2017/18

Annual Report

Medical Indemnity Protection Society Ltd

Annual Report
30 June 2018

Medical Indemnity Protection Society Ltd and its subsidiaries

(Limited by guarantee and shares) ACN 007 067 281

This annual report covers Medical Indemnity Protection Society Ltd as an individual entity and the group consisting of Medical Indemnity Protection Society Ltd and its subsidiaries ('Group').

Medical Indemnity Protection Society Ltd is a company limited by guarantee and shares, incorporated and domiciled in Australia. Its registered office and principal place of business is: Level 37, 55 Collins Street Melbourne VIC 3000 Australia.

A description of the nature of the group's operations and its principal activities is contained in the 'Directors' report' section of this report. The financial report has been authorised for issue by the directors on 26 September 2018.

General and membership enquiries

1800 061 113
(+613 8620 8888 outside Australia)
info@mips.com.au

24-hour Clinico-Legal Support

1800 021 223
(+613 8620 8829 outside Australia)
claims@mips.com.au

Postal address

PO Box 24240
Melbourne VIC 3001

mips.com.au

Medical Indemnity Protection Society Ltd (MIPS) ABN 64 007 067 281 is an Australian Financial Services Licensee (AFSL 301912).

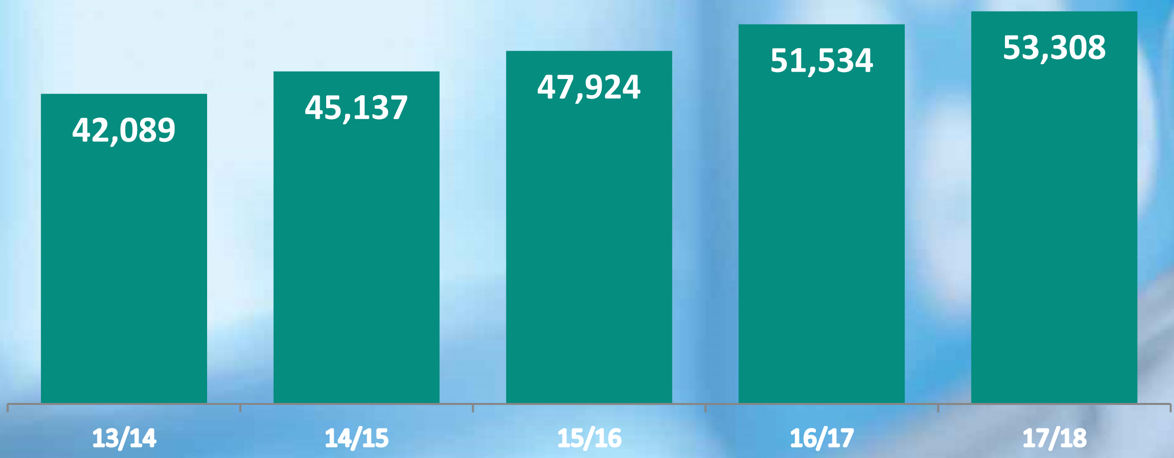
MIPS Insurance Pty Ltd (MIPSi) ABN 81 089 048 359 is a wholly owned subsidiary of MIPS and holds an authority issued by APRA to conduct general insurance business and is an Australian Financial Services Licensee (AFSL 247301).

Contents

Highlights 2017/18

The number of members increased 3.4% to 53,308.

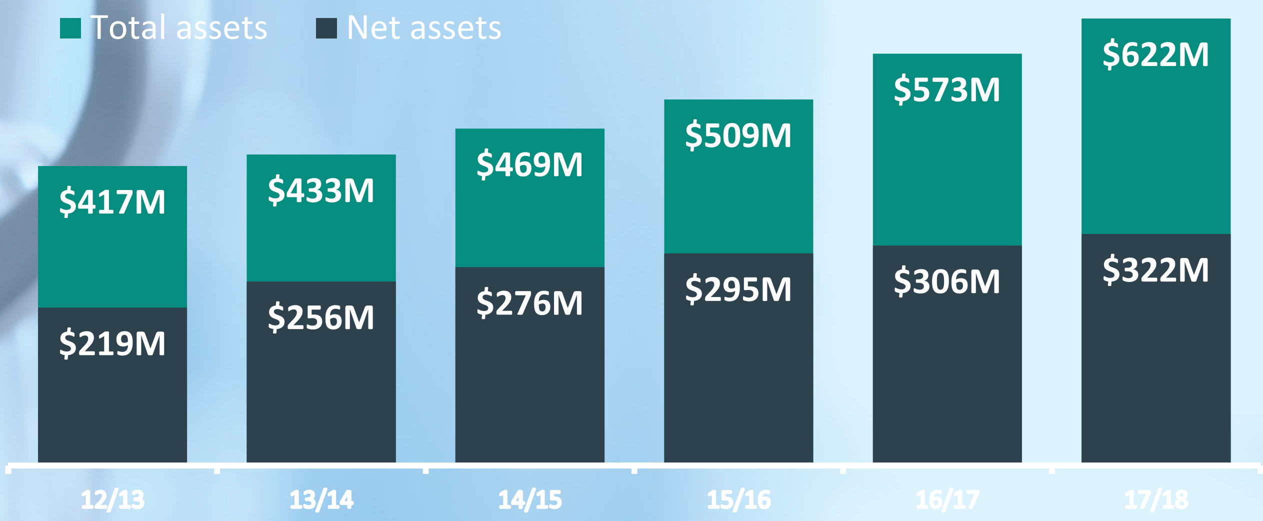
Student membership increased by 4.2% to 20,829



Maintained insurance solvency ratio well above industry average

MIPS responded to 5,066 notifications including 279 that escalated to claims

Increase in total assets of $49M (8.5%) and increase in net assets of $16M (5.3%)



Our vision

To provide on-going security through excellence and efficiency in the delivery of services and benefits

Our mission

To be the pre-eminent not-for-profit provider of membership benefits to healthcare practitioners

About the directors

Chairman

Mr Gary Speck

AM, MBBS, BMedSc (Hons), FRACS, FAOrthA, FAMA, GAICD

Gary was appointed to the position of Chairman of MIPS on 1 July 2016. Gary obtained his qualification as an orthopaedic surgeon, FRACS (Orth) in 1983 and has specialised his practice to treatment of spinal disorders. He is an active member of the Spine Society of Australia, Australian Orthopaedic Association, North American Spine Society and Royal Australasian College of Surgeons (RACS). He is a director of MIPS Insurance, a director and past vice-president of AMA and past director and past vice-president of AMA Victoria, chairing its TAC Worksafe Committee and the Joint LIV-Bar Council-AMA Committee. He was a member of the Health Innovation and Reform Council (of the Government of Victoria, advising the Health Minister) and Chairman of its Standing Committee on Health Quality, Safety and Outcomes from 2012 to 2015, and continues advisory roles to government. In 2014 he was appointed a Member of the Order of Australia (AM) for significant service to medicine as an orthopaedic surgeon, and to professional organisations.

Managing Director

Dr Troy Browning

MBBS, MBA, Grad Dip Ins GAICD, ANZIIF (Fellow), CIP, FAIM

Troy graduated with a Bachelor of Medicine and Surgery from Sydney University in 1984 and went on to private practice in the northern suburbs of Sydney. His involvement in the medical indemnity industry began in 1995 when he was appointed as a Medico-legal Advisor and Claims Manager in the Australian operations of The MDU (Medical Defence Union) UK. In 1997 he joined a Melbourne-based professional services group providing expertise and back-office support to a number of medical defence organisations and their shared insurer. Troy was an inaugural director of the Board of Health Professionals Insurance Australia, later renamed MIPS Insurance. He was appointed as MIPS Group CEO in 2005 and in 2010 was appointed as Managing Director of MIPS, whilst continuing his role as MIPS Insurance CEO. He is a member of the Privacy and Security Committee of the Australian Digital Health Agency and Chairman of Asclepius Underwriting Pty Ltd.

Mr Kerry Roxburgh

BCom, MBA, MeSAFAA

Kerry is a director of a number of companies, including two listed public companies. He is Chairman of the Eclipx Group and a non-executive director of Ramsay Health Care. He is Chairman of Tyro Payments Ltd. He was one of the founders of online stockbroker E*Trade Australia, where for three years he was the chief executive prior to becoming chairman, a position he held from 2000-2007, when it was acquired by the ANZ Bank. Prior to E*Trade, Kerry spent 10 years as an executive director of the Hong Kong Bank of Australia Group (now HSBC), including five years as managing director of that bank's corporate finance subsidiary. Kerry qualified as a chartered accountant in 1969 and has experience in the financial management of the insurance, healthcare, technology, property and resource sectors.

