Avant mutual group

Financial Report 2013/2014

AVANT MUTUAL GROUP LIMITED
ABN 58 123 154 898
(A company limited by guarantee)

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Avant Mutual Group Limited is a company limited by guarantee, incorporated and domiciled in Australia.
Its registered office and principal place of business is

Level 28, 580 George Street, Sydney, NSW, Australia.

The financial report was authorised for issue by the Directors on 7 October 2014.
The Company has the power to amend and reissue the financial report.

Directors' report
30 June 2014

Directors' report

The Directors present their report on the Group consisting of Avant Mutual Group Limited ("the Company") and the entities it controlled at the end of, or during, the year ended 30 June 2014.

Directors

The following persons were Directors of the Company during the financial year ended 30 June 2014 and up to the date of this report (except as noted below):

Professor Simon Willcock (Chairman) [4]

Dr Rosemary Ayton

Mr Peter Beck [2]

Dr Jonathan Burdon

Dr Stephen Clarke

Dr Jan Dudley [3]

The Hon John Fahey

Mr Peter Polson [1]

Dr Beverley Rowbotham

[1] Mr Peter Polson was appointed as a director effective 1 April 2014 and continues in office as at the date of this report.

[2] Mr Peter Beck was appointed as a director effective 1 May 2014 and continues in office as at the date of this report.

[3] Dr Jan Dudley was appointed as a director effective 1 July 2014 and continues in office as at the date of this report.

[4] Professor Simon Willcock was appointed as Chairman on 1 July 2014 following the retirement of Assoc Prof Stuart Boland.

Mr Vyn Tozer was a director from the beginning of the financial year until his retirement on 31 March 2014.

Assoc Prof Stuart Boland was a director from the beginning of the financial year until his retirement on 30 June 2014.

Principal activities

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

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

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

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

Dividends paid or recommended

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

Review of operations

The Group's result for the year ended 30 June 2014 is a net profit after tax of $107,468,000 (2013: $115,673,000). The total members' accumulated equity as at 30 June 2014 is $947,734,000 (2013: $840,266,000).

Directors' report

30 June 2014

Matters subsequent to the end of the financial year

a) Loyalty reward plan

In the context of the Group's continuing sound financial performance and financial strength, the Directors of the Company asked the Directors of AIL to consider continuing the Loyalty Reward Plan ("LRP") for members who renew during calendar year 2015.

Following this request, the Directors of AIL resolved to continue the LRP at between 6.0% and 15.0% (2013: between 6.0% and 15%) depending on the members number of years of loyalty to Avant, plus a further 10% uplift (ie total of between 6.6% and 16.5%) if the member also holds a DHF Health Insurance policy.

b) Intercompany capital undertakings

As part of a group-wide initiative to centrally manage capital, on 8 July 2014, the Group agreed to support capital undertakings from the Company to AGHL in support of AGHL's capital undertakings to AIL of $90,000,000 and to DHF of $10,000,000.

The capital undertaking from the Company to AGHL and from AGHL to AIL provide additional financial support to a maximum of $90,000,000 in the event that AIL's regulatory capital adequacy multiple falls below a minimum ratio of 1.5.

The capital undertaking from the Company to AGHL and from AGHL to DHF provide additional financial support to a maximum of $10,000,000 in the event that the DHF's regulatory capital adequacy multiple falls below a minimum ratio of 1.5.

c) Commencement of the Retirement Reward Plan

On 7 August 2014, the Company announced the launch of its Retirement Reward Plan (RRP) with the effective date of 1 July 2014. The RRP is intended to reward eligible members for their loyalty to the Group by way of a dividend upon permanent retirement from medical practice. Eligibility for the retirement reward dividend is assessed by the Company's directors as at 30 June and in accordance with the RRP Allocation Rules. The Directors of the company have sole discretion as to whether a dividend will be paid in any particular year, and the quantum of that dividend. The decision whether or not to declare a retirement reward dividend will be made at the Board meeting at which the Group's financial statements are approved, which is typically in September.

The Company has notionally contributed $300,000,000 of the Group's capital for the purposes of the RRP. This amount is supported by the proportion of the Group's net assets that exceed the capital held in the insurance subsidiaries of the Group and any intercompany capital undertakings.

As the directors maintain the sole discretion to declare the RRP dividends, the Company does not carry a present obligation to provide any amounts at balance date other than any declared dividend amounts in the period that have not yet been paid at balance date.

As the RRP commenced effective 1 July 2014, there is no financial impact on the financial statements at 30 June 2014 and no declarations of dividends have been made at the date of this report.

The first dividend declaration will be considered in September 2015 and, if appropriate, paid in October 2015.

The RRP Allocation Rules are available on the Group's website www.avant.org.au.

d) Other

Other than those described above, no other matter or circumstance has arisen since 30 June 2014 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.

Directors' report
30 June 2014

Significant changes in the state of affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the Group that occurred during the financial year ended 30 June 2014.

Likely developments and expected results of operations

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

Environmental regulation

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

Information on Directors

Professor Simon Willcock MBBS (Hons I), PhD, FRACGP, Dip. Obs. RANZCOG/RACGP, GAICD	
Experience and expertise	Professor Willcock was appointed Chair of AMGL on 1 July 2014, following the retirement of Assoc Prof Stuart Boland. He is also a Director of AGHL, AIL and DHF. Professor Willcock is a General Practitioner and an academic within the University of Sydney Medical Program. He is involved in clinical practice and in the education and training of junior medical practitioners, and undertakes research in the areas of the health workforce and doctors' health. In 2013, Professor Willcock was inducted into the AMA's Roll of Fellows, in recognition of his outstanding contribution to the medical profession.
Avant Directorships	Avant Mutual Group Limited, Avant Group Holdings Limited, Avant Insurance Limited, The Doctors' Health Fund Pty Ltd, The Medical Defence Association of Victoria Limited, The Medical Defence Union Pty Ltd., MDU Australia Insurance Co Pty Limited, Professional Insurance Australia Pty Ltd, Professional Indemnity Insurance Company Australia Pty Limited, United Medical Protection of New South Wales Limited and United Medical Protection Limited.
Other current Directorships	Corporate Protection Australia Group, Northern Sydney Medicare Local, Confederation of Postgraduate Medical Councils (CPMEC).
Former Directorships in last 3 years	General Practice Education and Training (GPET).
Special responsibilities	Member of the Group Nominations, Performance & Remuneration Committee.

Directors' report

30 June 2014

Information on Directors (continued)

Dr Rosemary Ayton MBBS, MRCOG (UK), FRANZCOG, FAICD	
Experience and expertise	Dr Ayton is a Director of AMGL and AGHL. She is a senior Gynaecologist at the Royal Women's' Hospital in Melbourne and is a former committee member of the Medico-Legal Society of Victoria. She was a member of the Australian Drug Evaluation Committee from 1992 to 2001. Dr Ayton is a Graduate and Fellow of the Australian Institute of Company Directors.
Avant Directorships	Avant Mutual Group Limited, Avant Group Holdings Limited, The Medical Defence Association of Victoria Limited, The Medical Defence Union Pty Ltd., United Medical Protection of New South Wales Limited and United Medical Protection.
Other current Directorships	Nil.
Former Directorships in last 3 years	Nil.
Special responsibilities	Member of the Group Investment Committee.

Mr Peter Beck BSc, FIA, FIAA, FSA, FASFA	
Experience and expertise	Mr Beck is a Director of AMGL, AGHL, AIL and DHF. Mr Beck is an actuary by profession and has over 30 years' experience in banking, insurance, superannuation and investments working in Australia, New Zealand, Asia, South Africa and the United Kingdom. He was formerly CEO of Pillar Administration, CEO of CommInsure, and Group General Manager, Strategic Development and Group Appointed Actuary at Colonial.
Avant Directorships	Avant Mutual Group Limited, Avant Group Holdings Limited, Avant Insurance Limited, The Doctors' Health Fund Pty Ltd, MDU Australia Insurance Co Pty Limited, Professional Insurance Australia Pty Ltd and Professional Indemnity Insurance Company Australia Pty Limited.
Other current Directorships	Nil.
Former Directorships in last 3 years	Association of Superannuation Funds of Australia and CEO and Director of Superannuation Administration Corporation (trading as Pillar Administration).
Special responsibilities	Member of the Group Audit & Risk Committee. Member of the Group Investment Committee.

Directors' report

30 June 2014

Information on Directors (continued)

Assoc Prof Stuart Boland AM FRCS, FRACS, FACS, FAMA, FAICD ^	
Experience and expertise	Assoc Prof Boland retired as a director of all Avant Group Companies on 30 June 2014. Prior to his retirement he was the Chair of AMGL and a Director of AGHL, AIL and DHF. Assoc Prof Boland is a general surgeon and has served on the NSW State Committee of the Australian Association of Surgeons and the Board of the Australian Council of Healthcare Standards (ACHS). In 2011, Assoc Prof Boland was appointed as Adjunct Clinical Associate Professor of Anatomy of Notre Dame University, Sydney. Assoc Prof Boland has held many senior positions within the NSW AMA including President from 1991 to 2002 and in 1996 was awarded the Fellowship of the AMA for outstanding service. In 2013, Assoc Prof Boland was recognised in the Australia Day Honours list. He was made a Member in the General Division of the Order of Australia (AM) in recognition of his leadership roles including at Avant and as a surgeon and educator.
Avant Directorships *(to 30 June 2014)*	Avant Mutual Group Limited, Avant Group Holdings Limited, Avant Insurance Limited, The Doctors' Health Fund Pty Ltd, The Medical Defence Association of Victoria Limited, The Medical Defence Union Pty Ltd., MDU Australia Insurance Co Pty Limited, Professional Insurance Australia Pty Ltd, Professional Indemnity Insurance Company Australia Pty Limited, United Medical Protection of New South Wales Limited and United Medical Protection Limited.
Other current Directorships	Nil.
Former Directorships in last 3 years	The Medical Protection Society of New South Wales Limited.
Special responsibilities *(to 30 June 2014)*	Former Chair of the Group Nominations, Performance & Remuneration Committee and Member of the Group Audit & Risk Committee.

^ Assoc Prof Boland retired as a Director of all Avant Group Companies on 30 June 2014.

Dr Jonathan Burdon AM MBBS, MD, M Hlth & Med Law, FRACP, FCCP, FACLM, FAICD	
Experience and expertise	Dr Burdon is a Director of AMGL and AGHL. Dr Burdon was a Director of AIL and DHF until 30 June 2014. He is a past President of the Thoracic Society of Australia and New Zealand and is the current Chairman of the Medical Indemnity Industry Association of Australia. He was a Director of the Australian Lung Foundation from 2000 - 2004. In 2014, Dr Burdon was recognised in the Queen's Birthday Honours List. He was made a Member in the General Division in recognition of his service to respiratory medicine as a clinician and researcher, particularly occupational asthma, and to medical administration.
Avant Directorships	Avant Mutual Group Limited, Avant Group Holdings Limited, The Medical Defence Association of Victoria Limited, The Medical Defence Union Pty Ltd., MDU Australia Insurance Co Pty Limited. Professional Indemnity Insurance Company Australia Pty Limited, United Medical Protection of New South Wales Limited and United Medical Protection.
Other current Directorships	National Asthma Council Australia.
Former Directorships in last 3 years	Nil.
Special responsibilities	Chair of the Medical Advisory Council and Member of the Group Nominations, Performance & Remuneration Committee.

