outgoings related to that income allowable as income tax deductions. These entities are, however, liable to income tax on investment income, capital profits, and income from insurance-related activities. AIL, a subsidiary of AGHL, is taxed in accordance with normal taxation rules applicable to an insurance company.

Tax consolidation legislation

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

The Company (head entity of the tax consolidation group) 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 consolidated financial statements
For the year ended 30 June 2022

Note 8. Income tax (continued)

a) Income tax (benefit)/expense

	2022 $'million	2021 $'million
Current tax expense	33.4	36.4
Deferred tax (benefit)/expense	(60.8)	26.4
Over provision in prior years	(1.4)	(1.7)
Income tax (benefit)/expense	**(28.8)**	**61.1**

b) Numerical reconciliation of income tax expense

(Loss)/profit from continuing operations before income tax	(76.9)	222.9
(Benefit)/tax at Australian tax rate of 30% (2021: 30%)	(23.0)	66.9
Net mutual income – non assessable	(4.4)	(4.5)
Other permanent differences	3.1	1.6
Effect of franking credits	(3.1)	(1.2)
	(27.4)	**62.8**
Over provision in prior years	(1.4)	(1.7)
Income tax (benefit)/expense	**(28.8)**	**61.1**

c) Deferred tax*

The balance comprises temporary differences attributable to:

Amounts recognised in the profit or loss relating to:		
Deferred tax assets:		
Accruals and provisions	33.4	30.2
Tax losses recognised	5.3	2.4
Other	3.5	1.4
Total deferred tax assets before application of set-off	**42.2**	**34.0**
Set-off against deferred tax liabilities	8.8	(34.0)
Total deferred tax assets after set-off	**51.0**	**-**
Deferred tax liabilities:		
Financial assets	(9.1)	40.2
Investment in associates	*0.2*	*2.6*
Interest receivable	0.1	-
Total deferred tax liabilities before application of set-off	**(8.8)**	**42.8**
Set-off against deferred tax assets	8.8	(34.0)
Total deferred tax liabilities after set-off	**-**	**8.8**
Net deferred tax (liability)/asset movements:		
Opening balance at the beginning of the year	(8.8)	16.6
Prior year (over)/under provision	(1.0)	1.0
Charged/(released) to the income statement	60.8	(26.4)
Closing balance at the end of the year	**51.0**	**(8.8)**

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

Notes to the consolidated financial statements

For the year ended 30 June 2022

Note 8. Income tax (continued)

d) Current tax liabilities

	2022 $'million	2021 $'million
Opening balance at the beginning of the year	30.7	2.4
Payment of prior year tax liabilities	(28.2)	(1.0)
Payment of current year tax liabilities	(4.1)	(4.5)
Over provision	(2.5)	*(1.4)*
Effect of franking credits	(3.0)	(1.2)
Current year provision	33.4	36.4
Closing balance at the end of the year	**26.3**	**30.7**

e) Franking credits

Franking credits available for the subsequent financial years based on a tax rate of 30% (2021: 30%)	386.7	355.8

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 consolidated financial statements
For the year ended 30 June 2022

Note 9. Property and equipment

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

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

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

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

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

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

2022	**Office furniture and fittings $'million**	**Office and computer equipment $'million**	**Leasehold improvements $'million**	**Total $'million**
Cost				
At the beginning of the year	0.5	5.8	20.8	27.1
Additions	–	1.1	0.2	1.3
Written off in the year	–	–	(3.1)	(3.1)
At the end of the year	**0.5**	**6.9**	**17.9**	**25.3**
Depreciation				
At the beginning of the year	0.4	4.7	11.1	16.2
Depreciation expense for the year	–	0.8	0.4	1.2
At the end of the year	**0.4**	**5.5**	**11.5**	**17.4**
Net carrying value at 30 June 2022	**0.1**	**1.4**	**6.4**	**7.9**

Notes to the consolidated financial statements

For the year ended 30 June 2022

Note 9. Property and equipment (continued)

2021	Office furniture and fittings $'million	Office and computer equipment $'million	Leasehold improvements $'million	Total $'million
Cost:				
At the beginning of the year	0.7	5.1	20.4	26.2
Additions	–	0.7	0.4	1.1
Written off in the year	(0.2)	–	–	(0.2)
At the end of the year	**0.5**	**5.8**	**20.8**	**27.1**
Depreciation				
At the beginning of the year	0.6	4.0	8.4	13.0
Written off in the year	(0.2)	–	–	(0.2)
Depreciation expense for the year	–	0.7	2.7	3.4
At the end of the year	**0.4**	**4.7**	**11.1**	**16.2**
Net carrying value at 30 June 2021	**0.1**	**1.1**	**9.7**	**10.9**

Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 10. Intangible assets

Overview

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

The Group holds three types of intangible assets which are:

Customer relationships

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

Software

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

Goodwill

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

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.