Dr Bruce E Taylor

MDSc, LDS, FRACDS, FADI, FICD, FPFA, GAICD

Bruce graduated BDSc from the University of Melbourne in 1973, and entered private practice for six years. Since gaining his MDSc in 1981, he practised as a specialist orthodontist in private practice in Melbourne. In 2017 he ceased his 40 year association with the University of Melbourne as a part-time senior lecturer and consultant. He is a past president and life member of the Australian Dental Association (Vic). Bruce was a director of the Australian Dental Council for 10 years and is past chairman of the Policy Advisory Committee of the Professional Provident Fund. Based in Melbourne, he is a Director of Victorian Medical Insurance Agency Ltd and Chairman of MIPS Insurance Pty Ltd.

Clinical Professor Leanne Rowe AM

MBBS, MD, FRACGP, FAICD, HonLLD Monash

Leanne is a general practitioner, who has served as a non-executive director on 15 diverse boards over the last 25 years. Her past positions include Deputy Chancellor of Monash University, Chairman of the Royal Australian College of General Practitioners, and non-executive director of Medibank Private, beyondblue: the national depression initiative and I-MED Radiology Network. She has also served on a number of community foundations as well as government taskforces related to suicide prevention, medical workforce and detention health. Her clinical leadership has been recognised by an Order of Australia for service to medicine, 'The Rose Hunt Medal' and 'The College Medal' by the Royal Australian College of General Practitioners, 'Best Individual Contribution to Health Care in Australia' by the Australian Medical Association, and a Doctor of Laws (honoris causa) by Monash University. Her international book 'Every Doctor: Healthier Doctors = Healthier Patients' was published in 2018.

Mr Charles Steadman

Assoc Prof, MBBS, MD, FRACP, FAICD, AGAF

Charles graduated in medicine from the University of Queensland in 1980. After service as a rural medical practitioner he trained in internal medicine and gastroenterology at the Princess Alexandra Hospital in Brisbane and then was a Fulbright Scholar at the Mayo Clinic in the USA. He returned to Australia as Director of Gastroenterology and Hepatology at Princess Alexandra Hospital and later entered private specialist practice in Brisbane. He is a Fellow of the Australian Institute of Company Directors, Associate Professor of Medicine with the University of Queensland, a director of Queensland Doctors' Mutual Pty Ltd and Queensland Gastroenterology Pty Ltd. Charles was a director and Honorary Treasurer of the Royal Australasian College of Physicians and has served overseas as an ADF medical officer.

Ms Sue Carter

BA (Hons), Grad Dip (App Fin & Invest), MAppSci, ACA (UK), FAICD

Sue is a professional non-executive director and a consultant in corporate governance and board effectiveness. She is an Australian Institute of Company Directors Facilitator in directors' duties, financial reporting, decision making and board processes. She qualified as a Chartered Accountant with KPMG in the UK and holds a BA(Hons) in Economics and History together with a Master of Applied Science in Organisation Dynamics. She is a past ASIC Regional Commissioner for Victoria and a past director of the Professional Indemnity Insurance Company Australia. Sue is currently a non-executive director of ANZ Australian Staff Superannuation Pty Ltd, First State Super, First State Super Financial Services, Protect Services and the Australian Psychological Society. She is also Chair of the Compliance Committee of BlackRock Investment Management (Australia).

Mr Anthony Mason

BSocSC, FIA, Hon FFFLM

For 27 years Tony was a consulting actuary with the partnership Lane Clarke and Peacock (LCP), the largest independent actuarial consultancy in the UK. Between 1996 and 2007 he was LCP's managing director. Since 1983 he has specialised in the area of medical negligence and his clients included the worldwide operations of Medical Protection Society (MPS) and the NHS Litigation Authority in England, plus many other governments and international insurers. From the mid 1980s he was heavily involved in advising medical defence organisations in Australia and in 1988 became the consulting actuary to MIPS until he left LCP to become the CEO of MPS in 2007. Since retiring from MPS, he now does part-time international consultancy for Medical Protective in the USA and he became a non-executive director of MIPS Insurance in 2012. In 2011 he was made an Honorary Fellow of the Faculty of Forensic & Legal Medicine.

Chairman's report

To the Members of Medical Indemnity Protection Society Ltd (MIPS)

As a result of your continuing support, this year has again been a success and we thank you. In a rapidly changing world, here at MIPS we understand that you, our Members are managing the ever-increasing patient and community expectations, demanding greater accountability.

These past 12 months, MIPS engaged with many members in need of our assistance; with their claims and in advisory matters supported by our clinical advisors and staff at four centres throughout Australia.

MIPS's mission is to be the pre-eminent not-for-profit provider of membership benefits to healthcare practitioners. Our range of member benefits are designed to meet the needs of members throughout the various stages of their professional career. These include their medical indemnity insurance (essential for practice), members' practice entity insurance, members' practice entity cyber cover, privacy and media insurance, "MIPS Protections" and risk education including 24-hour clinic-legal assistance provided by the MIPS team of health professionals. This year we added financial products, private health insurance and individual counselling.

Full details of members benefits are available in the MIPS Membership Benefits Handbook and the Members' Insurance Covers Handbook.

MIPS's vision is to provide on-going security through excellence and efficiency in the delivery of services and benefits. This past year we have advocated on behalf of members for continuing, appropriate government support that encourages sound medical practice. With the level of public expenditure coming under scrutiny, we actively represented your interests over the past 12 months in the health care sector, with government, with professional working parties and in advisory committees.

This year, net claims incurred by our wholly owned APRA regulated insurer were lower than last year and MIPS Group's financial position remains extremely sound. This year, MIPS Group's financial position was strengthened by the addition of $16.4 million to members equity. At 30 June 2018, MIPS Group had total assets of almost $622 million with members equity of $322 million. MIPS is strongly capitalised and with a low operating expense ratio of just 24.16%, MIPS is extremely well placed to support each one of its members, in their time of need.

This year's Annual Report, including the statutory financial statements, provides full details of MIPS Group's financial performance for the year.

Looking to the year ahead, as a not-for-profit mutual, MIPS's principal focus is on preservation of your capital. As Australia's population ages, bringing with it growing demand for chronic disease management, MIPS has a deep understanding of the health care sector demands and challenges that lie ahead. We have been and will be continuing to build our capacity to come to your defence in matters of claims, of complaints, of disciplinary proceedings, at inquests, at inquiries and where there emerges any adverse regulatory proposal.

MIPS is always available to advocate in its members' interests and we always welcome your feedback and inquiries.

MIPS's successful and efficient delivery of membership benefits would not have been possible without its strong management and its competent and understanding staff members. On behalf of our Board, I express my thanks to MIPS Managing Director, Dr AT Browning, to the Heads of all Divisions, and to their staff for their dedication and for their outstanding performance in the interests of MIPS members.

Finally, I thank all my fellow MIPS Group board members for their enthusiastic contributions and support this year, ensuring we continue meeting your needs, whilst satisfying the objects of the MIPS Constitution.

Mr Gary Speck

Chairman
MIPS
26 September 2018

Managing Director's report

Membership

MIPS has achieved an overall increase in total membership (including students) of approximately 3.4% (including a 2.9% increase in non-student members). Total membership as at 30 June 2018 was 53,308.

Obligations to members

MIPS obligation is to its 53,308 members and this obligation is always 'front of mind' in all our decisions. For that reason, MIPS in accordance with its Constitution and Objects to promote honourable and discourage dishonourable practice, continues to carefully consider initial membership and subsequent annual membership renewal application invitations to ensure the membership as a whole is protected from adverse outlier behaviour.

All new and renewal membership applications are carefully considered on the basis of constitutional fit. Applicants for MIPS membership are expected to contribute to MIPS Objects particularly in respect of promotion of honourable and discouragement of irregular practice.

Through this MIPS membership is enhanced and members and the wider community benefit through minimising actual or perceived patient harm with its associated, often significant, personal and financial consequences. Acceptance into MIPS membership is to be considered a significant professional achievement.

MIPS' concerns for members

The High Cost Claim Scheme ("HCCS") was introduced in 2003. Under the Scheme the Commonwealth Government makes a 50% financial contribution per practitioner in relation to each claim in excess of the HCCS threshold, which is currently $300,000. For matters reported on or after 1 July 2018, the HCCS threshold will be $500,000, an increase from the previous threshold of $300,000 that had been in operation. This change had a significant impact – an increase of over 6% on average - on the premium that would have otherwise been required to be charged for 2018/19.

MIPS has continued to press its long held view that any reduction in the HCCS funding should be re-allocated to the Premium Support Scheme (PSS), for the benefit of members and the wider community, while allowing the Government to better align the PSS with its social policy objectives, especially ensuring affordable and equitable access to healthcare for all patients.

Advocacy and representation

MIPS continued its role of advocacy in respect of matters that affect members. MIPS participated in a range of working parties and committees.

MIPS also contributed to a number of other submissions and discussions, which ensured, that its views on matters that may affect members were heard.

Perhaps the most important of these was in respect of the Federal Government's 'First Principles Review of the Medical Indemnity Insurance Schemes' to ensure that members and the community were not disadvantaged and that the consequences of changes had been carefully considered on a holistic basis,

MIPS submission is available on the MIPS website.