Directors' report

30 June 2014

Information on Directors (continued)

Dr Stephen Clarke MBBS, FRACS, Dip ABU, FAMA FAICD	
Experience and expertise	Dr Clarke is a Director of AMGL and AGHL. He is a former President of the AMA Victoria and a previous member of the Federal Council of the AMA. Dr Clarke is in private and public Urology practice in Melbourne, and previously worked for many years in the Hunter Valley.
Avant Directorships	Avant Mutual Group Limited, Avant Group Holdings Limited, The Medical Defence Association of Victoria Limited, The Medical Defence Union Pty Ltd., United Medical Protection of New South Wales Limited and United Medical Protection.
Other current Directorships	Orrong Towers Pty Ltd.
Former Directorships in last 3 years	Nil.
Special responsibilities	Member of the Group Nominations, Performance & Remuneration Committee.

Dr Jan Dudley MBBS, FRANZCOG	
Experience and expertise	Dr Dudley is a Director of AMGL and AGHL. She is a VMO Obstetrician and Gynaecologist at both the Royal Hospital for Women in Randwick and Prince of Wales Private Hospital in Randwick. Dr Dudley has significant governance experience at local hospital level, and was formerly a long standing and highly respected member of Avant's Medical Experts Committee.
Avant Directorships	Avant Mutual Group Limited and Avant Group Holdings Limited.
Other current Directorships	Nil.
Former Directorships in last 3 years	Nil.
Special responsibilities	Member of the Medical Advisory Council.

The Hon John Fahey AC	
Experience and expertise	The Hon John Fahey is a Director of AMGL, AGHL and AIL, and is the Chair of DHF. He was the Premier of NSW for three years, and then Federal Minister for Finance and Administration (1996-2001). Prior to Parliament, he practised as a solicitor. In 2002 he was awarded a Companion in the Order of Australia. He was appointed President of the World Anti-Doping Authority in 2007, a position he held until the end of 2013.
Avant Directorships	Avant Mutual Group Limited, Avant Group Holdings Limited, Avant Insurance Limited, The Doctors' Health Fund Pty Ltd, The Medical Defence Association of Victoria Limited, MDU Australia Insurance Co Pty Limited, Professional Insurance Australia Pty Ltd, Professional Indemnity Insurance Company Australia Pty Limited and United Medical Protection of New South Wales Limited.
Other current Directorships	Assetinsure Pty Limited, Men of League Foundation Limited, and Coasting Pty Limited (private trust company).
Former Directorships in last 3 years	Australian Council of the Royal Flying Doctor Service of Australia, Cumnock Coal Pty Limited, Resource Pacific Holdings Pty Limited, Connector Motorways Pty Limited, The Bradman Foundation, St. George Foundation Limited, Australian Rugby League Development Limited and Endeavour Energy Limited.
Special responsibilities	Member of the Group Investment Committee. Member of the Group Nominations Performance & Remuneration Committee (since 1 July 2014).

Directors' report

30 June 2014

Information on Directors (continued)

Mr Peter Polson Bcom, MBL, PMD	
Experience and expertise	Mr Polson is a Director of AMGL, AGHL and DHF and is the Chair of AIL. He has an extensive background in banking and financial services. He was formerly Managing Director of Colonial First State Investments, and with the Commonwealth Bank Group as Group Executive responsible for all Investment and Insurance Services
Avant Directorships	Avant Mutual Group Limited, Avant Group Holdings Limited, Avant Insurance Limited, The Doctors' Health Fund Pty Ltd, MDU Australia Insurance Co Pty Limited, Professional Insurance Australia Pty Limited and Professional Indemnity Insurance Company Australia Pty Limited.
Other current Directorships	Chairman of the Board of Challenger Financial Services Group Limited, Challenger Life Limited, IDP Education Pty Limited and Chairman of Very Special Kids.
Former Directorships in last 3 years	Chairman of Customers Limited and Director of Bennelong Group Holdings Pty Limited, Bennelong Foundation and Bennelong Funds Management.
Special responsibilities	Chair of the Group Investment Committee. Member of the Group Nominations Performance & Remuneration Committee (since 1 July 2014).

Dr Beverley Rowbotham MBBS (Hons 1) MD, FRACP, FRCPA, GAICD	
Experience and expertise	Dr Rowbotham is a Director of AMGL and AGHL. Dr Rowbotham was appointed as a Director of AIL and DHF on 1 July 2014. She is Director of Haematology and a member of the Executive at Sullivan Nicolaides Pathology, a member of the Sonic Healthcare group. She is also an Associate Professor at the University of Queensland, member of MSAC and other government committees, and Chairman of AMA Federal Council. She was formerly President of the Royal College of Pathologists of Australia.
Avant Directorships	Avant Mutual Group Limited, Avant Group Holdings Limited, Avant Insurance Limited, The Doctors' Health Fund Pty Ltd, The Medical Defence Association of Victoria Limited, Professional Insurance Australia Pty Limited, and United Medical Protection of New South Wales Limited.
Other current Directorships	RCPA Quality Assurance Programs Pty Limited.
Former Directorships in last 3 years	Association for Childhood Language and Related Disorders.
Special responsibilities	Member of the Group Audit & Risk Committee.

Directors' report
30 June 2014

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 2014, and the number of meetings attended by each Director are set out in the tables below.

	Avant Mutual Board Full meeting		Group Audit and Risk Committee Full meeting	
	A	B	A	B
Professor Simon Willcock *(Chairman)*[4]	9	11	*	*
Dr Rosemary Ayton	10	11	*	*
Mr Peter Beck[2]	2	2	5	5
Assoc Prof Stuart Boland[6]	11	11	4	5
Dr Jonathan Burdon	11	11	*	*
Dr Stephen Clarke	11	11	*	*
Dr Jan Dudley[3]	0	0	*	*
The Hon John Fahey	9	11	*	*
Mr Peter Polson[1]	3	3	*	*
Dr Beverley Rowbotham	10	11	5	5
Mr Vyn Tozer[5]	7	8	4	4

	Avant Mutual Board Full meeting		Group Audit and Risk Committee Full meeting	
	A	B	A	B
Professor Simon Willcock *(Chairman)*[4]	*	*	5	5
Dr Rosemary Ayton	5	5	*	*
Mr Peter Beck[2]	5	5	*	*
Assoc Prof Stuart Boland[6]	*	*	5	5
Dr Jonathan Burdon	*	*	5	5
Dr Stephen Clarke	*	*	5	5
Dr Jan Dudley[3]	*	*	*	*
The Hon John Fahey	4	5	*	*
Mr Peter Polson[1]	5	5	*	*
Dr Beverley Rowbotham	*	*	*	*
Mr Vyn Tozer[5]	*	*	3	3

A = Number of meetings attended

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

*Not a member of the relevant committee

[1]Mr Peter Polson was appointed Director of the Company effective 1 April 2014. The information above represents Mr Polson's attendance at committee meetings in his capacity as a Director of the Company.

[2]Mr Peter Beck was appointed Director of the Company effective 1 May 2014. The information above represents Mr Beck's attendance at committee meetings in his capacity as a Director of the Company.

[3]Dr Jan Dudley was appointed Director of the Company effective 1 July 2014.

[4]Professor Willcock was appointed Chair of the Company effective 1 July 2014. The information above represents Prof Willcock's attendance at committee meetings in his capacity as a Director of the Company.

[5]Mr Vyn Tozer resigned as Director of the Company effective 31 March 2014. The information above represents Mr Tozer's attendance at committee meetings in his capacity as a Director of the Company.

[6]Assoc Prof Stuart Boland retired as Chair and Director of the Company effective 30 June 2014. The information above represents Assoc Prof Boland's attendance at committee meetings in his capacity as a Director of the Company.

Directors' report
30 June 2014

Company Secretary

During the year, Suzanne Barron BScLLB, served as Group Company Secretary for all Avant group companies.

Proceedings on behalf of the Company

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

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

Insurance of officers

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

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

Auditor

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

Auditor's Independence Declaration

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

Rounding of amounts

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

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

Professor Simon Willcock
Chairman
Sydney
7 October 2014

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Auditor's Independence Declaration

As lead auditor for the audit of Avant Mutual Group Limited for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

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

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

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

S Fergusson
Partner
PricewaterhouseCoopers

Sydney
7 October 2014

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Statements of comprehensive income

For the year ended 30 June 2014

	Notes	Consolidated		Company	
		2014 $'000	2013 $'000	2014 $'000	2013 $'000
Gross written premium		258,338	198,539	-	-
Movement in unearned premiums		(35,006)	8,620	-	-
Gross premium revenue		**223,332**	**207,159**	-	-
Reinsurance premium expense		(10,829)	(11,865)	-	-
Net premium revenue		**212,503**	**195,294**	**-**	**-**
Gross claims expense	4	(153,651)	(164,612)	-	-
Reinsurance and other recoveries revenue	4	17,603	54,071	-	-
Net claims incurred	4	**(136,048)**	**(110,541)**	**-**	**-**
Acquisition costs	5	(17,823)	(15,616)	-	-
Run-off Cover Scheme (ROCS) levy		(7,888)	(7,507)	-	-
Other underwriting expenses	5	(41,878)	(39,469)	-	-
Underwriting expenses		**(67,589)**	**(62,592)**	**-**	**-**
Underwriting result		**8,866**	**22,161**	**-**	**-**
Investment income	6	143,204	134,146	182	328
Other income	7	13,519	13,080	11,990	10,715
Other operating expenses	5	(12,921)	(10,007)	(13,518)	(10,857)
Profit before income tax		**152,668**	**159,380**	**(1,346)**	**186**
Income tax expense	8(a)	(45,200)	(43,707)	454	(39)
Profit for the year		**107,468**	**115,673**	**(892)**	**147**
Other comprehensive income for the year		**-**	**-**	**-**	**-**
Total comprehensive income for the year		**107,468**	**115,673**	**(892)**	**147**

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

Balance sheets

As at 30 June 2014

	Notes	Consolidated		Company	
		2014 $'000	2013 $'000	2014 $'000	2013 $'000
Current assets					
Cash and cash equivalents	9	102,114	84,281	5,203	7,273
Receivables	10	67,047	50,985	23,175	18,764
Financial assets	11	174,464	131,754	2,102	-
Reinsurance and other recoveries	12	111,583	108,032	-	-
Deferred expenses	13	15,922	14,277	-	-
Total current assets		**471,130**	**389,329**	**30,480**	**26,037**
Non-current assets					
Property, plant and equipment	14	5,246	4,402	-	-
Intangible assets	15	4,882	5,648	-	-
Financial assets	11	1,176,330	1,097,918	508,602	508,602
Reinsurance and other recoveries	12	253,938	278,487	-	-
Deferred tax assets	8(e)	-	-	71	89
Total non-current assets		**1,440,396**	**1,386,455**	**508,673**	**508,691**
TOTAL ASSETS		**1,911,526**	**1,775,784**	**539,153**	**534,728**
Current liabilities					
Payables	16	34,285	35,642	1,267	1,216
Current tax liabilities	8(f)	11,393	8,690	11,393	8,690
Outstanding claims liabilities	17	181,882	185,152	-	-
Provisions	18	3,624	1,968	-	-
Unearned income	19	128,722	92,564	7,547	4,984
Total current liabilities		**359,906**	**324,016**	**20,207**	**14,890**
Non-current liabilities					
Outstanding claims liabilities	17	580,208	602,322	-	-
Provisions	18	3,435	4,811	-	-
Deferred tax liabilities	8(e)	20,243	4,369	-	-
Total non-current liabilities		**603,886**	**611,502**	**-**	**-**
TOTAL LIABILITIES		**963,792**	**935,518**	**20,207**	**14,890**
NET ASSETS		**947,734**	**840,266**	**518,946**	**519,838**
Equity					
Reserves	21(a)	54,598	54,598	508,602	508,602
Accumulated surpluses	21(b)	893,136	785,668	10,344	11,236
TOTAL EQUITY		**947,734**	**840,266**	**518,946**	**519,838**