Software

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

Amortisation of the assets is calculated using the straight-line method to write off the net cost of each item over its expected useful life to the Group. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Goodwill

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

Critical accounting estimates and judgements

IIntangible assets held by the Group, except for goodwill, 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
Software	0-4 years

Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 10. Intangible assets (continued)

		Customer relationships $'million	Software $'million	Goodwill $'million	Total $'million
Cost					
As at 30 June 2020		5.2	8.4	5.2	18.8
Additions		0.2	1.3	1.3	2.8
Written off/impaired in the year		–	(1.4)	–	(1.4)
As at 30 June 2021		5.4	8.3	6.5	20.2
Additions		–	0.7	–	0.7
Written off/impaired in the year		(0.1)	–	–	(0.1)
As at 30 June 2022		**5.3**	**9.0**	**6.5**	**20.8**
Accumulated amortisation					
As at 30 June 2020		4.1	6.1	–	10.2
Written off in the year		–	(0.8)	–	(0.8)
Amortisation expense for year ended 30 June 2021	(a)	0.5	1.0	–	1.5
As at 30 June 2021		4.6	6.3	–	10.9
Amortisation expense for year ended 30 June 2022	(a)	0.5	0.8	–	1.3
As at 30 June 2021		**5.1**	**7.1**	**-**	**12.2**
Net carrying value at:					
30 June 2020		0.8	2.0	6.5	9.3
30 June 2021		**0.2**	**1.9**	**6.5**	**8.6**
Remaining years useful life at:					
30 June 2021		1	3 to 5 years		
30 June 2022		**0**	**0 to 4 years**		

a) Reconciliation of amortisation expense to the Statement of comprehensive income

	30 June 2022	30 June 2021
Total amortisation expense for the year	1.3	1.5
Less: Amortisation expense – software which is included in other underwriting expenses	(0.8)	(1.0)
Amortisation of intangible assets presented in the statement of comprehensive income	**0.5**	**0.5**

Notes to the consolidated financial statements

For the year ended 30 June 2022

Note 11. Equity

Overview

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

The Board of AMGL 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

	2022 $'million	2021 $'million
Business combination reserve		
At the beginning and at the end of the year	**54.6**	**54.6**

b) Accumulated surpluses to owners of Avant Mutual Group Limited

At the beginning of the year:		
Mutual – Tax exempt	268.6	253.8
Mutual – Taxable	1,053.9	916.8
Balance as at 1 July	1,322.5	1,170.6
Total comprehensive income/(loss) for the year:		
Mutual – Tax exempt	14.2	15.2
Mutual – Taxable	(58.5)	147.9
	(44.3)	163.1
Dividends paid in the year:		
Mutual – Tax exempt	(0.6)	(0.4)
Mutual – Taxable	(10.5)	(10.8)
	(11.1)	(11.2)
At the end of the year:		
Mutual – Tax exempt	282.2	268.6
Mutual – Taxable	984.9	1,053.9
	1,267.1	**1,322.5**

Notes to the consolidated financial statements

For the year ended 30 June 2022

Note 12. Remuneration of key management personnel

Overview

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

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

How we account for the numbers

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

Directors do not receive termination benefits.

KMP remuneration excludes insurance premiums paid 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.

Remuneration of KMP are included in the disclosure for the period of employment during the financial year for which they are a KMP. Amounts reported are based on actual realised remuneration received by the KMP.

Critical accounting estimates and judgements

The KMP include the Company Directors, the MD and those executives that report solely and directly to the MD.