MIPS' role

MIPS' role is governed by the MIPS Constitution where by MIPS exists to:

- support and protect the character and interests of legally qualified health care practitioners and of persons legally entitled to practice medicine, surgery or a related health care discipline
- support and protect the character and interests of members
- promote honourable and to discourage irregular practice
- consider, originate, promote and support, or oppose legislative or other measures affecting members.

All MIPS activities or proposed activities reflect the Objects of MIPS' Constitution.

Financial Results

MIPS continues to maintain a prudent claim reserving policy. MIPS is mindful of the limitations inherent in long-tailed medical indemnity actuarial modelling of claims reserving with the ongoing potential for significant volatility in ultimate claim outcomes. As a result, MIPS continues to reserve outstanding claims liabilities at a higher level of sufficiency than that required under the Australian Prudential Regulation Authority (APRA) prudential standards.

The year's claims expense and net claims incurred actuarial valuations show an improvement in the run off of prior year's incurred claims.

MIPS members should be confident that careful claims reserving by MIPS Insurance provides members with additional confidence that their medical indemnity provider will be around and be adequately funded over the long period typically required to finalise medical indemnity claims.

The financial results for the MIPS Group for the year to 30 June 2018 include:

- $49 million increase in total members' assets to just under $622 million
- $16 million increase in members' equity (net assets) to $322 million
- further increase in member numbers to 53,308 at 30 June 2018
- capital adequacy ratio of 4.65 which significantly exceeds both the minimum APRA Prudential Capital Requirement (PCR) ratio of one and the general industry average.

The most significant contributors to the year's result compared with the prior year were:

- an improved claims result (Note 21)
- an improved investment result.

Membership subscriptions are individually calculated and reflect factors such as the exposure each member has to claims arising from their current and past practise including geographic locations of that practise. Subscriptions continue to be calculated from the ground up each year to ensure MIPS can continue to provide members with the very high levels of service and security they require on an on-going, stable and sustainable basis.

When setting subscription rates for members, we consider trends in past claims experience, investment performance and any changes in legislation that could affect the level of court awards or one of the government support schemes. That means a deterioration in claims experience or a reduction in investment returns or a reduction in government support, eg. HCCS, will require will require an increase in the overall membership subscription pool from that which otherwise would be required.

Increases in members' equity allows greater investment income which in turn reduces the subscriptions that otherwise would have been required.

MIPS has in place comprehensive reinsurance arrangements that reduces its exposure to the adverse effects of claims. This is particularly important for the relatively infrequent but high value nature of medical indemnity claims. MIPS reinsurance arrangements help protect members' capital and decrease the potential for volatility in the financial results. Through such mitigation, MIPS provides both very high levels of financial security and improved financial stability for members.

Remuneration of staff and directors

Remuneration of the Boards and Management complies with APRA Prudential Standard CPS 510 and reflects external independent expert advice that includes consideration of appropriate periodic external benchmarking analysis.

All MIPS staff continue to be remunerated by fixed market based salaries. No bonus or incentives based pay structures are utilised. MIPS believes that it is important to avoid any potential for perverse financial or other incentives that could risk adversely affecting the quality of services provided to members, or the objectivity and accuracy of the information provided to prospective members of MIPS that is relied on to help make an informed decision about whether to apply for membership of MIPS or not.

Membership benefits are designed to meet members' needs

MIPS offers a range of membership benefits. These include MIPS operating as a buying group for members in respect of the medical indemnity, practice entity and personal accident insurance master policies and Member's practice Cyber, Privacy and Media Insurance policies it purchases. The range of membership benefits are designed to efficiently and effectively meet the needs of members.

MIPS also offers 24-hour clinico-legal assistance (from expert clinician peers), discretionary MIPS Protections for non-clinical indemnity matters arising from your professional and employment risks, as well as a range of other benefits.

Education and Professional Development are important areas of members' needs and MIPS' focus is to help avoid adverse outcomes to patients and minimise the risks that members face from complaints and regulatory body investigations. MIPS is an accredited professional development provider and offers a range of workshops, webinars, on-demand education and practice notes that members can access as a benefit of membership.

Concerned about members' health and wellness MIPS has formed an association with Australian Unity, also a mutual organisation, that allows eligible members access to the MindStep programme. This programme provides members with objective insights into issues of stress and anxiety without the additional concerns of mandatory AHPRA reporting.

Financial literacy is an increasingly important aspect of professional life. Low financial literacy can lead to poor choices and adverse consequences. Financial stress is often corrosive to family relationships and to professional conduct – in some cases leading to inappropriate patient care; fraud and over-servicing. MIPS primary approach to support and protect members in this area is to inform and empower them through financial literacy education and resources.

The MIPS *Membership Benefits Handbook* and *Members' Insurance Covers Handbook* provide further details.

Summary

I would like to thank the support from the Board and Heads of Divisions and their staff. Although MIPS and its members face continued uncertainties MIPS is well placed to continue to provide ongoing security and certainty to members.

Dr AT Browning
Managing Director
MIPS
26 September 2018

Governance

The key governance structures within the MIPS Group are:

- MIPS Board
- MIPSi Board
- Group Audit and Compliance Committee (GACC)
- Group Risk Committee (GRC)
- Group Investment Committee (GIC).

The MIPS and MIPSi boards have significant depth and breadth of director experience. This includes medical, dental, hospital, legal, accounting, insurance, capital markets and other financial sector corporate governance, executive and Board expertise and experience.

The MIPS and MIPSi boards are supported by the GACC, GRC and GIC whose members have the relevant skills and experience comprising the independent non-executive directors of both boards.

A sound corporate governance structure continues to protect members' interests through risk management and compliance management frameworks. These governance structures ensure that the MIPS Group adequately addresses its compliance related risks and meets appropriate prudential, statutory and other obligations and standards. Internal audit and the MIPS Group Investment Committee are also important elements of the governance structure.

Risks confronting the MIPS Group are regularly reviewed by management on an inherent and residual basis, and risk controls are rated according to management's assessment of their effectiveness. Strategies are developed to manage risks as appropriate.

Group Audit and Compliance Committee (GACC)

GACC is made up of independent directors, and is responsible, through management, for monitoring compliance with the Boards' policies, as well as prudential and statutory requirements.

GACC reports to the Boards on:

- the effectiveness of the internal audit program
- adherence to the compliance plan each quarter, or more frequently as required.

The members of the GACC are detailed in the Directors' report.

The GACC meets throughout the year and in carrying out its duties, monitors, reviews and approves processes used to:

- ensure the integrity of all financial and management information upon which the Boards rely
- maintain an effective and efficient control and risk management environment
- ensure the MIPS Group meets the requirements of the Appointed (external) Auditor's program and undertakes appropriate actions in response to the Appointed Auditor's report
- ensure the MIPS Group complies with the relevant regulatory requirements.

Group Risk Committee (GRC)

The GRC's primary responsibility is reviewing and monitoring the MIPS Groups Risk Management Strategy and Enterprise Risk Management processes.

The GRC meets throughout the year and in carrying out its duties, monitors, reviews and approves processes used to identify any potential higher risk areas within the MIPS Group's operations and verify the integrity, relevance and effectiveness of the executive management of those risks, including the risks associated with:

- financial systems
- governance
- insurance claims
- investment
- legal and compliance obligations
- risk management systems
- people
- technology.

Chairman GACC & GRC
Norman Newbon

Group Investment Committee (GIC)

The Group Investment Committee (GIC) is a Board and Management committee and is responsible for monitoring, guiding and making recommendations to the Boards regarding investment matters. The GIC comprises four non executive directors, the Managing Director/Chief Executive Officer and Chief Financial Officer (CFO).

The day to day administration of the investment portfolio is undertaken by the CFO and the Finance Division in conjunction with the MIPS Group appointed external Investment Manager.

The GIC meets formally throughout the year however matters are also routinely and regularly communicated and discussed using telephone and email outside of those scheduled meetings.

In carrying out its duties the GIC:

- reviews and recommends to the Boards any changes to the investment objectives, the investment risk appetite, policies and strategic asset allocation ranges, targets and performance benchmarks
- reviews and recommends to the Boards any additional investment sectors or classes of securities
- regularly reviews the appropriateness of the mandate of the external investment manager
- reviews the past 12 months' performance of both internal and external investment management processes against relevant benchmarks
- reviews and considers the tactical asset allocation and recommends to the Boards any changes
- recommends to the Boards the appointment or termination of external investment managers
- at least quarterly, meets formally with the external investment manager
- reviews the effectiveness of the investment risk management procedures
- considers whether there should be any variations to the approved asset allocation ranges
- considers what systems have been formulated by the MIPS Group to monitor compliance with legislative, regulatory and internal investment policies
- considers what measures are being taken by the MIPS Group to ensure assets are managed in accordance with investment mandates and benchmarks approved by the Boards

- considers what internal and external audit checks were made on the asset registration, and the investment policies and procedures of the MIPS Group and their findings over the past 12 months.

The GIC continues to closely monitor the investment market and MIPS has maintained a positive investment return that is higher than budgeted. The GIC will continue its ongoing review of the MIPS Group's investments in order to best manage members' funds into the future.