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

Statements of changes in equity

For the year ended 30 June 2014

Consolidated	Notes	Reserves $'000	Accumulated surpluses $'000	Total $'000
Balance at 30 June 2012	21	**54,598**	**669,995**	**724,593**
Profit for the year		-	115,673	115,673
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	115,673	115,673
Balance at 30 June 2013	21	**54,598**	**785,668**	**840,266**
Profit for the year		-	107,468	107,468
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	107,468	107,468
Balance at 30 June 2014	21	**54,598**	**893,136**	**947,734**

Company		Reserves $'000	Accumulated surpluses $'000	Total $'000
Balance at 30 June 2012	21	**508,602**	**11,089**	**519,691**
Profit for the year		-	147	147
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	147	147
Balance at 30 June 2013	21	**508,602**	**11,236**	**519,838**
Profit for the year		-	(892)	(892)
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	(892)	(892)
Balance at 30 June 2014	21	**508,602**	**10,344**	**518,946**

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

Statements of cash flows

For the year ended 30 June 2014

	Notes	Consolidated		Company	
		2014 $'000	**2013 $'000**	**2014 $'000**	**2013 $'000**
Cash flows from operating activities					
Premium and subscription income received		277,381	227,314	16,363	12,041
Reinsurance premium paid		(11,522)	(13,739)	-	-
Claims paid		(182,101)	(147,827)	-	-
Reinsurance and other recoveries received		32,937	46,069	-	-
Run-off Cover Scheme levies paid		(8,228)	(7,199)	-	-
Dividends and distributions received		33,336	21,618	-	-
Interest received		31,235	31,126	204	307
Sundry income		1,497	2,522	(9)	-
Payments from / (to) related parties		-	-	6,883	99
Income tax paid		(24,018)	(2,280)	(8,697)	226
Underwriting and administrative expenses paid		(68,203)	(59,679)	(13,553)	(10,542)
Payment to members of the acquired health fund		(169)	(601)	-	-
Policyholder reward payment		-	(259)	-	-
Goods and services tax paid		(16,599)	(16,417)	(1,159)	(1,037)
Net cash inflow from operating activities	29	**65,546**	**80,648**	**32**	**1,094**
Cash flows from investing activities					
Purchase of investments		(237,995)	(464,562)	(2,102)	-
Proceeds from sale of investments		193,048	372,406	-	-
Purchase of fixed assets		(2,766)	(1,167)	-	-
Net cash outflow from investing activities		**(47,713)**	**(93,323)**	**(2,102)**	**-**
Net increase / (decrease) in cash held		17,833	(12,675)	(2,070)	1,094
Cash acquired from business combination		-	-	-	-
Cash and cash equivalents at the beginning of the year		84,281	96,956	7,273	6,179
Cash and cash equivalents at the end of the year	9	**102,114**	**84,281**	**5,203**	**7,273**

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

Notes to the financial statements

30 June 2014

Note 1. Summary of significant accounting policies

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

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. The Company is a for-profit entity for the purpose of preparing the financial statements.

(i) Compliance with IFRS

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

(ii) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2013:

- AASB 10 *Consolidated Financial Statements and* AASB 12 *Disclosure of Interests in Other Entities (January 2013)* - Introduces a single definition of control, provides a distinction between two types of arrangements where control is shared between two parties – joint operations and joint ventures – and sets out disclosures for interests in other entities.
- AASB 2012-10 *Amendments to Australian Accounting Standards – Transition Guidance and other Amendments* which provides an exemption from the requirement to disclose the impact of the change in accounting policy on the current period.
- AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13 (January 2013)* - Explains how to measure fair value and enhances fair value disclosures. This does not change when an entity is required to use fair value to measure an asset or liability. This applies to all assets and liabilities measured at fair value, not only financial assets and financial liabilities.
- AASB 119 *Employee Benefits and* AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119 (January 2013)* - Introduces changes to accounting for defined benefit plans, annual leave and termination benefits.
- AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle (January 2013).*

The adoption of AASB 119 resulted in change in accounting policy and adjustment to the amounts recognised in the financial statements. These are explained and summarised in note 18. The other standards only affected the disclosures in the notes to the financial statements.

(iii) Early adoption of standards

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2013.

(iv) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

- AASB 2012-3 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities (effective January 2014)* – Clarifies the offsetting rules in AASB 132 and explains when offsetting can be applied.
- AASB 2013-3 *Amendments to AASB 136 Recoverable Amount Disclosures for Non-Financial Assets (effective January 2014)* - The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs to sell. Additionally, if measured using a present value technique, the discount rate is required to be disclosed. This amendment is not expected to have material impact on disclosure.

Notes to the financial statements

30 June 2014

Note 1. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

- AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from* AASB 9 (effective 1 January 2017) - addresses the classification, measurement and derecognition of financial assets and financial liabilities. All financial assets except debt assets must be recognised at fair value. All fair value movements on financial assets are taken through the income statement, except for equity investments that are not traded, if any, which may be recorded in the income statement or in reserves. For financial liabilities that are measured under the fair value option entities will need to recognise the part of the fair value change that is due to changes in the their own credit risk in other comprehensive income rather than profit or loss. The new rules are not expected to materially impact the amounts recognised in the financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2017.
- FRS 15 (anticipated to be issued as AASB 15 in Q4 2014) *Revenue from Contracts with Customers* - The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

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

(v) Historical cost convention

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

(vi) Critical accounting estimates

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

(vii) Reclassifications

When the presentation or classification of items in the financial report is amended, comparative amounts have been reclassified.

The Group has identified that in the prior year short-term bank deposits were classified as cash and cash equivalents rather than financial assets. The prior year comparatives at 30 June 2013 have been restated to correct these balances resulting in a decrease in cash and cash equivalents from the previously published amount by $4,700,000 and an increase in financial assets from the previously published amount by $4,700,000.

The 30 June 2013 cash balance was adjusted from $88,981,000 to $84,281,000 and the financial assets was adjusted from $1,224,972,000 to $1,229,672,000.

There is no profit or loss impact associated with this reclassification.

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2014 and the results of all subsidiaries for the year then ended. The Company and its subsidiaries together are referred to in this financial report as the Group.

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

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

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 1(m)).

Notes to the financial statements

30 June 2014

Note 1. Summary of significant accounting policies (continued)

(b) Principles of consolidation(continued)

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

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

(c) Premium revenue

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

Loyalty Reward Plan

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

Run-off Cover Scheme

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

Premium Support Subsidy

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

(d) Subscription revenue

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

(e) Liability adequacy test

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

Notes to the financial statements

30 June 2014

Note 1. Summary of significant accounting policies (continued)

(f) Outwards reinsurance

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

(g) Outstanding claims liabilities

The provision for outstanding claims is measured as the central estimate of the present value of expected future claims payments plus a risk margin. The expected future claims payments include those in relation to claims reported but not yet paid; claims incurred but not enough reported (IBNER); claims incurred but not reported (IBNR); anticipated claims handling costs and allowances for the Risk Equalisation Trust Fund 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), although 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.

(h) Reinsurance and other recoveries

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

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

(i) Acquisition costs

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

(j) Income tax

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit 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 and assets are not recognised for temporary differences between the carrying amount and tax bases of the investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Notes to the financial statements

30 June 2014

Note 1. Summary of significant accounting policies (continued)

(j) Income tax (continued)

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

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

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

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

Tax consolidation legislation

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

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

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

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

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

(k) Operating leases

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

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

(l) Impairment of assets

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

(m) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred

Notes to the financial statements

30 June 2014

Note 1. Summary of significant accounting policies (continued)

(m) Business combinations (continued)

also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(n) Cash and cash equivalents

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

(o) Receivables

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

Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

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

(p) Financial assets

Classification

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

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

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

Notes to the financial statements
30 June 2014

Note 1. Summary of significant accounting policies (continued)

(p) Financial assets (continued)

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

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

Financial assets at fair value through profit or loss

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

Recognition and derecognition

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

Measurement

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

Impairment

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

(q) Property and equipment

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

Depreciation on the assets is calculated using the straight-line method so as to write off the net cost of each item over its expected useful life to the Group, or for leasehold improvements, over the unexpired period of the lease, if this is shorter. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives of the assets are as follows:

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

Notes to the financial statements

30 June 2014

Note 1. Summary of significant accounting policies (continued)

(q) Property and equipment (continued)

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

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

(r) Intangible assets

Value of Customer Relationships

The Value of Customer Relationships acquired is carried at its fair value at the date of acquisition less accumulated amortisation. Amortisation is calculated based on the timing of projected cash flows that will emerge from the block of in-force business and business written (renewal of existing policyholders) over its estimated useful life of 10 to 15 years.

Brand

The value of brand and trademarks acquired as part of an acquisition is calculated using the replacement cost approach and is carried at its fair value at the date of acquisition less accumulated amortisation. Amortisation is calculated over its estimated useful life of 5 years.

(s) Payables

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

(t) Provisions

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

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

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

(u) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for accumulating sick leave is recognised in the provision for employee entitlements. All other short-term employee benefit obligations are presented as current provisions.

Notes to the financial statements

30 June 2014

Note 1. Summary of significant accounting policies (continued)

(u) Employee benefits (continued)

(ii) Other long-term employee benefit obligations

The liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore recognised in the provision for employee entitlements 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. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

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

Superannuation

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

(v) Goods and services tax (GST)

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

(i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

(ii) for receivables and payables which are recognised inclusive of GST.

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

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

(w) Risk Equalisation Trust Fund (RETF)

From 1 April 2007, under the provision of the Private Health Insurance Act 2007, all health insurers must participate in the RETF, 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 RETF are determined by the Private health Insurance Administration Council after the end of each quarter. Estimated provisions for amounts payable and receivable are recognised on an accrual basis.

(x) Accumulated surpluses

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

The Group accumulated surpluses are generated from either:

(i) Mutual, tax exempt activities, or
(ii) Mutual, but taxable activities.

(y) Functional and presentation currency

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

(z) Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Notes to the financial statements

30 June 2014

Note 2. Critical accounting estimates and judgments

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

(a) Net insurance liabilities

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

Actuarial valuations are used to estimate the components of the net insurance 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 particularly sensitive to a number of factors, including:

- The ultimate number of claims
- Average claim cost
- Inflation rates and discount factors
- Changes in the medico-legal environment

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

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

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

(b) Recoveries under Government schemes

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

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

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

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

Note 3. Insurance risk and actuarial assumptions

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

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

Notes to the financial statements

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Note 3. Insurance risk and actuarial assumptions (continued)

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

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

(a) Insurance risk

(i) Terms and conditions of insurance business

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

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

The wholly owned controlled entity, DHF, provides policies to the Australian medical and health practitioner community, principally medical practitioners, their employees and their families.

(ii) Risk management of insurance business

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

Insurance risk – General Insurance

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

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

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

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

The Group insurance portfolio comprises predominantly two classes of risk, being general insurance and health insurance, and is not exposed to the traditional form of external catastrophe risk. The Group is however, 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.

There is a possibility that changes may occur in the estimate of obligations at the end of a contract period. The tables in note 17(d) show the estimates of total claims outstanding for each accident year at successive year ends for the professional indemnity portfolio.