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

	2022 $'000	2021 $'000
Short-term employee benefits		
Cash salary, short-term bonuses and fees	9,073	7,537
Other long-term employee benefits	1,063	2,964
Post-employment benefits		
Superannuation	472	438
Termination benefits	180	683
Total remuneration	**10,788**	**11,622**

Note the 2021 comparatives have been restated to:

1. reclassify out of short-term employee benefits the component relating to other long-term employee benefits totalling $2,964,000; and
2. previously, the KMP remuneration for the full year is disclosed irrespective of the period during the financial year they were acting in the capacity of a KMP. The restatement removed remuneration for the period they were not acting in the capacity of a KMP totalling $535,000.

Notes to the consolidated financial statements

For the year ended 30 June 2022

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.

	2022 $'000	2021 $'000
Audit services		
Deloitte Touche Tohmatsu		
Audit of financial reports	446	410
Other assurance and non-assurance services		
Deloitte Touche Tohmatsu		
Statutory assurance services required by legislation to be provided by the auditor	75	75
Other non-assurance services	169	71
	690	**556**

Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 14. Events occurring after the reporting period

Overview

AASB 110 *Events after the reporting period* requires disclosure when material events occur between the balance date and the date the financial accounts are authorised for issue. It includes events that may require changes to the financial statements, or which may mean the Company should not prepare its financial statements on a going concern basis, or events which need disclosure to fully understand the Company's situation.

Since balance date, the Group continues to experience volatility in the investments market affecting its investment returns. Investments market risks are considered and managed as part of the ongoing capital management of the Group and there has not been a need to alter the investments strategy as a result.

No other matter or circumstance has arisen since 30 June 2022 that has significantly affected or may significantly affect:

i) the operations of the Company in future financial years, or
ii) the results of those operations in future financial years, or
iii) the state of affairs of the Company in future financial years

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

Retirement Reward Plan

Having considered the financial position and projected outlook for Avant, the Board resolved to notionally contribute a further $28.1m to the RRP in respect of the year ended 30 June 2022.

In addition, at that meeting, the Board also resolved to determine dividends and authorise payments for Retirement Reward Dividends totalling $14.4m to eligible retiring members. These are the eighth dividends determined under the RRP, and this continues the tradition of being the first medical defence organisation in Australia to pay fully franked dividends to members.

Note 15. Contingent liabilities

Overview

Contingent liabilities are disclosed when the possibility of a future settlement of economic benefits is considered 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 $8.2 m (2021: $8.2 m) in respect of lease payments payable. This bank guarantee is secured by a fixed charge over the Group's cash deposits.

Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 16. 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:

	2022 $'million	2021 $'million
Earned membership subscription revenues and fees	42.1	32.3
Dividends from subsidiary	11.1	11.3
Director-related costs	(1.2)	(0.9)
General & administration expenses	(28.2)	(19.9)
Other income	2.5	2.7
Profit before income tax	**26.3**	**25.5**
Income tax benefit	0.1	–
Profit for the year	**26.4**	**25.5**
Other comprehensive income for the year	–	–
Total comprehensive income for the year	**26.4**	**25.5**

Statement of financial position:

	2022 $'million	2021 $'million
Current assets		
Cash and cash equivalents	1.9	0.5
Receivables from related entity	58.7	54.7
Other receivables	18.3	12.5
Total current assets	**78.9**	**67.7**
Non-current assets		
Investments in controlled entities	561.6	561.6
Total non-current assets	**561.6**	**561.6**
Current liabilities		
Current tax liabilities	25.9	30.6
Payables to related entity	1.9	2.9
Other payables	2.5	2.1
Unearned income	30.4	29.2
Total current liabilities	**60.7**	**64.8**
Net Assets	**579.8**	**564.5**
Equity		
Reserves	508.6	508.6
Accumulated surpluses	71.2	55.9
Total equity	**579.8**	**564.5**

Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 17. Investments in controlled entities

Overview

This section lists all of the Group's controlled entities. The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the Company as at 30 June 2022 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.