Kerry Roxburgh
Chairman of the Group Investment Committee

Internal audit

The Internal Auditor is an in-house appointment that also utilises the services of external providers of internal audit services as and when required.

Internal Audit provides independent and objective assurance and consulting services, designed to add value and improve the efficiency and effectiveness of the MIPS Group's operations.

Internal Audit's objective is to determine that the enterprise risk management framework, control and corporate governance processes are adequate and are functioning as intended. Internal Audit provides assurance to the GACC, GRC and the Boards that:

- risks are appropriately identified and managed
- significant financial, managerial and operating information is accurate, reliable and timely
- significant legislative or regulatory issues impacting the MIPS Group are recognised and addressed appropriately
- employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations
- resources are acquired economically, used efficiently and adequately protected
- programs, plans and objectives are achieved
- quality and continuous improvement are fostered in the MIPS Group's control process
- interaction with the various governance groups occurs and is effective, as needed.

Management of MIPS

In order to safeguard the MIPS Group and to provide assurance of it's compliance with the large number and wide range of regulatory and legal requirements, MIPS has a number of internal committees which oversee its daily operations and ensure transparency and efficiency.

Membership Assessment, Acceptance and Advisory Committee

The Membership Assessment, Acceptance and Advisory Committee ('Membership Committee') considers membership matters within the authority delegated by the MIPS Board and the terms of the MIPS Constitution.

The Membership Committee consists of senior executive staff. In addition to daily consideration of new member applications by a sub-committee, a formal meeting of the full Membership Committee is usually held each week.

At formal weekly meetings, the Membership Committee reviews exceptional or complex matters. Matters for consideration by the Committee may also include new membership categories or practice arrangements.

During the year the Membership Committee formally considered over one thousand matters. Some of the issues considered related to:

- risk transfer by public and private sectors to members
- telehealth
- new procedures and treatments.

The Committee helps to ensure that members and MIPS members' assets are protected by ensuring patients are protected from potentially, avoidable adverse outcomes. MIPS continues to act in accordance with the MIPS constitution 'to promote honourable and discourage irregular practice'.

Regular matters considered by the Membership Committee include:

- large numbers of members seeking extension and confirmation of their benefits of membership to undertake:
    - provision of gratuitous services for overseas volunteer work
    - therapeutic trials and clinical studies
- members seeking confirmation that they hold appropriate qualifications, training and experience for intended practice
- membership category enquiries and clarifications including practising, Extended Reporting Period (ERP) and Run-Off Cover Scheme (ROCS)
- queries regarding practice entity structures.

The Membership Committee also considers other matters referred by member services officers for consideration such as applications by members to vary their retroactive cover date and membership category selection.

Prior to membership renewal each year the MIPS Membership Committee conducts a pre-renewal review of MIPS members' claim and incident notifications as well as those on manual review. MIPS members identified by that process who display abnormal practice profiles may:

- be counselled and/or be advised of changes to their membership terms and condition; and/or
- have practice restrictions imposed; and/or
- be advised that they will not be provided an invitation to apply for membership renewal and/or be advised that their application for membership renewal will not be accepted.

Responsible Managers' Committee

The MIPS Group holds three Australian Financial Service Licences (AFSL's) – being for MIPS, MIPSi and for Asclepius Underwriting Pty Ltd.

AFS licensees must have and maintain organisational competence to provide the financial services covered by their licenses.

MIPS' Responsible Managers ensure that the MIPS Group meets these organisational competence obligations by:

- being directly responsible for significant day to day decisions about the ongoing provision of financial services
- having the appropriate knowledge and skills for all MIPS Group financial services and products, and
- individually demonstrating the required knowledge and skills.

Responsible Managers Committee meetings are held monthly and any matters identified at the meetings which may have a material impact on MIPS being able to maintain its organisational competence or any other material matter, will be reported to the Group Audit and Compliance Committee or Group Risk Committee.

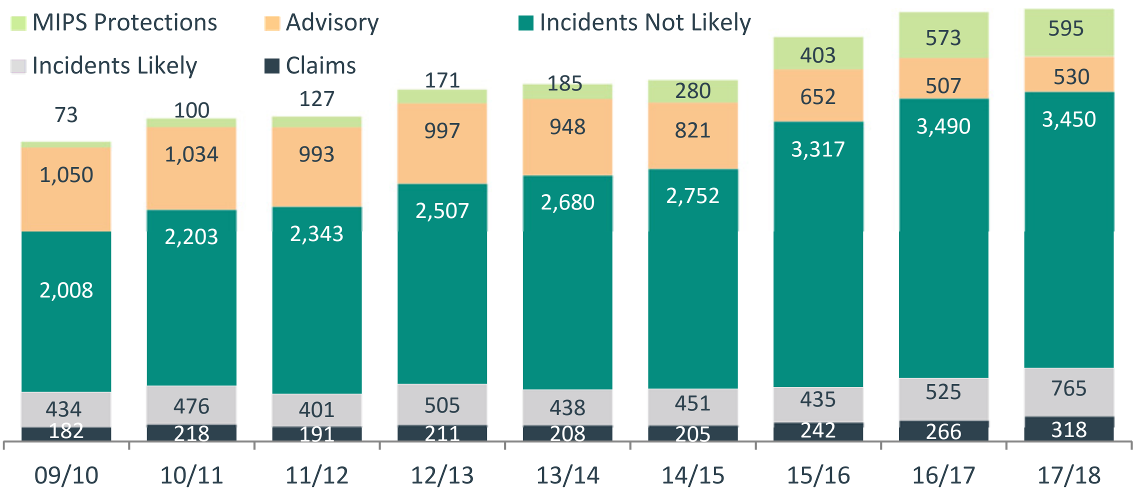
Member support and claims

MIPS is committed to providing a range of benefits to members to meet their needs in accordance with the MIPS constitution. These include:

- MIPS Members' Medical Indemnity Insurance Policy
- MIPS Members' Practice Entity Policy (non-student members only)
- MIPS Members' Group Personal Accident Policy*
- Cyber, Privacy and Media Cover
- 24-hour Clinico-Legal Support
- MIPS Protections
- Risk management workshops and webinars
- Medico-legal seminars and training
- Online risk management modules
- Access to the MindStep programme
- Financial literacy education and resources
- MIPS Review newsletter.

*This policy applies differently in some situations: Student and recent graduate member receive communicable diseases (eg HIV) cover. Student members receive travel cover where the main purpose of travel is to complete an approved student elective. See the *Membership Benefits Handbook* 'Personal Accident Policy' section for details regarding travel extension.

Number of notifications (protections and indemnity)



Clinico-legal advice and claims assistance

There was a 6% increase in the number of notifications over the prior year. During the 2017/18 membership year, MIPS received over 6,200 new contacts from members seeking advice, assistance and support.

Approximately 80% of those contacts related to non-liability matters such as advice on matters or incidents deemed not likely to give rise to a claim – this was consistent with previous years.

Matters are handled by MIPS Clinico-Legal Advisers and Claims File Managers who are experienced, senior, healthcare practitioners. Their professional specialties include:

- general practice
- obstetrics/gynaecology
- anaesthetics
- orthopaedic surgery
- general surgery
- internal medicine
- pain management
- general dentistry
- endodontics
- prosthodontics.

The overall number of claims MIPS experiences in a year has remained relative to the increase in membership experienced over time. When comparing each financial year since 2008/09 to 2017/18, the number of claims as a proportion of practising members remains at less than a percent. However, the likelihood that members require advisory and/or support services remains high.

The nature of notifications and claims remains largely unchanged from last and prior years. Bullying and harassment continue to have more media attention but this has not translated into a notifications spike related to these matters.

Claims by patients commonly include allegations of failure and/or delay in diagnosis and delays in referral for investigation. Allegation of boundary transgressions, particularly in general practice seem to be increasing, albeit from low numbers.

MIPS Protections

In addition to medical indemnity insurance assistance for matters arising from the provision of healthcare, MIPS also provides MIPS Protections, which can assist members for non-medical indemnity matters arising from their professional activities not otherwise covered by insurance. MIPS Protections is discretionary cover and is not offered under a contract of insurance.

During this financial year, MIPS had 595 notifications relating to non-medical indemnity matters on a broad range of issues, a number of which had the potential to significantly impact on the member's ability to continue practice. This was slightly more but otherwise consistent with previous years.

Common matters include:

- allegations of boundary transgressions (non-patient staff member or fellow employee)
- alleged bias in performance assessments affecting outcome and/or results
- allegations of bullying and being bullied
- issues involving colleagues (especially impaired and/or underperforming colleagues).

Matters can include complaints to AHPRA or a health services body. Often the cause of the matter is a dispute with a hospital, employer, contractor or representation in an employee/employer dispute in an industrial relations jurisdiction.

Non-medical indemnity risks can represent a large component of active clinical practice leading to an on-going need for members to seek assistance under MIPS Protections.

Matters of significance

MIPS has continued to approach the litigation environment very much from the perspective of safeguarding a members' professional reputation whilst taking a hard line on claims of questionable clinical or legal merit.