Notes to the financial statements
30 June 2014

Note 3. Insurance risk and actuarial assumptions (continued)

(a) Insurance risk (continued)

(ii) Risk management of insurance business (continued)

Insurance risk – Health Insurance

The provision of private health insurance in Australia is governed by 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, the Company adopts a prudent approach to pricing its products; a process which requires approval by the Minister for Health and Ageing. Pricing is typically determined annually and at levels which at least cover the projected benefit payments and management expenses of operating the Company.

An important consideration in insurance risk is the Risk Equalisation Trust Fund (RETF). This scheme imposes a levy to all health insurers; and shares a proportion of the hospital claims, of all persons aged over 55 years and those with high cost claims, between all health insurers. With an older than average membership base, the Company has been a net drawer of funds from the RETF. As a net drawer, the Company is exposed to adverse changes that may be implemented to the scheme by the Australian government.

The Company employs sound claims management practices based on an expert health insurance information technology platform. Together, these seek to ensure that all claims are paid in compliance with benefit schedules and provide the detailed statistics required for actuarial projection purposes.

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

Reinsurance risk

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

Professional indemnity business for healthcare professionals is a long tailed class of business covering bodily injury and as a result is subject to occasional large losses. As a way of moderating the insurance risk, the Group purchases reinsurance. Any potential exposure of the reinsurance program is managed by seeking a diversified portfolio of reinsurers operating in different reinsurance markets, where the maximum potential exposure of any one reinsurer to the total program is limited.

Credit risk

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

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

Interest rate risk

The insurance contracts are not exposed to interest rate risk.

Notes to the financial statements

30 June 2014

Note 3. Insurance risk and actuarial assumptions (continued)

(b) Actuarial assumptions

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

	2014	**2013**
Normal inflation rate	3.9 - 4.3%	3.9 - 4.3%
Superimposed inflation	2.5 - 4.0%	2.5 - 4.0%
Average weighted discount rate	3.1%	3.3%
Average weighted term to settlement – known claims	2.9 years	2.9 years
Average weighted term to settlement – IBNR claims	4.8 years	5.2 years
Estimated ultimate number of claims	2,601	2,455
Claims handling expense percentage	7.0%	7.0%

(ii) Process used to determine assumptions

Methodology

Claims are split into five claim groups; legal expenses claims, non-civil claims, large claims (those with an estimated cost ever over $1,500,000 in June 2011 dollars), medium claims (estimate cost ever over $300,000 in June 2011 dollars) and small claims. Civil claims are separated into different state based jurisdictions.

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.

(c) Sensitivity analysis

(i) Summary

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

Notes to the financial statements

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Note 3. Insurance risk and actuarial assumptions (continued)

(c) Sensitivity analysis (continued)

(i) Summary (continued)

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

(ii) Impact of changes in key variables

		Profit / (loss) after tax		Equity
		Gross of reinsurance $000	Net of reinsurance $000	$000
Variable	**Movement in variable**	**Adjusted amounts**		
Superimposed inflation	1%	(18,587)	(5,472)	(5,472)
	-1%	15,245	6,239	6,239
Discount rates	1%	14,688	7,908	7,908
	-1%	(15,814)	(8,459)	(8,459)

Notes to the financial statements

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Note 4. Net claims incurred

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

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

	Consolidated			Company		
	Current period $'000	**Prior periods $'000**	**Total $'000**	**Current period $'000**	**Prior periods $'000**	**Total $'000**
2014						
Undiscounted claims incurred:						
Gross claims incurred	(265,651)	120,098	(145,553)	-	-	-
Reinsurance recoveries	71,305	(58,541)	12,764	-	-	-
Net claims incurred	(194,346)	61,557	(132,789)	-	-	-
Discount movement:						
Gross claims incurred	22,863	(30,961)	(8,098)	-	-	-
Reinsurance recoveries	(10,122)	14,961	4,839	-	-	-
Net discount movement	12,741	(16,000)	(3,259)	-	-	-
Net discounted claims	**(181,605)**	**45,557**	**(136,048)**	**-**	**-**	**-**
Discounted claims expense:						
Gross claims expense	(242,788)	89,137	(153,651)	-	-	-
Reinsurance recoveries	61,183	(43,580)	17,603	-	-	-
Net discounted claims expense	**(181,605)**	**45,557**	**(136,048)**	**-**	**-**	**-**

	Consolidated			Company		
	Current period $'000	**Prior periods $'000**	**Total $'000**	**Current period $'000**	**Prior periods $'000**	**Total $'000**
2013						
Undiscounted claims incurred:						
Gross claims incurred	(265,698)	72,234	(193,464)	-	-	-
Reinsurance recoveries	87,143	(17,318)	69,825	-	-	-
Net claims incurred	(178,555)	54,916	(123,639)	-	-	-
Discount movement:						
Gross claims incurred	27,289	1,563	28,852	-	-	-
Reinsurance recoveries	(14,140)	(1,614)	(15,754)	-	-	-
Net discount movement	13,149	(51)	13,098	-	-	-
Net discounted claims	**(165,406)**	**54,865**	**(110,541)**	**-**	**-**	**-**
Discounted claims expense:						
Gross claims expense	(238,409)	73,797	(164,612)	-	-	-
Reinsurance recoveries	73,003	(18,932)	54,071	-	-	-
Net discounted claims expense	**(165,406)**	**54,865**	**(110,541)**	**-**	**-**	**-**

Notes to the financial statements

30 June 2014

Note 5. Acquisition and other expenses

	Consolidated		Company	
	2014 $'000	**2013 $'000**	**2014 $'000**	**2013 $'000**
Employee related costs	(48,835)	(43,540)	-	-
Director related costs	(2,081)	(2,099)	(882)	(927)
Rental expense relating to operating leases	(3,243)	(2,919)	-	-
Other rent related outgoings	(1,029)	(884)	-	-
Depreciation and amortisation	(2,403)	(2,170)	-	-
General & administration expenses	(12,178)	(11,627)	(3,950)	(1,909)
Management fees paid	-	-	(8,803)	(8,008)
Investment management fees paid	(2,001)	(1,565)	-	-
Provision for impairment	(852)	(288)	117	(13)
	(72,622)	**(65,092)**	**(13,518)**	**(10,857)**
Acquisition costs	(17,823)	(15,616)	-	-
Other underwriting expenses	(41,878)	(39,469)	-	-
Other operating expenses	(12,921)	(10,007)	(13,518)	(10,857)
	(72,622)	**(65,092)**	**(13,518)**	**(10,857)**

Note 6. Investment income

	Consolidated		Company	
	2014 $'000	**2013 $'000**	**2014 $'000**	**2013 $'000**
Interest	31,096	31,460	182	328
Dividends and distributions from unit trusts	34,699	23,505	-	-
Other	1,234	930	-	-
	67,029	55,895	182	328
Change in fair value of investments held at fair value through profit or loss	76,175	78,251	-	-
	143,204	**134,146**	**182**	**328**

Note 7. Other income

	Consolidated		Company	
	2014 $'000	**2013 $'000**	**2014 $'000**	**2013 $'000**
Membership subscription revenue	11,990	10,715	11,990	10,715
Government Support Scheme Fee income	913	1,947	-	-
Other income	616	418	-	-
	13,519	**13,080**	**11,990**	**10,715**

Notes to the financial statements

30 June 2014

Note 8. Income tax

	Consolidated		Company	
	2014 $'000	**2013 $'000**	**2014 $'000**	**2013 $'000**
(a) Income tax expense				
Current tax expense	(29,581)	(22,848)	472	(5)
Deferred tax expense	(15,313)	(21,136)	(18)	(14)
(Under) / over provision in prior years	(306)	277	-	(20)
Income tax expense attributable to profit from continuing operations	**(45,200)**	**(43,707)**	**454**	**(39)**
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit from continuing operations before income tax	152,668	159,380	(1,346)	186
Tax at Australian tax rate of 30% (2013: 30%)	(45,800)	(47,814)	404	(56)
Other permanent differences	(1,680)	1,026	68	51
Effect of franking credits	2,604	2,818	-	-
Benefit of tax losses of prior years recouped	(18)	(14)	(18)	(14)
Current year income tax expense	(44,894)	(43,984)	454	(19)
(Under) / over provision in prior years	(306)	277	-	(20)
Income tax expense	**(45,200)**	**(43,707)**	**454**	**(39)**
(c) Deferred tax assets				
The balance comprises temporary differences attributable to:				
Amounts recognised in the profit or loss:				
Accruals and provisions	16,816	16,594	-	-
Financial assets	5,000	2,730	-	-
Investments	75	75	-	-
	21,891	19,399	-	-
Deferred tax recognised on losses	71	89	71	89
Total deferred tax assets	**21,962**	**19,488**	**71**	**89**
Movements:				
Opening balance at the beginning of the year	19,488	19,485	89	103
Prior year under (over) provision	(562)	361	-	(0)
Charged to the income statement	3,054	(344)	-	-
Utilisation of prior year tax losses	(18)	(14)	(18)	(14)
Closing balance at the end of the year	**21,962**	**19,488**	**71**	**89**

Notes to the financial statements

30 June 2014

Note 8. Income tax (continued)

	Consolidated		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
(d) Deferred tax liabilities				
Financial assets	(40,700)	(22,352)	-	-
Investment in associates	(1,505)	(1,505)	-	-
Total deferred tax liabilities	**(42,205)**	**(23,857)**	**-**	**-**
Movements:				
Opening balance at the beginning of the year	(23,857)	(3,079)	-	-
Charged to the income statement	(18,348)	(20,778)	-	-
Closing balance at the end of the year	**(42,205)**	**(23,857)**	**-**	**-**
(e) Set-off of deferred tax balances				
Set-off of deferred tax assets against deferred tax liabilities pursuant to set-off provisions:				
Deferred tax assets	21,962	19,488	71	89
Deferred tax liabilities	(42,205)	(23,857)	-	-
Total deferred tax (liabilities) / assets after set-off	**(20,243)**	**(4,369)**	**71**	**89**
(f) Current tax liabilities (asset)				
Opening balance at the beginning of the year	(8,690)	9,223	(8,690)	9,223
Payment of prior year tax liabilites	8,292	(8,998)	8,292	(8,998)
Payment of current year tax liabilites	15,726	11,340	15,726	11,340
Under provision	256	(225)	256	(225)
Effect of franking credits	2,604	2,818	2,604	2,818
Current year provision	(29,581)	(22,848)	(29,581)	(22,848)
Closing balance at the end of the year	**(11,393)**	**(8,690)**	**(11,393)**	**(8,690)**
(g) Franking credits				
Franking credits available for the subsequent financial years based on a tax rate of 30% (2013: 30%)	**218,375**	**192,355**	**218,375**	**192,355**

(h) Tax consolidation legislation

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

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

Notes to the financial statements

30 June 2014

Note 8. Income tax (continued)

(h) Tax consolidation legislation (continued)

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

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

Note 9. Cash and cash equivalents

	Consolidated		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Cash at bank and in hand	102,114	84,281	5,203	7,273
	102,114	**84,281**	**5,203**	**7,273**

Reconciliation to cash at the end of the year

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

Balances as above	102,114	84,281	5,203	7,273
Balances per statement of cash flows	**102,114**	**84,281**	**5,203**	**7,273**

Note 10. Receivables

	Consolidated		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Premium and subscription debtors	61,849	48,922	86	588
Provision for impairment	(1,107)	(914)	(29)	(207)
Net premium and subscription revenue debtors	60,742	48,008	57	381
Sundry debtors	5,322	1,851	-	-
Interest receivables	983	1,126	12	34
Receivable from related entity	-	-	23,106	18,349
Net receivables	**67,047**	**50,985**	**23,175**	**18,764**

All receivables that were determined as doubtful as per note 1(o) are provided for in full.