Notes to the consolidated financial statements
For the year ended 30 June 2022

Note 17. Investments in controlled entities (continued)

Name of Entity	Country of incorporation	Class of shares	Ownership Interest 2022 %	Ownership Interest 2021 %
Avant Group Holdings Limited [7]	Australia	–	–	–
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 [1]	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 [2]	Australia	–	–	–
KA JV Pty Ltd [3]	Australia	Ordinary	55	55
AK Warehouse Pty Limited [4]	Australia	Ordinary	50	–
Avant Law Pty Ltd [5]	Australia	Ordinary	100	–
Investments in controlled entities of KA JV Pty Ltd				
AK Warehouse Pty Limited [5]	Australia	Ordinary	50	–
Investments in controlled entities of MyPracticeManual Pty Ltd				
Darjack Pty Limited	Australia	Ordinary	60	60
JRB Technologies Pty Ltd	Australia	Ordinary	55	55
Investments in controlled entities of Avant Insurance Limited				
Avant Law Pty Limited [5]	Australia	Ordinary	–	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 [6]	Australia	Ordinary	100	100

[1] 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.
[2] Avant Group Holdings Limited have 100% voting control.
[3] Avant Group Holdings Limited had 45% ownership of the entity in 2020 and this was classified as investment in associate. Additional 10% of the issued share capital of the entity was acquired by AGHL in January 2021 which gave AGHL control of the entity. This investment in associate was then converted to investment in controlled entities.
[4] AK Warehouse Pty Limited was incorporated on 3 February 2022. Avant Group Holdings Limited and KA JV each owns 50% of its shareholding.
[5] The share was transferred from AIL to AGHL in June 2022.
[6] PIA assets and liabilities were transferred to AIL on 13 April 2022 pursuant to a Federal Court approved scheme and the general insurance licence was revoked on 28 June 2022.
[7] Avant Mutual Group 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.

Notes to the consolidated financial statements

For the year ended 30 June 2022

Note 18. Related parties

Key management personnel

Key management personnel (KMP) and disclosure of their remuneration can be found in note 12.

Transactions with key management personnel

Some key management personnel are policyholders or customers of the Group. They purchase products and services on the same terms and conditions available to other members and customers, subject to the applicable discounts for Avant Group staff.

The Avant Corporate Travel Insurance policy automatically covers Directors and accompanying family members for leisure travel more than 500 kilometres from their home.

Mr Peter Aroney, CEO of DHF is also a director of HAMBS of the Members Health Fund Alliance. HAMBS is a mutual organisation and its Board consists of other members. HAMBS provides the main software that supports DHF operations. The Members Health Fund Alliance is the peak industry body of which DHF is one of 26 members. Mr Aroney does not receive payment for his services as a director.

Mr Peter Polson and Mr Duncan West are directors of the Company and are also directors of Challenger Limited and its related entities. The Group obtained advisory services and has investments that are managed directly and indirectly by related entities of Challenger Limited on normal commercial terms.

Frontier Advisors Pty Ltd is a related entity to the Group as a close family member of a Director of the Company is a KMP of Frontier. The Group obtained advisory services from Frontier on normal commercial terms.

Group structure

Up to 30 June 2022, the ultimate Australian parent entity within the Group was Avant Mutual Group Limited. Refer to Note 17 for the details and ownership interests of the controlled entities of the Company up to 30 June 2022.

Intercompany capital undertakings

As part of a group-wide initiative to centrally manage capital, the Group agreed to support capital undertakings from AGHL to AIL of $260,000,000 and to DHF of $14,000,000 in the event that the entities' regulatory capital adequacy multiple falls below a minimum ratio of 1.5.

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:

	2022 $000	2021 $000
Operating expenses		
Associates	21	–
Dividend received		
Associates (recognised as a reduction in investment in associates)	1,979	–

Notes to the consolidated financial statements
For the year ended 30 June 2022

Directors' Declaration

In the Directors' opinion:

a) the financial statements and notes set out on pages 8 to 61 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 2022 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.

c) Note 1(b) 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 made pursuant to s.295(5) of the *Corporations Act 2001*.

Beverley Rowbotham

Dr Beverley Rowbotham AO
Chair
Sydney
29 September 2022

Deloitte.

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

Opinion

We have audited the financial report of Avant Mutual Group Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2022, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and the directors' declaration.

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

- Giving a true and fair view of the Group's financial position as at 30 June 2022 and of its financial performance for the year then ended; and
- Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

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

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Directors' report included in the annual financial report ended 30 June 2022, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed,

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we conclude that there is a material misstatement of this other information, we require 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 has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

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

DELOITTE TOUCHE TOHMATSU

Stuart Alexander
Partner
Chartered Accountants

Sydney, 29 September 2022

Contact us

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