Generally, MIPS does not make commercial offers to settle in circumstances where the member's evidence is likely to convince a court that the clinical facts do not meet the threshold of causation and/or liability.

This often means that a matter will need to be run to verdict if a claimant will not walk away from their litigation. It also means that MIPS is often left with the difficult decision to pursue a claimant in an attempt to recover our defence costs outlaid in representing the members' interests.

In the current year, we have several significant matters where quite large sums have been (or will be) recovered and whilst these were only proportionate, it sends a very loud message to the plaintiff's lawyers and claimants alike that MIPS is serious about the stance we take at pre-trial settlement forums. Ultimately, these are members' funds and we take this issue very seriously indeed.

This position also extends to corporate claimants – in particular those other insurers that believe (for some reason or another) that the circumstances of a claim give rise to a MIPS member having a liability to them for full or partial reimbursement of their expenditure.

We commend the members that have been involved in these litigated matters during this year and for their preparedness to give evidence on their own behalf. MIPS success has in no small part been due to good quality clinical records, assertive evidence of what occurred and a thorough understanding of relevant therapeutic standards.

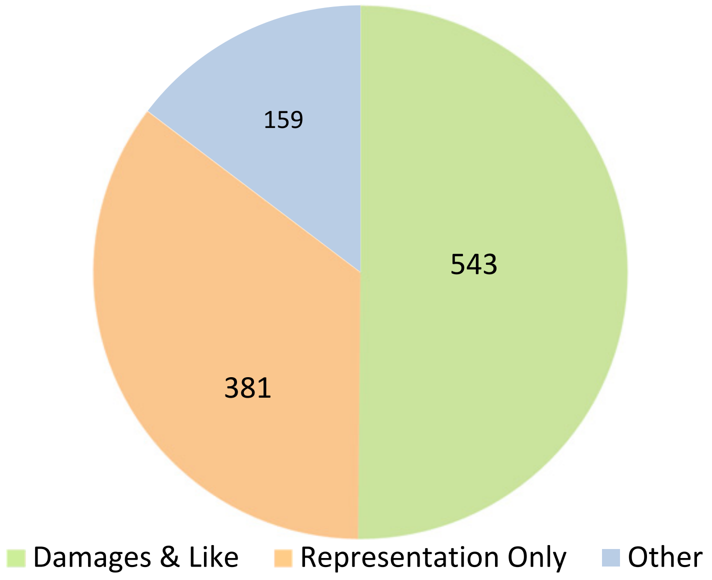
MIPS aims to continue to represent the best interests of members, at both the individual and collective level by carefully choosing how to approach each litigated matter on a case by case basis. Members ongoing co-operation in this process is genuinely appreciated.

Of great significance is the evolution of the Claims Division into the Professional Services Division. This process continues but the seeds of change were sewn in 2017/18. Two entirely new Departments are being formed (Professional Support Services and Indemnity and Liability Services) with newly appointed Departmental Managers. Professional Support Services will manage all members' matters involving the need for representation in issues such as Medicare investigations, audits and proceedings, AHPRA and Board disciplinary issues and the broad gamut of investigations/complaints that arise from professional activities, and all other support and advisory services usually provided to members.

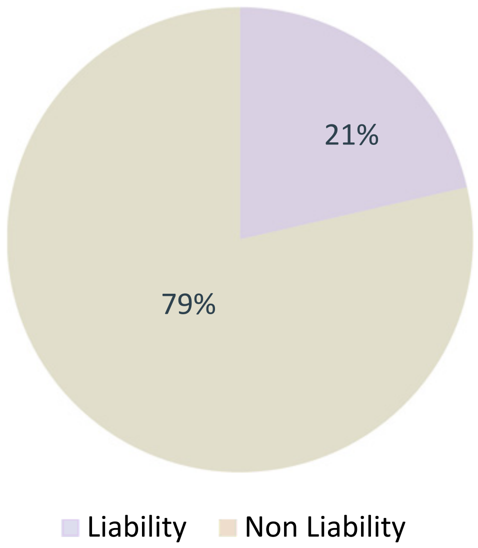
The Indemnity and Liability Service Department will manage litigation and associated services. The new structure will see a multi-disciplinary team approach applied to litigation, with a raft of subject specialists (eg claims specialists, medical specialists, legal specialists and other subject experts such as accountants etc) working collectively to achieve the best possible outcome.

This will all be readily achievable with the Division upgrading in 2017/18 to a fully digital platform that now enables all matters to be administered electronically.

Split of Claims and Incidents likely as at 30 June 2018



Distribution of notifications by nature of matter as at 30 June 2018



Assistance with claims

The philosophy of MIPS in relation to claims management is simple. If the claim has clinical and legal merit (ie the patient will establish liability and causation), it is in everyone's interests to settle the matter equitably and promptly. If it has no merit, we will not settle the claim and will pursue any costs incurred without fear or favour. There is little doubt that tort reform has impacted upon the frequency of claims and has also removed a lot of the more minor matters that previously developed into claims.

MIPS claims experience however, has demonstrated that significant clinico-legal resources have been diverted into defending members in relation to disciplinary matters (including mandatory notifications) and dealing with other matters involving regulators and/or related to billing related claims (eg Medicare Australia, AHPRA investigations and the like).

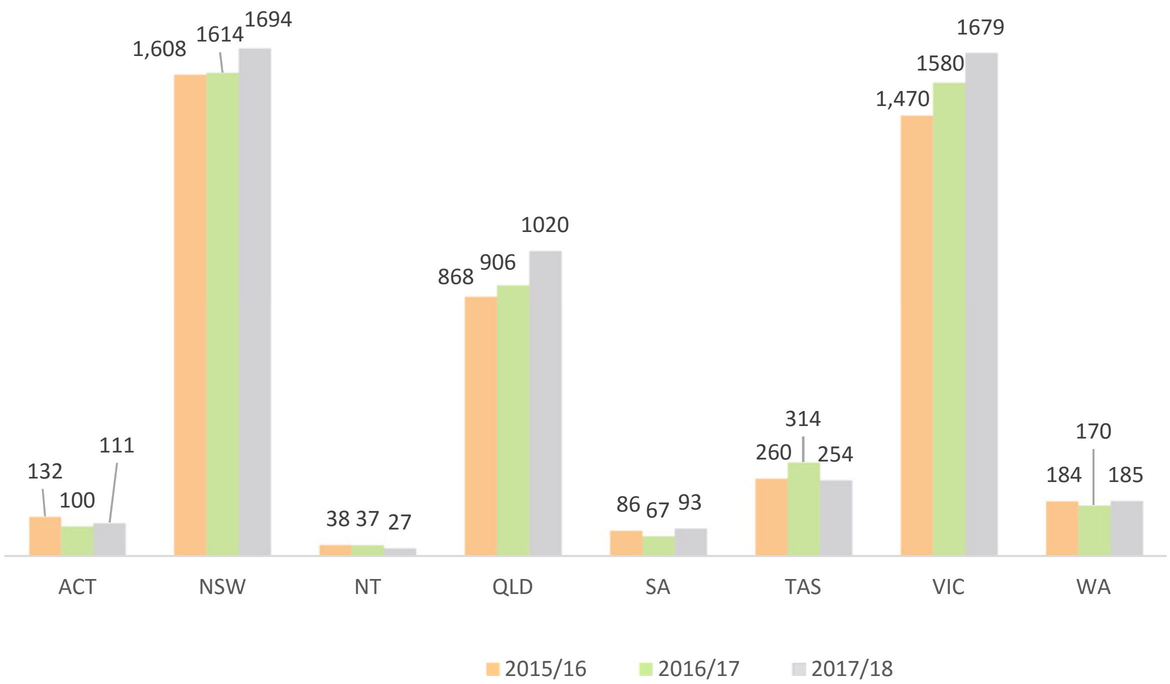
Patient complaints to AHPRA and state based Health Complaints bodies seem to be increasing, and whilst these can very often simply reflect a perception that something was not right, there does seem to be a trend that better communication at the point of consultation could avert much of this re-work and minimise the adverse impact on the scarcest of members' resources – time.

Investigation and inquiry assistance

One of the key membership benefits accessed by members relates to assistance for matters involving potential conflict of interests with employing institutions or even other professional colleagues. This may be experienced in Coronial Inquests for example, where there can be dispute between respective clinicians (or even with the employing hospital) about the patient's care or for example, where the family of the deceased may have instigated civil litigation or an AHPRA complaint.

Other areas where MIPS may provide support and assistance include disputes in the workplace or with employers, collegiate conflicts and matters relating to registration and qualifications. Accepting that often very little can be done in respect of the requirements of registration bodies, MIPS' experience and knowledge of the system and having someone with those skills to provide counsel and direction can often make a significant difference for members, if only to ensure that the principles of natural justice prevail. This is often the case in employment related matters also.

Distribution of indemnity notifications by State as at 30 June



State	2015/16	2016/17	2017/18
TOTAL	4,646	4,788	5,063

Member professional development

MIPS membership includes accredited risk education to minimise clinico legal risk whilst assisting to meet member's mandatory CPD registration standard. Increasingly, members throughout Australia are benefiting from MIPS convenient, practical and contemporary accredited education, particularly in a webinar format.