(a) Fair value

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

(b) Risk

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

Notes to the financial statements

30 June 2014

Note 11. Financial assets

	Notes	Consolidated 2014 $'000	Consolidated 2013 $'000	Company 2014 $'000	Company 2013 $'000
Investments held at fair value through profit or loss					
Short duration interest bearing securities		71,283	65,577	2,102	-
Fixed interest securities		523,140	523,495	-	-
Unlisted unit trusts		756,371	640,600	-	-
		1,350,794	**1,229,672**	**2,102**	**-**
Investments held at cost					
Investments in controlled entities	26	**-**	**-**	508,602	508,602
		-	**-**	**508,602**	**508,602**
		1,350,794	**1,229,672**	**510,704**	**508,602**
Current financial assets		174,464	131,754	2,102	-
Non-current financial assets		1,176,330	1,097,918	508,602	508,602
		1,350,794	**1,229,672**	**510,704**	**508,602**

Note 12. Reinsurance and other recoveries

	Consolidated 2014 $'000	Consolidated 2013 $'000	Company 2014 $'000	Company 2013 $'000
Expected future reinsurance and other recoveries undiscounted on:				
Paid claims	71,713	65,448	-	-
Outstanding claims	398,299	440,672	-	-
	470,012	506,120	-	-
Discount to present value	(52,510)	(63,434)	-	-
Provision for impairment of reinsurance and other recoveries	(51,981)	(56,167)	-	-
Reinsurance and other recoveries on claims	**365,521**	**386,519**	**-**	**-**
Reinsurance and other recoveries receivable – current	137,902	128,560	-	-
Less: Provision for impairment of reinsurance assets	(26,319)	(20,528)	-	-
	111,583	**108,032**	**-**	**-**
Reinsurance and other recoveries receivable – non current	279,600	314,126	-	-
Less: Provision for impairment of reinsurance assets	(25,662)	(35,639)	-	-
	253,938	**278,487**	**-**	**-**
	365,521	**386,519**	**-**	**-**

Notes to the financial statements

30 June 2014

Note 12. Reinsurance and other recoveries (continued)

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

The HIH liquidators finalised the established claim scheme during the year. The net reinsurance premium adjustment payable is $7,137,869 (2013:$5,956,566).

The provision for impairment has been made on the best information available to 30 June 2014 from a range of sources including the liquidator of HIH and reflects the expected liquidation dividend to be paid by the individual companies within HIH. Depending on which HIH company the recovery is due, provisions of between 26.0% and 56.0% have been made (2013: 30.0% and 67.0%). The final stage of the HIH established claim is expected to be completed post December 2015.

Note 13. Deferred expenses

	Consolidated		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Deferred reinsurance premiums	5,974	6,325	-	-
Deferred ROCS expense	4,642	3,169	-	-
Deferred acquisition costs	5,306	4,783	-	-
	15,922	**14,277**	**-**	**-**

Note 14. Property and equipment

	Consolidated		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Gross carrying value				
At the beginning of the year	9,711	8,678	-	-
Additions	2,766	1,225	-	-
Written off in the year	(492)	(116)	-	-
Disposal	-	(76)		
At the end of the year	**11,985**	**9,711**	**-**	**-**
Accumulated depreciation				
At the beginning of the year	(5,309)	(4,039)	-	-
Written off in the year	(1,636)	(1,404)	-	-
Depreciation expense for the year	206	116	-	-
Disposal	-	18		
At the end of the year	**(6,739)**	**(5,309)**	**-**	**-**
Net carrying value at the end of the year	**5,246**	**4,402**	**-**	**-**

Notes to the financial statements
30 June 2014

Note 14. Property and equipment (continued)
Reconciliation
Reconciliation of the carrying amounts of intangible assets at the beginning and end of the current financial year is set out below.

	Office furniture & fittings $'000	Office and Computer equipment $'000	IT software $'000	Leasehold improve-ments $'000	Total $'000
Consolidated					
Net carrying value at 1 July 2013	787	913	1,721	981	4,402
Additions	383	896	904	583	2,766
Written off in the year	(69)	(10)	-	(207)	(286)
Depreciation	(129)	(482)	(843)	(182)	(1,636)
Net carrying value at 30 June 2014	**972**	**1,317**	**1,782**	**1,175**	**5,246**

Note 15. Intangible assets

	Consolidated		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Gross carrying value				
At the beginning of the year	7,764	9,753	-	-
Written off in the year	-	(1,989)		
At the end of the year	**7,764**	**7,764**	**-**	**-**
Accumulated amortisation				
At the beginning of the year	(2,116)	(3,339)	-	-
Amortisation charge	(766)	(766)	-	-
Written off in the year	-	1,989	-	-
At the end of the year	**(2,882)**	**(2,116)**	**-**	**-**
Net carrying value at the end of the year	**4,882**	**5,648**	**-**	**-**

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

	Brand $'000	Value of customer relationships $'000	Total $'000
Consolidated			
Net carrying value at 1 July 2013	400	5,248	5,648
Amortisation	(100)	(666)	(766)
Net carrying value at 30 June 2014	**300**	**4,582**	**4,882**
Remaining useful life at 30 June 2014	3 years	3 and 8 years	

Amortisation of $766,000 (2013: $766,000) is included in depreciation and amortisation expense in the statement of comprehensive income.

Notes to the financial statements

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Note 16. Payables

	Consolidated		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Sundry creditors and accruals	25,587	27,795	1,231	948
Reinsurance premiums payable	4,779	5,061	-	-
ROCS levy payable	3,919	2,786	-	-
Payable to related entity	-	-	36	268
	34,285	**35,642**	**1,267**	**1,216**

Note 17. Outstanding claims liabilities

(a) Outstanding claims liabilities

	Consolidated		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Central estimate	688,337	683,269	-	-
Discount to present value	(75,090)	(80,299)	-	-
	613,247	602,970	-	-
Risk margin discounted	148,843	184,504	-	-
Gross outstanding claims liabilities discounted	**762,090**	**787,474**	**-**	**-**
Current outstanding claims liabilities	181,882	185,152	-	-
Non-current outstanding claims liabilities	580,208	602,322	-	-
	762,090	**787,474**	**-**	**-**
Gross claims outstanding undiscounted central	688,337	683,269	-	-
Risk margin undiscounted	168,538	211,659	-	-
Total gross claims undiscounted	**856,875**	**894,928**	**-**	**-**

(b) Risk margin

The process used to determine the risk margin is explained in note 3. The probability of adequacy at 30 June 2014 is 85% (2013: 85%) for AIL, AGHL, MDAV and DHF and 99.5% for PIA (2013: 99.5%).

The discounted risk margin included in gross outstanding claims at 30 June 2014 is 24.3% (2013: 30.6%). The discounted risk margin included on net outstanding claims at 30 June 2014 is 17.5% (2013: 20.2%).

(c) Reconciliation of movement in discounted outstanding claims liability

Consolidated	2014			2013		
	Gross $'000	Re-insurance $'000	Net $'000	Gross $'000	Re-insurance $'000	Net $'000
Brought forward	787,474	(373,865)	413,609	759,210	(343,405)	415,805
Effect of changes in assumptions	(89,137)	43,580	(45,557)	(73,797)	18,932	(54,865)
Increase in claims incurred / Recoveries anticipated over the year	245,854	(42,838)	203,016	249,888	(95,461)	154,427
Claim payments / recoveries during the year	(182,101)	32,937	(149,164)	(147,827)	46,069	(101,758)
Carried forward	**762,090**	**(340,186)**	**421,904**	**787,474**	**(373,865)**	**413,609**

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Note 17. Outstanding claims liabilities (continued)

(d) Claims development table

Information for the claims development tables is extracted from claims administration systems and actuarial models. These systems are not set up to provide consolidated group wide data by accident year. The following tables show the development of gross and net undiscounted outstanding claims for the Company's insurance subsidiaries, AIL and PIA and for the Company's combined mutual entities. Note that IBNR liabilities have been included in the "2005 and prior" outstanding claims below.

Insurance subsidiaries

2014

i) Gross	2005 and prior $'000	2006 $'000	2007 $'000	2008 $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	Total $'000
Estimate of ultimate claims cost											
At middle of accident year		32,815	50,601	60,471	61,764	59,383	71,533	75,572	75,084	**81,198**	
One year later		91,781	106,065	117,502	113,337	132,990	120,460	158,405	**136,208**		
Two years later		80,098	96,524	112,097	117,343	120,698	113,999	**125,795**			
Three years later		79,818	89,353	118,348	103,095	119,964	**105,942**				
Four years later		71,452	88,495	105,421	102,132	**101,121**					
Five years later		67,214	82,125	108,027	**102,505**						
Six years later		60,831	78,148	**86,215**							
Seven years later		54,029	**96,064**								
Eight years later		**74,691**									
Nine years later											
Current estimate of cumulative claims cost	888,273	74,691	96,064	86,215	102,505	101,121	105,942	125,795	136,208	81,197	1,798,011
Cumulative payments	(787,570)	(47,532)	(67,146)	(86,372)	(68,685)	(73,288)	(50,900)	(48,314)	(23,531)	(2,922)	(1,256,260)
Outstanding claims-undiscounted	100,703	27,159	28,918	(157)	33,820	27,833	55,042	77,481	112,677	78,275	541,751
Discount											(58,345)
Claims handling expenses											281,89
Claims managed in run-off											11,886
Risk margin											117,874
GST											9,883
Total gross outstanding claims											**651,238**

ii) Net	2005 and prior $'000	2006 $'000	2007 $'000	2008 $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	Total $'000
Estimate of ultimate claims cost											
At middle of accident year		24,185	39,522	44,690	43,353	41,044	45,792	51,006	54,688	**61,095**	
One year later		70,040	73,121	87,281	80,261	87,122	90,134	113,624	**120,067**		
Two years later		58,004	69,504	79,916	77,866	90,349	85,121	**107,853**			
Three years later		57,130	65,416	80,864	74,606	83,407	**81,428**				
Four years later		52,484	63,952	76,243	72,947	**84,469**					
Five years later		49,771	63,508	76,714	**70,274**						
Six years later		47,536	61,023	**74,977**							
Seven years later		44,414	**60,561**								
Eight years later		**43,667**									
Nine years later											
Current estimate of cumulative claims cost	745,961	43,667	60,561	74,977	70,274	84,469	81,428	107,853	120,067	61,095	1,450,352
Cumulative payments	(739,857)	(40,233)	(55,971)	(64,609)	(55,076)	(53,325)	(43,505)	(39,876)	(21,993)	(2,921)	(1,117,366)
Outstanding claims-undiscounted	6,104	3,434	4,590	10,368	15,198	31,144	37,923	67,977	98,074	58,174	332,986
Discount											(30,031)
Claims handling expenses											26,714
Claims managed in run-off											9,793
Risk margin											51,785
Total net outstanding claims											**391,247**

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Note 17. Outstanding claims liabilities (continued)

(d) Claims development table (continued)

Mutual entities

2014

i) Gross	2005 and prior $'000	2006 $'000	2007 $'000	2008 $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	Total $'000
Estimate of ultimate claims cost											
At middle of accident year		7,239	14,780	8,619	6,449	5,157	6,558	4,569	7,834	**7,259**	
One year later		27,906	32,768	12,555	10,325	11,198	5,740	6,037	**3,522**		
Two years later		26,883	26,997	9,434	9,628	4,074	5,577	**4,778**			
Three years later		22,394	30,796	7,079	4,983	2,431	**2,159**				
Four years later		20,126	29,106	4,862	2,803	**2,957**					
Five years later		20,965	28,278	4,803	**4,840**						
Six years later		20,491	28,840	**6,222**							
Seven years later		19,733	**26,500**								
Eight years later		**19,966**									
Nine years later											
Current estimate of cumulative claims cost	516,444	19,966	26,500	6,222	4,840	2,957	2,159	4,778	3,522	7,259	594,647
Cumulative payments	(463,667)	(14,569)	(21,638)	(3,302)	(2,698)	(1,998)	(1,200)	(2,338)	(60)	-	(511,470)
Outstanding claims-undiscounted	52,777	5,397	4,862	2,920	2,142	959	959	2,440	3,462	7,259	83,177
Discount											(10,522)
Claims handling expenses											10,703
Risk margin											23,978
GST											1,456
Total gross outstanding claims											**108,792**

ii) Net	2005 and prior $'000	2006 $'000	2007 $'000	2008 $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	Total $'000
Estimate of ultimate claims cost											
At middle of accident year		0	2,627	947	669	133	1,447	643	-	-	
One year later		8,001	6,406	3,302	1,413	1,867	1,387	1,116	**576**		
Two years later		8,049	3,898	2,422	1,045	1,384	257	**583**			
Three years later		4,711	4,752	3,750	1,740	1,258	**540**				
Four years later		5,047	4,690	2,291	202	**1,949**					
Five years later		5,362	7,112	2,822	**973**						
Six years later		4,901	7,288	**3,041**							
Seven years later		4,750	**6,965**								
Eight years later		**9,501**									
Nine years later											
Current estimate of cumulative claims cost	375,568	9,501	6,965	3,041	973	1,949	540	583	576	-	399,696
Cumulative payments	(367,584)	(4,466)	(6,539)	(2,161)	(194)	(1,167)	(248)	(6)	(5)	-	(382,370)
Outstanding claims-undiscounted	7,984	5,035	426	880	779	782	292	577	571	-	17,326
Discount											(2,046)
Claims handling expenses											7,956
Risk margin											3,567
Total net outstanding claims											**26,803**

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

The claims development of DHF has not been included due to the short tail nature of the business.

Notes to the financial statements

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Note 18. Provisions

	Consolidated		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Restoration provision	1,449	1,223	-	-
Employee entitlements	5,410	4,594	-	-
Provision for reinsurance premiums payable	200	962	-	-
	7,059	**6,779**	**-**	**-**
Current provision	3,624	1,968	-	-
Non-current provision	3,435	4,811	-	-
	7,059	**6,779**	**-**	**-**
Numbers of employees at reporting date	346	311	-	-

a) Information about individual provisions and significant estimates

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

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

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

b) Movement in provisions

	Employee entitlements Current $'000	Provision for reinsurance premiums payable Current $'000	Employee entitlements Non-current $'000	Provision for reinsurance premiums payable Non-current $'000	Restoration provision Non-current $'000	Total $'000
Carrying value 1 July 2013	1,968	-	2,626	962	1,223	6,779
Additional provisions recognised	6,698	-	182	-	-	6,880
Payments	(6,368)	1,498	-	-	-	(4,870)
Increase / (reductions) from remeasurement	178	(1,498)	126	(762)	226	(1,730)
Reclassification*	1,148	-	(1,148)	-	-	-
Carrying value 30 June 2014	**3,624**	**-**	**1,786**	**200**	**1,449**	**7,059**

* Relates to the reclassification of provision for long service leave that were classified in prior year as non-current provision to current provision as a result of the adoption of the amended standard AASB 119 Employee Benefits and AASB2011-10 Amendments to Australian Accounting Standards arising from AASB119 (January 2013).

Notes to the financial statements

30 June 2014

Note 18. Provisions (continued)

c) Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes accrued annual leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service. The entire amount of the provision of $3,624,000 is presented as current, 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 following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

	2014 $'000
Current leave obligation expected to be settled after 12 months	1,448

Note 19. Unearned income

	Consolidated		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Unearned subscriptions	7,547	4,984	7,547	4,984
Unearned premiums	121,175	87,580	-	-
	128,722	**92,564**	**7,547**	**4,984**
Unearned premium liability at the beginning of the year	87,580	96,350	-	-
Deferral of premiums on contracts written in the period	121,175	87,580	-	-
Earnings of premiums written in previous periods	(87,580)	(96,350)	-	-
Unearned premium liability at the end of the year	**121,175**	**87,580**	**-**	**-**

The application of the liability adequacy test in respect of the net premium liabilities identified a surplus at 30 June 2014 and 2013.

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

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

The application of the liability adequacy test in respect of the net premium liabilities identified surplus at 30 June 2014 and 2013.

Notes to the financial statements

30 June 2014

Note 20. Financial risk management

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

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

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

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

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

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

(a) Market risk

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

(i) Interest rate risk

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

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

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

2014		Fixed interest maturing in:				
	Floating interest rate $'000	**1 year or less $'000**	**1 to 5 years $'000**	**Over 5 years $'000**	**Non-interest bearing $'000**	**Total $'000**
Financial assets						
Cash and cash equivalents	102,114	-	-	-	-	102,114
Receivables	-	-	-	-	67,047	67,047
Reinsurance and other recoveries	-	-	-	-	365,521	365,521
Financial assets - investments	73,531	151,918	290,417	77,649	757,279	1,350,794
Total financial assets	**175,645**	**151,918**	**290,417**	**77,649**	**1,189,847**	**1,885,476**
Weighted average interest rate	2.40%	3.18%	3.09%	3.05%		
Financial liabilities						
Payables	-	-	-	-	34,285	34,285
Provisions	-	-	-	-	7,059	7,059
Outstanding claims liabilities	-	-	-	-	762,090	762,090
Total financial liabilities	**-**	**-**	**-**	**-**	**803,434**	**803,434**
Net financial assets	**175,645**	**151,918**	**290,417**	**77,649**	**386,413**	**1,082,042**

Notes to the financial statements

30 June 2014

Note 20. Financial risk management (continued)

(a) Market risk (continued)

(i) Interest rate risk (continued)

2013	Floating interest rate $'000	Fixed interest maturing in: 1 year or less $'000	1 to 5 years $'000	Over 5 years $'000	Non-interest bearing $'000	Total $'000
Financial Assets						
Cash and cash equivalents	84,281	-	-	-	-	84,281
Receivables	-	-	-	-	50,985	50,985
Reinsurance and other recoveries	-	-	-	-	386,519	386,519
Financial assets - investments	96,304	108,258	291,023	101,687	632,400	1,229,672
Total financial assets	**180,585**	**108,258**	**291,023**	**101,687**	**1,069,904**	**1,751,457**
Weighted average interest rate	3.03%	3.50%	3.46%	3.41%		
Financial liabilities						
Payables	-	-	-	-	35,642	35,642
Provisions	-	-	-	-	6,779	6,779
Outstanding claims liabilities	-	-	-	-	787,474	787,474
Total financial liabilities	**-**	**-**	**-**	**-**	**829,895**	**829,895**
Net financial assets	**180,585**	**108,258**	**291,023**	**101,687**	**240,009**	**921,562**

Reconciliation of net financial assets to net assets	**2014 $'000**	**2013 $'000**
Net financial assets as above		
Interest bearing	695,629	681,553
Non-Interest bearing	386,413	240,009
Net financial assets	1,082,042	921,562
Net non-financial liabilities	(134,308)	(81,296)
Net assets	**947,734**	**840,266**

Notes to the financial statements

30 June 2014

Note 20. Financial risk management (continued)

(a) Market risk (continued)

(i) Interest rate risk (continued)

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

		FINANCIAL IMPACT *			
	Movement in variable	Profit / (Loss) 2014 $'000	Equity 2014 $'000	Profit / (Loss) 2013 $'000	Equity 2013 $'000
Interest rate movement – interest bearing financial assets	100 bpt +	(4,762)	(4,762)	(5,030)	(5,030)
	100 bpt -	4,768	4,768	5,036	5,036

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

(ii) Price Risk

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

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

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

The potential impact of movements in the market value of unlisted trusts on the Group's statement of comprehensive income and balance sheet is shown in the sensitivity analysis below. The analysis is based on the assumption that the value had increased/decreased by 20% (2013: 20%) with all other variables held constant.

		FINANCIAL IMPACT *			
	Movement in variable %	Profit / (Loss) 2014 $'000	Equity 2014 $'000	Profit / (Loss) 2013 $'000	Equity 2013 $'000
Unit trusts	20% +	106,099	106,099	89,684	89,684
	20% -	(106,099)	(106,099)	(89,684)	(89,684)

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

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

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Note 20. Financial risk management (continued)

(b) Credit risk

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

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

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

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

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

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

As at 30 June 2014	**CREDIT RATING**					
	AAA $'000	**AA $'000**	**A $'000**	**BBB $'000**	**Not rated $'000**	**TOTAL $'000**
Cash at bank and short-term bank deposits	-	102,114	-	-	-	102,114
Receivables	-	-	-	-	67,047	67,047
Financial assets	250,130	190,073	93,923	17,151	799,517	1,350,794
Reinsurance and other recoveries	316,217	16,597	25,482	-	7,225	365,521

As at 30 June 2013	**CREDIT RATING**					
	AAA $'000	**AA $'000**	**A $'000**	**BBB $'000**	**Not rated $'000**	**TOTAL $'000**
Cash at bank and short-term bank deposits	-	84,281	-	-	-	84,281
Receivables	-	-	-	-	50,985	50,985
Financial assets	273,431	155,850	100,784	20,429	679,178	1,229,672
Reinsurance and other recoveries	341,140	17,749	26,740	-	890	386,519

Notes to the financial statements

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Note 20. Financial risk management (continued)

(c) Liquidity risk

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

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

As at 30 June 2014

	1-3 months $'000	3-6 months $'000	6-12 months $'000	Between 1-2 years $'000	Over 2 years $'000	Total $'000
Payables	34,285	-	-	-	-	34,285
Provisions	-	-	3,624	200	3,235	7,059

As at 30 June 2013

	1-3 months $'000	3-6 months $'000	6-12 months $'000	Between 1-2 years $'000	Over 2 years $'000	Total $'000
Payables	35,641	-	-	-	-	35,642
Provisions	-	-	1,968	962	3,849	6,779

(d) Fair value measurements

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

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

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

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

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

The following tables represent the Group's assets measured and recognised at fair value at 30 June 2014 and 30 June 2013.