Continually improving knowledge, skills and experience is vitally important for health practitioners and MIPS facilitates such education for this very reason – to assist members and assist the public. Regulators monitor this registration standard and can audit CPD requirements when investigating complaints.

The education that MIPS provides is primarily designed to help members prevent an adverse or unexpected outcome to patients. Secondly, by applying the risk education principles it can assist members to mitigate these outcomes, as the implementation of key risk education principles assists in the defence of allegations of sub-optimal healthcare. It also focuses on minimising the risk healthcare practitioners face from complaints and regulatory body investigations.

MIPS intentions with providing CPD education are indeed multifaceted. It assists members in their day to day practice and patients and the community as a whole. Importantly it fulfils the MIPS constitutional objective of promoting honourable and discouraging irregular practice. This constitutional objective is a key element in admission and continuity of MIPS membership. Adherence to CPD education obligations will be one of many considerations in determining access to and ongoing MIPS membership.

MIPS risk education is heavily influenced by the regulatory codes, MIPS claim and complaint notification history, clinico legal and common law principles, and risk management principles.

Membership records are updated with a record of participation and participants receive a certificate of attendance to assist with CPD evidence which can also be downloaded from the My Membership portal.

In most cases, the content applies to all craft groups however, in some cases, specific content may be provided.

Member education program

The education program consists of webinars, workshops and various online resources including education modules.

Webinars

Over 2017/18 MIPS provided 11 one hour webinar topics:

- Consequences of an incorrect statement
- The good, the bad, the ugly and your wellbeing
- My job, my career – how to deal with challenges
- How to explain uncertainty to patients
- Healthier practitioners, better patient care
- Post operative complications – pre-emptive strategies
- Taking care of oneself
- Mandatory reporting 101
- The first 5 years – practicing with confidence
- Medicare monitoring and PSR
- Colleagues in difficulty.

Webinars provide an excellent opportunity for engagement of all members throughout Australia especially those in rural or remote areas. They are increasing in popularity and are now recorded for ongoing member education.

Workshops

During 2017/18 MIPS provided 33 exclusive member education workshops across every state in Australia on a range of topics lasting 2-3 hours. This included CPR courses once more and this year MIPS introduced implanon NXT training.

Topics provided were:

- Dental Member Update
- Implanon NXT Training
- Interview Skills – get that job!
- Misuse of Medications
- Risks and responsibilities to the modern patient
- Top 10 clinico-legal issues.

The 2017/18 member risk education program enjoyed record member participation and ongoing positive feedback.

Accreditation

MIPS maintained its existing accreditation and obtained accreditation for new education content for the RACGP and ACRRM for the 2017 -19 triennia.

Broad education program

In addition to providing risk education at approximately 96 hospitals throughout Australia each year, MIPS continues to engage with the wider health care community. Several workshop abstracts were accepted resulting in presentations at key industry events.

Consistent with our philosophy, MIPS plays a key part in educating all industry healthcare practitioners and supporting key education providers.

Directors' report

Directors present their report on the consolidated entity ('Group') consisting of Medical Indemnity Protection Society Ltd ('Society') and its subsidiaries at the end of, or during, the year ended 30 June 2018.

Directors

The following persons were directors of Medical Indemnity Protection Society Ltd during the whole of the financial year and up to the date of this report unless otherwise noted:

G R Speck, Chairman
A T Browning, Managing Director
S Carter
A D Mason (appointed 01/09/2018)
L Rowe
K C D Roxburgh
C J Steadman
B E Taylor

Meetings of Directors

The number of meetings of the Society's directors held during the year ended 30 June 2018, and the number attended by each director during the time the director held office during the year ended 30 June 2018 are disclosed below:

	Board Meetings held during the year	Board Meetings Attended
A T Browning	6	6
S Carter	6	5
L Rowe	6	5
K C D Roxburgh	6	6
G R Speck	6	6
C J Steadman	6	6
B E Taylor	6	6

Meetings of the Group Audit and Compliance Committee (GACC)

The number of meetings of the GACC held during the year ended 30 June 2018, and the number attended by each member of the GACC during the time the member of the GACC held office during the year ended 30 June 2018 are disclosed below:

	GACC Meetings held during the year	GACC Meetings Attended
S Carter	4	4
A D Mason	4	4
N W Newbon, Chairman	4	4
K C D Roxburgh	4	3
C G Wallace (appointed 01/09/2017)	3	3
P S Kernaghan (appointed 01/03/2018)	1	1

P S Kernaghan, N W Newbon and C G Wallace are not directors of the Society but are directors of a wholly owned subsidiary, MIPS Insurance Pty Ltd. A D Mason was appointed a director of the Society effective 01/09/2018 and was a director of a wholly owned subsidiary, MIPS Insurance Pty Ltd for the whole of the year.

Meetings of the Group Risk Committee (GRC)

The number of meetings of the GRC held during the year ended 30 June 2018, and the number attended by each member of the GRC during the time the member of the GRC held office during the year ended 30 June 2018 are disclosed below:

	GRC Meetings held during the year	GRC Meetings Attended
S Carter	4	4
A D Mason	4	4
N W Newbon, Chairman	4	4
K C D Roxburgh	4	3
C G Wallace	4	4
P S Kernaghan (appointed 01/03/2018)	1	1

P S Kernaghan, N W Newbon and C G Wallace are not directors of the Society but are directors of a wholly owned subsidiary, MIPS Insurance Pty Ltd. A D Mason was appointed a director of the Society effective 01/09/2018 and was a director of a wholly owned subsidiary, MIPS Insurance Pty Ltd for the whole of the year.

Meeting of the Group Investment Committee (GIC)

The number of meetings of the GIC held during the year ended 30 June 2018, and the number attended by each member of the GIC during the time the member of the GIC held office during the year ended 30 June 2018 are disclosed below. The GIC meets formally as and when required however matters were routinely and regularly communicated and discussed using electronic means.

	GIC Meetings held during the year	GIC Meetings Attended
A T Browning	5	5
R J Miles[1]	5	5
K C D Roxburgh, Chairman	5	4
G R Speck	5	5
C J Steadman	5	5
B E Taylor	5	5

[1] R J Miles is the Chief Financial Officer and is not a director of the Society.

Summary information about Directors

Director	Qualifications	Special responsibilities and relevant experience
A T Browning	MBBS, MBA, Grad Dip Ins, GAICD, ANZIIF (Fellow) CIP, FAIM	Managing Director of the Society Chief Executive Officer, MIPS Insurance Pty Ltd Member, Group Investment Committee Director, Asclepius Underwriting Pty Ltd Member of various Claims and Membership Committees
S Carter	BA (Hons), Grad Dip (App Fin & Invest), MAppSci, ACA, FAICD	Member, GACC and GRC Director, First State Super Financial Services Pty Ltd Director, First State Super Trustee Corporation Director, State Super Financial Services Australia Ltd
A D Mason	BSocSc, FIA, Hon FFFLM	Director, MIPS Insurance Pty Ltd Director, Cardiac Risk in the Young International Consultant, Medical Protective (Consultancy excluding Australia)
L Rowe	AM, MBBS, MD, FRACGP, FAICD Doctor of Laws honoris causa	Director, MIPS Insurance Pty Ltd
K C D Roxburgh	BCom, MBA, MESAA	Member, GACC and GRC Chairman, Group Investment Committee Director, MIPS Insurance Pty Ltd Member, Aon Risk Solutions - Advisory Board Chairman, Eclipx Group Director, Ramsay Health Care Ltd Director, Tyro Payments Ltd
G R Speck Chairman	AM, MBBS, BMedSc (Hons), FRACS, FAOrthA, FAMA, GAICD	Chairman, MIPS Board Director, MIPS Insurance Pty Ltd Member, Group Investment Committee Director, MIPS Holdings Pty Ltd Director, Australian Medical Association Ltd Director, Australian Society of Orthopaedic Surgeons Director, Council of Procedural Specialists
C J Steadman	MBBS, MD, FRACP, FAICD, AGAF	Member, Group Investment Committee Director, Royal Australasian College of Physicians
B E Taylor	MDSc, LDS, FRACDS, FADI, FICD, FPFA, GAICD	Chairman, MIPS Insurance Pty Ltd Member, Group Investment Committee Director, MIPS Holdings Pty Ltd Director, Victorian Medical Insurance Agency Pty Ltd

Company Secretary	Qualifications	Special responsibilities and relevant experience
W F Berryman	FANZIIF, Grad Dip Bus (Ins), ACIS	Company Secretary, of the Society Company Secretary, MIPS Insurance Pty Ltd Company Secretary, Asclepius Underwriting Pty Ltd Company Secretary, MIPS Holdings Pty Ltd Compliance Officer Chief Risk Officer

Principal activities

The Group's business is to protect, support and safeguard the character and interests of medical practitioners and to provide medical membership benefits including indemnity insurance to members.