As at 30 June 2014	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Financial assets at fair value through profit or loss				
Short duration interest bearing securities	41,888	29,395	-	71,283
Fixed interest securities	6,710	516,430	-	523,140
Unlisted unit trusts	71,162	685,209	-	756,371
	119,760	**1,231,034**	**-**	**1,350,794**

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Note 20. Financial risk management (continued)

(d) Fair value measurements (continued)

As at 30 June 2013	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Financial assets at fair value through profit or loss				
Short duration interest bearing securities	36,146	29,431	-	65,577
Fixed interest securities	17,849	505,413	233	523,495
Unlisted unit trust	-	640,600	-	640,600
	53,995	**1,175,444**	**233**	**1,229,672**

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

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

The following table present the change in level 3 instruments for the years ended 30 June 2014 and 30 June 2013:

Reconciliation of Level 3 transactions	Total $'000
Opening balance at 1 July 2012	159
Transfers out of level 3	74
Closing balance at 30 June 2013	233
Transfers into level 3	(233)
Closing balance at 30 June 2014	**-**

Notes to the financial statements

30 June 2014

Note 21. Equity

	Consolidated 2014 $'000	Consolidated 2013 $'000	Company 2014 $'000	Company 2013 $'000
(a) Reserves				
Business combination reserve				
At the beginning and at the end of the year	**54,598**	**54,598**	**508,602**	**508,602**
(b) Accumulated surpluses				
At the beginning of the year				
- Mutual – Tax exempt	224,799	214,622	10,379	10,493
- Mutual – Taxable	560,869	455,373	857	596
	785,668	669,995	11,236	11,089
Total comprehensive income for the year				
- Mutual – Tax exempt	7,925	10,177	(1,485)	(114)
- Mutual – Taxable	99,543	105,496	593	261
	107,468	115,673	(892)	147
At the end of the year				
- Mutual – Tax exempt	232,724	224,799	8,894	10,379
- Mutual – Taxable	660,412	560,869	1,450	857
	893,136	**785,668**	**10,344**	**11,236**

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

Note 22. Remuneration of key management personnel

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

	Consolidated 2014 $'000	Consolidated 2013 $'000	Company 2014 $'000	Company 2013 $'000
Short-term employee benefits				
Cash salary and fees	5,994	6,227	1,322	1,612
Post-employment benefits				
Superannuation	410	469	96	118
Termination benefits	193	473	85	165
Total remuneration	**6,597**	**7,169**	**1,503**	**1,895**

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

Directors do not receive termination benefits.

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

Notes to the financial statements

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Note 23. Remuneration of auditors

	Consolidated		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Audit services				
PricewaterhouseCoopers Australian Firm:				
Audit of financial reports	625	707	64	64
Other assurance services				
PricewaterhouseCoopers Australian Firm:				
Audit of regulatory returns	110	125	11	11
Other services				
PricewaterhouseCoopers Australian Firm:				
Accounting advice	70	26	-	-
Actuarial services	58	58	-	-
Taxation services	-	-	-	-
	863	**916**	**75**	**75**

Note 24. Commitments for expenditure

	Consolidated		Company	
	2014 $'000	2013 $'000	2013 $'000	2012 $'000
Operating leases				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	4,112	3,489	-	-
Later than one year but not later than five years	4,069	6,852	-	-
Later than five years	-	-	-	-
	8,181	**10,341**	**-**	**-**

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

The lease payments recognised in the Statement of Comprehensive Income were $3,243,337 (2013: $2,873,427).

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Note 25. Related parties

The following persons were Directors of the Company during the financial year ended 30 June 2014 and up to the date of this report (except as noted below):

Professor Simon Willcock (Chairman)[4]

Dr Rosemary Ayton

Mr Peter Beck[2]

Dr Jonathan Burdon

Dr Stephen Clarke

Dr Jan Dudley[3]

The Hon John Fahey

Mr Peter Polson[1]

Dr Beverley Rowbotham

[1] Mr Peter Polson was appointed as a director effective 1 April 2014 and continues in office as at the date of this report.

[2] Mr Peter Beck was appointed as a director effective 1 May 2014 and continues in office as at the date of this report.

[3] Dr Jan Dudley was appointed as a director effective 1 July 2014 and continues in office as at the date of this report.

[4] Professor Simon Willcock was appointed as Chairman on 1 July 2014 following the retirement of Assoc Prof Stuart Boland.

Mr Vyn Tozer was a director from the beginning of the financial year until his retirement on 31 March 2014.

Assoc Prof Stuart Boland was a director from the beginning of the financial year until his retirement on 30 June 2014.

Key management personnel

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

Remuneration

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

Transactions with Directors

For the year ended 30 June 2014, member services provided by the Company were also available to all member Directors on the same terms and conditions available to other members. No member services were provided to the other key management personnel.

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

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

Notes to the financial statements

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Note 25. Related parties (continued)

Group structure

Up to 30 June 2014, the ultimate Australian parent entity within the Group was Avant Mutual Group Limited. Refer to note 26 for the details and ownership interests of the controlled entities of the Company up to 30 June 2014.

Related party transactions

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

(a) A decrease in insurance recoveries paid or payable from AIL to AGHL for the period 1 July 2013 to 30 June 2014 of $51,195 (2013: decrease of $2,732,069) in respect of claims arising from the indemnity risks insured by AIL. Included in outstanding claims liabilities (note 17) is an amount payable to AGHL of $202,169 (2013: $253,364).

(b) Included in reinsurance and other recoveries (note 12) is an amount receivable from AGHL by AIL of $1,591,596 (2013: $1,994,349).

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

(d) The provision of management services by the controlled entity, AIL, for the Company with management fees of $8,803,194 (2013: $7,366,714) paid to the controlled entity.

(e) At 30 June 2014, AIL is due to pay $4,975,748 (2013: pay $708,707) to Avant Law Pty Limited ("Avant Law") for the settlement of inter-company transactions.

(f) At 30 June 2014, AIL is due to pay $13,087 (2013: pay $13,087) to The Medical Defence Association of Victoria Limited ('MDAV') for the settlement of inter-company transactions.

(g) At 30 June 2014, AIL is due to receive $1,462,543 (2013: receive $465,792) from AGHL for the settlement of inter-company transactions.

(h) At 30 June 2014, AIL is due to pay $8,679,962 (2013: pay $7,366,714) to the Company for the settlement of inter-company transactions.

(i) At 30 June 2014, AIL is due to receive $15,202 (2013: receive $6,104) from The Professional Insurance Australia ("PIA") for the settlement of inter-company transactions.

(j) At 30 June 2014, AIL is due to receive $272,224 (2013: receive $236,418) from DHF for the settlement of inter-company transactions.

(k) At 30 June 2014, AGHL is due to pay $nil (2013: pay $2,010,169) to PIA; due to receive $267 (2013: receive $263) from MDAV; due to pay $84,550 (2013: pay $84,550) to UMPNSW for the settlement of inter-company transactions; and due to receive $3,945,968 (2013: pay $514,932) from DHF which includes $4,000,000 that remains receivable of the dividend declared on 21 May 2014, offset by the subsidies for the health insurance premium offered to Avant members and employees who took private health insurance cover with DHF amounting $54,032.

(l) At 30 June 2014, United Medical Protection Limited ("UMP") is due to receive $769,705 (2013: receive $769,704) from AGHL in respect of the intercompany loan paid to AGHL in June 2011 as part of the group capital management capitalisation plan.

(m) As at 30 June 14, the Company is due to receive $517,787 (2013: pay $85,570) from PIA; due to receive $161,578 (2013: pay $114,553) from DHF; due to receive $765 (2013: receive $764) from UMP; due to receive $312,105 (2013: receive $312,087) from MDU; due to receive $376 (2013: receive $376) from UMP NSW; due to pay $36,086 (2013: pay $67,794) to Avant Law; and due to receive $13,433,225 (2013: receive $10,668,875) from AGHL for the settlement of inter-company transactions.

Notes to the financial statements
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Note 26. Investments in controlled entities

Name of Entity	Country of incorporation	Class of shares	Ownership Interest 2014 %	Ownership Interest 2013 %
Avant Group Holdings Limited	Australia	Ordinary	100	100
The Medical Defence Association of Victoria	Australia	Ordinary	100	100
Investments in controlled entities of Avant Group Holdings Limited				
Avant Insurance Limited	Australia	Ordinary	100	100
The Doctors' Health Fund Pty Limited	Australia	Ordinary	100	100
The Medical Defence Union Pty Ltd	Australia	Ordinary	100	100
United Medical Protection of New South Wales Limited*	Australia	-	-	-
United Medical Protection Limited	Australia	Ordinary	100	100
Investments in controlled entities of Avant Insurance Limited				
Avant Law Pty Limited	Australia	Ordinary	100	100
Investments in controlled entities of The Medical Defence Union Pty Ltd				
Professional Insurance Australia Pty Ltd	Australia	Ordinary	100	100

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

Notes to the financial statements

30 June 2014

Note 27. Business combination

a) At the request of the Group, Westpac Banking Corporation Limited has undertaken to pay on demand amounts up to $1,579,728 (2013: $1,579,728) in respect of lease payments payable. This bank guarantee is secured by a fixed charge over the Group's cash deposits.

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

   In June 2003, the insurance agreement between the MDAV and PIA expired and was not renewed. As a consequence pursuant to the conditions of the agreement, the PIA's undertaking is now in 'run-off' and the jointly controlled fund will continue to remain under joint control until a period of seven years. Control of the funds and IBNR obligation reverted back to PIA from 1 July 2012.

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

Note 28. Segment reporting

a) Description of segments

In accordance with AASB 8 Operating Segments, the Group has identified its operating segments based on the reports that are reviewed by the Group Executives and the Group Board of Directors, representing the Group's Chief Operating Decision Maker ("CODM"), in assessing performance and in determining the allocation of resources.

The Group operates in Australia and its revenue is largely derived from the underwriting of professional indemnity insurance and health insurance and from investment activities. The Group's operating segments are determined based on their business activities as described below.

Segment	Business Activities
General Insurance	Provision of professional indemnity insurance products to the healthcare professionals who are primarily members of the ultimate parent company. This involves underwriting of medical and health malpractice and legal expenses insurance policies.
Health Insurance	Provision of health insurance policies to the Australian medical and health practitioner community, principally medical practitioners, their employees and their families.
Other	Comprises other activities, including: - Provision of Mutual Services including member benefits and advocacy on behalf of our members; - Management of investment activities of Avant's members' funds; - Management of run off activities; and - Intra – group elimination entries arising in consolidation.

Notes to the financial statements

30 June 2014

Note 28. Segment reporting (continued)

b) Segment information provided to the CODM

Segment results presented are measured on a consistent basis to how they are reported to the CODM.

- Revenues and expenses occurring between segments are subject to contractual agreements between the legal entities comprising each segment.
- Inter-segment transactions which are eliminated on consolidation are reported on a gross basis.

There are no differences between the recognition and measurement criteria used in the segment disclosures and those used in this financial report.