Review of operations and results

Total comprehensive income

Group		Society	
2018 $'000	2017 $'000	2018 $'000	2017 $'000
16,351	10,775	15,254	19,694

Basis of preparation

The annual report is a general purpose financial report which has been prepared in accordance with the Australian Accounting Standards, Corporations Act 2001, including the application of ASIC Class Order CO 10/654 allowing the disclosure of Parent entity financial statements due to Australian Financial Services Licensing obligations.

Dividends

The Society's constitution prohibits the payment of dividends. No dividend was therefore paid or proposed for the year ended 30 June 2018 (2017: $Nil).

Significant changes in state of affairs

There have been no significant changes in the state of affairs of the Group during the year ended 30 June 2018.

Likely developments and expected results of operations

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.

Significant events after balance date

No matters or circumstances have arisen since 30 June 2018 that have significantly affected, or may significantly affect:

a) the Group or Society's operations in future years, or
b) the results of those operations in future years, or
c) the Group or Society's state of affairs in future financial years.

Insurance of officers

During the financial year, the Society paid a premium to insure the directors and officers of the Society. In accordance with normal commercial practice, disclosure of the total amount of premium payable under the insurance contract is prohibited by a confidentiality clause in the contract. No insurance cover has been provided by the Society for the benefit of the auditors.

The liabilities insured include damages and legal costs incurred in defending a civil action brought against an insured director. Cover is also provided for legal costs incurred in the successful defence of criminal proceedings. The Society's constitution states that the Society may pay premiums to insure officers against liabilities incurred in their capacity as officers. The liabilities include the costs of defending civil or criminal proceedings regardless of their outcome.

Rounding of Amounts

The Group is of a kind referred to in ASIC (Rounding in Financial/Directors' Reports) Instrument 2017/191, issued by the Australian Securities & Investments Commission (ASIC), relating to the 'rounding off' of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor

Ernst & Young continues in office in accordance with Section 327 of the Corporations Act 2001. The Auditor's Independence Declaration is set out on page 29.

Indemnification of Auditor

As part of the Group's terms of engagement with Ernst & Young, the Group has agreed to indemnify Ernst & Young against certain liabilities to third parties arising from their engagement as auditor. The indemnity does not extend to any liability resulting from a negligent, wrongful or wilful act or omission by Ernst & Young.

Resolution of the Directors

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

G R Speck
Chairman

A T Browning
Managing Director

Melbourne
26 September 2018

Building a better working world

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Fax: +61 3 8650 7777
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Auditor's Independence Declaration to the Directors of Medical Indemnity Protection Society Ltd

As lead auditor for the audit of Medical Indemnity Protection Society Ltd for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

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

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

This declaration is in respect of Medical Indemnity Protection Society Ltd and the entities it controlled during the financial year.

Ernst & Young

Ernst & Young

T M Dring
Partner
Melbourne
26 September 2018

Statement of Comprehensive Income

For the year ended 30 June 2018

		Group		Society	
		2018	2017	2018	2017
	Notes	$'000	$'000	$'000	$'000
Operating income	6	63,430	61,978	63,350	63,241
Reinsurance and other recoveries revenue	7	44,674	54,662	-	-
Investment results	8	11,622	15,201	6,253	8,499
Total income		119,726	131,841	69,603	71,740
Outwards reinsurance premium expense		(19,228)	(17,485)	-	-
Claims expense	7	(67,080)	(89,468)	-	-
ROCS levy		(1,673)	(1,633)	-	-
Master policy expenses		(2,963)	(1,857)	(41,298)	(36,613)
Member insurances		(334)	(411)	(334)	(411)
Indemnification expenses	9	(36)	(233)	(36)	(233)
Risk management workshop expenses		(143)	(138)	(143)	(138)
Other operating expenses	10	(13,823)	(12,854)	(14,906)	(13,855)
Total expenses		(105,280)	(124,079)	(56,717)	(51,250)
Profit before income tax		14,446	7,762	12,886	20,490
Income tax benefit/(expense)	11	(574)	2,636	(111)	(1,173)
Profit for the year		13,872	10,398	12,775	19,317
Net fair value gains/(losses) on available for sale financial assets		3,542	538	3,542	538
Income tax on items of other comprehensive income		(1,063)	(161)	(1,063)	(161)
Other comprehensive income/(loss), net of tax		2,479	377	2,479	377
Total comprehensive income for the year		16,351	10,775	15,254	19,694

The above Statements of Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position

As at 30 June 2018

		Group		Society	
	Notes	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Current assets					
Cash and cash equivalents	12	62,893	81,918	41,558	51,927
Receivables	13	12,816	7,823	12,818	7,862
Investments	14	100,527	60,226	81,300	53,643
Reinsurance and other recoveries	15	33,289	29,110	55	82
Other assets	16	32,165	28,123	45,536	39,501
Current tax asset		3,100	1,864	1,476	137
Total current assets		244,790	209,064	182,743	153,152
Non-current assets					
Investments	14	249,858	250,456	75,144	78,556
Reinsurance and other recoveries receivable	15	121,491	106,051	55	83
Plant and equipment	17	362	484	362	484
Investments in subsidiaries	18	-	-	36,508	36,508
Deferred tax asset	19	5,344	6,833	-	80
Total non-current assets		377,055	363,824	112,069	115,711
Total assets		621,845	572,888	294,812	268,863
Current liabilities					
Payables	20	36,610	33,069	47,467	41,748
Deferred tax liability	19	-	-	956	-
Outstanding claims liability	21	42,372	37,962	-	-
Other liabilities	22	43,094	39,052	43,094	39,052
Provisions	23	2,599	2,128	2,599	2,128
Total current liabilities		124,675	112,211	94,116	82,928
Non-current liabilities					
Outstanding claims liability	21	173,599	152,964	-	-
Provisions	23	1,374	1,867	1,374	1,867
Total non-current liabilities		174,973	154,831	1,374	1,867
Total liabilities		299,648	267,042	95,490	84,795
Net assets		322,197	305,846	199,322	184,068
Equity					
Share capital	24	100	100	100	100
Investment revaluation reserve		3,308	829	3,308	829
Retained profits		318,789	304,917	195,914	183,139
Total equity		322,197	305,846	199,322	184,068

The above Statements of Financial Position should be read in conjunction with the accompanying notes.

Statements of Changes in Equity

As at 30 June 2018

	Share Capital $'000	Investment Revaluation Reserve $'000	Retained Earnings $'000	Total $'000
Society				
As at 1 July 2016	100	1,551	162,723	164,374
Profit for the year	-	-	19,317	19,317
Other comprehensive income/(loss)	-	377	-	377
Equity impairment transfer between reserves	-	(1,099)	1,099	-
Total comprehensive income for the year	-	(722)	20,416	19,694
At 30 June 2017	100	829	183,139	184,068
Profit for the year	-	-	12,775	12,775
Other comprehensive income/(loss)	-	2,479	-	2,479
Total comprehensive income for the year	-	2,479	12,775	15,254
At 30 June 2018	100	3,308	195,914	199,322
Group				
As at 1 July 2016	100	1,551	293,420	295,071
Profit for the year	-	-	10,398	10,398
Other comprehensive income/(loss)	-	377	-	377
Equity impairment transfer between reserves	-	(1,099)	1,099	-
Total comprehensive income for the year	-	(722)	11,497	10,775
At 30 June 2017	100	829	304,917	305,846
Profit for the year	-	-	13,872	13,872
Other comprehensive income/(loss)	-	2,479	-	2,479
Total comprehensive income for the year	-	2,479	13,872	16,351
At 30 June 2018	100	3,308	318,789	322,197

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 2018

	Notes	Group 2018 $'000	Group 2017 $'000	Society 2018 $'000	Society 2017 $'000
Cash flows from operating activities					
Receipts from members		56,412	55,535	56,412	55,535
Outwards reinsurance paid		(13,990)	(12,725)	-	-
Master policy costs paid		(2,970)	(1,899)	(41,298)	(36,613)
Claims expense paid		(38,734)	(36,846)	-	-
Reinsurance recoveries		17,460	10,259	-	-
Non-reinsurance claims recoveries		8,430	11,281	10	334
ROCS levy		(1,676)	(1,630)	-	-
Dividends received		3,240	2,910	3,240	2,075
Interest received		10,604	10,871	3,336	4,403
Other revenue received		817	966	6,026	7,027
Other expenses paid		(19,079)	(16,570)	(15,552)	(13,850)
Indemnification costs paid		(236)	(502)	(236)	(502)
Income taxes paid		(1,384)	(1,849)	(1,478)	(1,549)
Net cash inflow/(outflow) from operating activities	28	18,894	19,801	10,460	16,860
Cash flows from investing activities					
Purchase of plant and equipment		(35)	(47)	(35)	(62)
Investment in MIPS Insurance Pty Ltd		-	-	-	(30,000)
Proceeds from investments		228,240	180,667	101,673	83,070
Payments for investments		(266,124)	(182,144)	(122,467)	(68,177)
Net cash inflow/(outflow) from investing activities		(37,919)	(1,524)	(20,829)	(15,169)
Net increase/(decrease) in cash held		(19,025)	18,277	(10,369)	1.691
Cash and cash equivalents at the beginning of period		81,918	63,641	51,927	50,236
Cash and cash equivalents at the end of period	12	62,893	81,918	41,558	51,927

The above Statements of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the financial report

Note 1: Summary of significant accounting policies

This financial report covers Medical Indemnity Protection Society Ltd (MIPS) as an individual entity and the group consisting of Medical Indemnity Protection Society Ltd and its subsidiaries (Group).