The segment information provided to the CODM for the reportable segments are as follows:

30 June 2014	**General Insurance $'000**	**Health Insurance $'000**	**Other $'000**	**Total $'000**
Gross written premium	208,313	50,207	(182)	258,338
Movement in unearned premiums	(31,709)	(1,449)	(1,848)	(35,006)
Gross premium revenue	176,604	48,758	(2,030)	223,332
Reinsurance premium expense	(10,829)	-	-	(10,829)
Net premium revenue	**165,775**	**48,758**	**(2,030)**	**212,503**
Gross claims expense	(105,326)	(43,144)	(5,181)	(153,651)
Reinsurance and other recoveries revenue	11,579	1,499	4,525	17,603
Net claims incurred	**(93,747)**	**(41,645)**	**(656)**	**(136,048)**
Acquisition costs	(16,491)	(1,332)	-	(17,823)
Run-off cover scheme (ROCS) Levy	(7,888)	-	-	(7,888)
Other underwriting expenses	(30,980)	(4,052)	(6,846)	(41,878)
Underwriting expenses	**(55,359)**	**(5,384)**	**(6,846)**	**(67,589)**
Underwriting result	**16,669**	**1,729**	**(9,532)**	**8,866**
Investment income	80,870	2,134	60,200	143,204
Other income	19,011	19	(5,511)	13,519
Other operating expenses	(22,356)	-	9,435	(12,921)
Profit before income tax	**94,194**	**3,882**	**54,592**	**152,668**
Income tax expense	(28,486)	(606)	(16,108)	(45,200)
Profit for the year	**65,708**	**3,276**	**38,484**	**107,468**
Segment total assets	**1,353,038**	**42,891**	**515,597**	**1,911,526**
Segment total liabilities	**803,559**	**27,049**	**133,184**	**963,792**
Net assets	**549,479**	**15,842**	**382,413**	**947,734**

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Note 28. Segment reporting (continued)

b) Segment information provided to the CODM (continued)

30 June 2013	General Insurance $'000	Health Insurance $'000	Other $'000	Total $'000
Gross written premium	167,574	31,585	(620)	198,539
Movement in unearned premiums	(66)	9,532	(846)	8,620
Gross premium revenue	167,508	41,117	(1,466)	207,159
Reinsurance premium expense	(11,865)	-	-	(11,865)
Net premium revenue	**155,643**	**41,117**	**(1,466)**	**195,294**
Gross claims expense	(141,023)	(34,677)	11,088	(164,612)
Reinsurance and other recoveries revenue	51,607	813	1,651	54,071
Net claims incurred	**(89,416)**	**(33,864)**	**12,739**	**(110,541)**
Acquisition costs	(14,465)	(1,151)	-	(15,616)
Run-off cover scheme (ROCS) Levy	(7,507)	-	-	(7,507)
Other underwriting expenses	(29,059)	(3,485)	(6,925)	(39,469)
Underwriting expenses	**(51,031)**	**(4,636)**	**(6,925)**	**(62,592)**
Underwriting result	**15,196**	**2,617**	**4,348**	**22,161**
Investment income	76,872	2,412	54,862	134,146
Other income	17,309	27	(4,256)	13,080
Other operating expenses	(18,635)	-	8,628	(10,007)
Profit before income tax	**90,742**	**5,056**	**63,582**	**159,380**
Income tax expense	(27,027)	(938)	(15,742)	(43,707)
Profit for the year	**63,715**	**4,118**	**47,840**	**115,673**
Segment total assets	**1,258,311**	**49,461**	**468,012**	**1,775,784**
Segment total liabilities	**774,540**	**20,895**	**140,083**	**935,518**
Net assets	**483,771**	**28,566**	**327,929**	**840,266**

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Note 29. Reconciliation of profit from continuing operations after income tax to net cash inflow from operating activities

	Consolidated		Company	
	2014 $'000	**2013 $'000**	**2014 $'000**	**2013 $'000**
Profit from continuing operations after income tax	**107,468**	**115,673**	**(892)**	**147**
Depreciation, amortisation and impairment loss	2,402	2,171	-	-
Change in fair value of investments held at fair value through profit or loss	(76,175)	(78,252)	-	-
Fixed assets written off	286	-	-	-
Net movement in amounts due to related parties	-	-	(4,989)	(17,563)
Decrease / (increase) in:				
Receivables	(15,707)	1,428	347	(215)
Reinsurance and other recoveries	20,482	(16,176)	-	-
Deferred expenses	(1,645)	390	-	-
Deferred tax assets	15,874	20,694	18	14
Other operating assets	433	2,473	-	-
Increase / (decrease) in:				
Reinsurance premiums payable	(762)	(2,869)	-	-
Outstanding claims	(25,432)	22,180	-	-
Unearned premiums	35,540	(9,632)	2,563	453
Income tax payable	2,703	17,913	2,703	17,913
Provisions	1,551	1,638	-	-
Other operating liabilities	(1,472)	3,017	282	345
Net cash inflow from operating activities	**65,546**	**80,648**	**32**	**1,094**

Notes to the financial statements

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Note 30. Capital Management

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

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.

In meeting its capital management objectives, the Group allocates its consolidated net assets to a number of purposes including:

a) Capital in APRA regulated insurance subsidiaries (AIL and PIA) held to meet APRA regulatory and target surplus capital requirements within the entities. The amount of capital at 30 June 2014 and its basis for determination is summarised in section (a) below.

b) Capital in DHF held to meet PHIAC regulatory and target surplus capital requirements within the entity. The amount of capital at 30 June 2014 and its basis for determination is summarised in section (b) below.

c) Surplus assets held to support Group business initiatives to enhance and grow its membership offerings and services to policyholders.

In summary, the net assets are allocated to the above objectives as follows:

	$'000
APRA entities' capital base	580,544
DHF capital base	15,842
Other business activities	351,348
Total	947,734

a) APRA Capital Adequacy Multiple

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

Australian Prudential Regulation Authority ("APRA") Prudential Standard GPS 110 Capital Adequacy for General Insurers requires that the Company maintain a capital base in excess of its minimum capital requirement as defined under the Prudential Standard.

Prior to 1 January 2013, the Company operated with a Board approved Capital Management Policy. Since then, a Board approved ICAAP has been in place following the introduction of the new Life and General Insurance Capital standards ("LAGIC"). The ICAAP ensures the Company's capital is managed adequately, in line with its risk appetite, and target capital requirements.

The Company 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, including the capital boundary;
- compliance with the financial requirements of the Australian Financial Services Licence issued by the Australian Securities and Investments Commission; and
- compliance with the capital management framework and strategy of the Group.

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

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

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Note 30. Capital Management (continued)

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

(i) AIL

	2014	2013
	$'000	$'000
Eligible Tier 1 Capital as defined by APRA		
Contributed equity	215,621	215,621
Retained profits[1]	333,858	268,150
Insurance liability surplus (deficit)	11,612	14,013
Total equity	561,091	497,784
Less : APRA deductions	450	4,461
Total APRA capital base	**560,641**	**493,323**
APRA prudential capital requirement	**191,944**	**168,657**
APRA capital adequacy multiple	**2.92**	**168,657**

(ii) PIA

	2014	2013
	$'000	$'000
Eligible Tier 1 Capital as defined by APRA		
Contributed equity	7,510	7,510
Retained profits[1]	10,294	8,835
Insurance liability surplus / (deficit)	2,338	2,337
Total equity	20,142	18,682
Less : APRA deductions	239	241
Total APRA capital base	**19,903**	**18,441**
APRA prudential capital requirement	**8,886**	**8,062**
APRA capital adequacy multiple	**2.24**	**2.29**

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

Insurance Liability Surplus

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

(i) GPS 210 requires a prudential margin with a probability of sufficiency of 75% (the level adopted by the Company for accounting purposes is 85% (2013: 85%) for AIL and 99.5% (2013: 99.5%) for PIA ; and

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

Notes to the financial statements

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Note 30. Capital Management (continued)

b) PHIAC Solvency Requirement

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

The Company has a comprehensive Internal Capital Adequacy Assessment Process which documents the various practices governing the management of capital. The policy articulates the Company's tolerance to capital-related risk and also how the Company manages these risks within the capital management framework.

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

The following table shows the capital adequacy calculated in accordance with the PHIAC prudential standards.

	2014	2013[1]
	$'000	$'000
Total assets	41,177	49,276
Total liabilities	25,335	20,711
Net assets[2]	**15,842**	**28,565**
PHIAC capital adequacy reserve	**7,060**	**6,838**
PHIAC capital adequacy multiple	**2.24**	**4.18**

[1]The capital adequacy reserve disclosed for 2013 is based on prior PHIAC prudential capital standards, and therefore not directly comparable to the current year.

[2]Net assets as at June 2014 have been impacted by the $16m dividend declared during the year. In the absence of this declaration the capital adequacy multiple would be 4.5.

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Note 31. Events occurring after the reporting date

a) Loyalty reward plan

In the context of the Group's continuing sound financial performance and financial strength, the Directors of Avant Mutual Group Limited ("Avant") asked the Directors of Avant Insurance Limited to consider continuing the Loyalty Reward Plan (LRP) for members who renew during calendar year 2015.

Following this request, the Directors of Avant Insurance Limited resolved to continue the LRP at between 6.0% and 15.0% (2013: between 6.0% and 15.0%) depending on the members number of years of loyalty to Avant, plus a further 10% uplift (ie total of between 6.6% and 16.5%) if the member also holds a DHF Health Insurance policy.

b) Dividend paid by a subsidiary

On 10 July 2014 Avant Insurance Limited declared a dividend of $285,000,000 payable to Avant Group Holdings Limited (AGHL).

c) Intercompany capital undertakings

As part of a group-wide initiative to centrally manage capital, on 8 July 2014, the Group agreed to support capital undertakings from the Company to AGHL in support of AGHL's capital undertakings to AIL of $90,000,000 and to DHF of $10,000,000.

The capital undertaking from the Company to AGHL and from AGHL to AIL provide additional financial support to a maximum of $90,000,000 in the event that AIL's regulatory capital adequacy multiple falls below a minimum ratio of 1.5.

The capital undertaking from the Company to AGHL and from AGHL to DHF provide additional financial support to a maximum of $10,000,000 in the event that the DHF's regulatory capital adequacy multiple falls below a minimum ratio of 1.5.

d) Commencement of the Retirement Reward Plan

On 7 August 2014, the Company announced the launch of its Retirement Reward Plan (RRP) with the effective date of 1 July 2014. The RRP is intended to reward eligible members for their loyalty to the Group by way of a dividend upon permanent retirement from medical practice. Eligibility for the retirement reward dividend is assessed by the Company's directors as at 30 June and in accordance with the RRP Allocation Rules. The Directors of the company have sole discretion as to whether a dividend will be paid in any particular year, and the quantum of that dividend. The decision whether or not to declare a retirement reward dividend will be made at the Board meeting at which the Group's financial statements are approved, which is typically in September.

The Company has notionally contributed $300 million of the Group's capital for the purposes of the RRP. This amount is supported by the proportion of the Group's net assets that exceed the capital held in the regulated insurance subsidiaries of the Group and any intercompany capital undertakings.

For illustrative purposes, the allocation of the Group's net assets at 30 June 2014, had the post balance date announcements of the RRP, the intercompany capital undertakings and the dividend already been in place, would have been as follows:

	$'000
APRA entities' capital base	284,896
DHF capital base	15,842
Intercompany undertakings	100,000
Other business activities including RRP	546,996
Total	947,734

Notes to the financial statements

30 June 2014

Note 31. Events occurring after the reporting date (continued)

d) Commencement of the Retirement Reward Plan (continued)

As the directors maintain the sole discretion to declare the RRP dividends, the Company does not carry a present obligation to provide any amounts at balance date other than any declared dividend amounts in the period that have not yet been paid at balance date.

As the RRP commenced effective 1 July 2014, there is no financial impact on the financial statements at 30 June 2014 and no declarations of dividends have been made at the date of this report.

The first dividend declaration will be considered in September 2015 and, if appropriate, paid in October 2015.

The RRP Allocation Rules are available on the Group's website (www.avant.org.au).

e) Other

Other than those described above, no other matter or circumstance has arisen since 30 June 2014 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.

Directors' Declaration

Directors' Declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 11 to 61 are in accordance with the *Corporations Act 2001*, including:

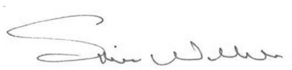
 (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

 (ii) giving a true and fair view of the Company's and Group's financial position as at 30 June 2014 and of their performance for the financial year ended on that date; and

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

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

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



Professor Simon Willcock
Chairman
Sydney
7 October 2014

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

Report on the financial report

We have audited the accompanying financial report of Avant Mutual Group Limited (the company), which comprises the balance sheet as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Avant Mutual Group Limited and Avant Mutual Group Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1 a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

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

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

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

Independence

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

Auditor's opinion

In our opinion:

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

- (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2014 and of their performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

PricewaterhouseCoopers

S Fergusson
Partner

Sydney
7 October 2014

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Avant Mutual Group Limited

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