Medical Indemnity Protection Society Ltd is a company limited by guarantee and shares, incorporated and domiciled in Australia. Its registered office and principal place of business is; Level 37, 55 Collins Street, Melbourne, VIC 3000.

A description of the nature of the Group's operations and its principal activities is contained in the Directors' report on pages 24-28.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Medical Indemnity Protection Society Limited as an individual entity (the Society) and the consolidated entity consisting of Medical Indemnity Protection Society Limited and its subsidiaries (the Group).

The annual report of the Society and the Group for the year ended 30 June 2018 was authorised for issue in accordance with a resolution of the Directors on 26 September 2018.

MIPS has the power to amend and reissue the annual report, with the auditor's consent.

(a) Basis of preparation

This General Purpose Financial report has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board, including the application of ASIC Class Order CO10/654 allowing the disclosure of Parent entity financial statements due to Australian Financial Services Licensing obligations.

The annual report complies with Australian Accounting Standards and International Annual reporting Standards (IFRS) as issued by the International Accounting Standards Board.

This annual report is prepared on a historical cost basis except for those financial assets and financial liabilities that have been measured at fair value, as described in accounting policies below.

The annual report is presented in Australian dollars, which is the Group's functional and presentational currency.

(b) New Accounting Standards

Australian Accounting Standards issued but not yet effective

The Group has not applied any Australian Accounting Standards that have been issued as at balance date and applicable to the Group but are not yet operative for the year ended 30 June 2018 ("the inoperative standards").

Reference	Title	Application date of standard*	Application date for Group	Table Note
AASB 2016-6	Amendments to Australian Accounting Standards Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts	1 January 2018	1 July 2018	A
AASB 9	Financial Instruments – a new principal which replaces AASB 139	1 January 2018	1 July 2018	A
AASB 15	Revenue from Contracts with Customers	1 January 2018	1 July 2018	A
AASB 16	Leases	1 January 2019	1 July 2019	A
AASB 17	Insurance Contracts	1 January 2021	1 July 2021	B

* designates the beginning of the applicable annual reporting period, on or after, unless otherwise stated.

TABLE NOTE

A. These changes are not expected to have a significant, if any, financial impact.
B. At the reporting date management have not yet assessed the impact of implementing this standard.

The Group applied for the amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The Group only intends to adopt the inoperative standards at the date at which their adoption becomes mandatory.

The Group's assessment of the impact of these new standards and interpretations is set out below.

Reference	Title	Application date of standard*	Application date for Group	Table Note
AASB 2016-1	Amendments to Australian Accounting Standards Recognition of Deferred Tax Assets for Unrealised Losses (AASB 112)	1 January 2017	1 July 2017	C
AASB 2016-2	Amendments to Australian Accounting Standards Disclosure Initiative: Amendments to AASB 107	1 January 2017	1 July 2017	D

* designates the beginning of the applicable annual reporting period, on or after, unless otherwise stated.
TABLE NOTE

A. This Standard makes amendments to AASB 112 Income Taxes to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. These changes do not have significant, if any, financial impact
The amendments to AASB 107 requires entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Application of these amendments did not affect the Group's financial statements.

(c) Principles of consolidation

Subsidiaries

The Group consolidated financial statements comprise the financial statements of the Society and its subsidiaries as at 30 June each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Society, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and will continue to be consolidated until the date that such control ceases.

(d) Subscription Revenue

The Society obtains revenue through annual subscriptions paid by its members. Subscriptions income is recognised evenly over the period of the membership, being twelve months from 1 July each year. All subscriptions expire on 30 June each year. Subscription monies accepted prior to 1 July which relate to future membership subscription periods are recorded as current liabilities.

(e) Premium revenue

MIPS membership provides medical indemnity insurance cover under the MIPS Members' Medical Indemnity Insurance Policy. This master policy is underwritten by a subsidiary, MIPS Insurance Pty Ltd (MIPSi) and is payable in four instalments. When the contract of insurance for the subsequent year has been signed before 30 June the Society recognises an intercompany liability and a deferred master policy expense. Similarly, MIPSi recognises an intercompany receivable and a liability for the unearned premium.

Premium income is recognised evenly over the period of the insurance policy. The policy year is twelve months from 1 July with an expiry date of 30 June each year.

Premium revenue comprises only the premium charged to provide indemnity including the amounts in the premium collected to allow the Group to meet its obligation in relation to payments due to the Commonwealth Government of Australia for the funding of the Run-Off Cover Scheme (ROCS). Premium revenue excludes stamp duty, GST and other amounts collected on behalf of third parties.

Premium Support Scheme (PSS)

The *Medical Indemnity Act 2002* establishes a Premium Support Scheme (PSS) which in general terms provides a subsidy to medical practitioners whose total indemnity costs exceed a set proportion of their income (as defined in the legislation).

The Group is responsible for administering the PSS for its members and in this role it obtains details of estimated income to determine the subsidy, if any, for each eligible member to be collected from Medicare Australia. In subsequent years, the Group obtains actual income details from participating medical practitioner members and either collects monies from the members for any amounts required to be reimbursed to Medicare Australia or seeks additional subsidies from Medicare Australia to be passed through to the eligible member.

As the Group is responsible for credit risk and is impacted by the timing of cash flows, amounts due to and from Medicare Australia and policyholders are recognised on the Statement of Financial Position.

(f) Outwards reinsurance

Amounts paid to reinsurers under reinsurance contracts held by the Group are recorded as an outward reinsurance expense and are recognised in the Statement of Comprehensive Income from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk ceded.

When reinsurance contracts are signed before 30 June, MIPSi fully accrues the reinsurance expense with a corresponding deferred reinsurance expense asset. The corresponding Quota Share commission income is also recognised as unearned income.

(g) Unexpired risk liability

At each reporting date the Group assesses whether unearned premiums are sufficient to cover all expected future cash flows relating to claims against current insurance contracts. This assessment is referred to as the liability adequacy test and is performed for MIPS Insurance Pty Ltd (MIPSi), as all insurance contracts are subject to broadly similar risks.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premiums less related intangible assets and related deferred acquisition costs then unearned premiums are deemed to be deficient.

Any such deficiency is recognised immediately and entirely in the Statement of Comprehensive Income both gross and net of reinsurance. The deficiency is recognised first by writing down any related intangible assets and then related deferred acquisition costs, with any excess being recorded in the Statement of Financial Position as an unexpired risk liability. No deficiency has been identified for either balance date or the comparative balance date.

(h) Outstanding claims liability

The liability for outstanding claims is recognised on a claims made basis and is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date under general insurance contracts issued by MIPSi, with an additional prudential (or risk) margin to allow for the inherent uncertainty in the central estimate.

The expected future payments include those in relation to claims reported but not yet paid and anticipated claims handling costs.

Claims handling costs include costs that can be directly associated with individual claims, such as legal and professional fees, and costs that can only be indirectly associated with individual claims, such as claims administration costs.

Outstanding claims are determined taking into account an actuarial valuation. A summary of the actuarial methodology and key assumptions is disclosed in Note 3.

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

Prudential margin

MIPSi includes a prudential margin in its liability for outstanding claims. Under prudential standards issued by the Australian Prudential Regulation Authority (APRA), a licensed insurer must include a prudential margin in its estimate of outstanding claims liabilities for prudential reporting so that the probability of the estimate for outstanding claims being sufficient to meet all claims is a minimum of 75%.

MIPSi has elected to increase the probability of sufficiency to well above the 75% minimum. Without a prudential margin, the liability for outstanding claims represents the central estimate for which all claims will be settled. That is, there is a 50% probability of it being either too high or too low.

The Group has elected to adopt a prudential margin that is different for accounting and prudential reporting purposes. Details of the levels adopted are disclosed in Note 21. The prudential margin is reassessed each year taking into account actuarial valuations as part of the process of determining the liability for outstanding claims of MIPSi. A summary of the level of sufficiency achieved by the prudential margin is disclosed in Note 3.

The prudential margin on Net Claims Incurred (note 7) has been split between gross and net. In the prior year, the net prudential margin was shown with the gross incurred and the amount has been reclassified to gross and net incurred in the current year's accounts.

(i) Provisions and employment benefits

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under a reinsurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting 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 resulting from the passage of time is recognised in finance costs.

Provision for indemnity obligations

The provision for indemnity obligations arises from the occurrence based discretionary indemnity provided by MIPS to members prior to 30 June 2003. In general terms, following the enactment of Medical Indemnity legislation, MIPS is not able to indemnify members other than through insurance in relation to medical indemnity incidents occurring after 30 June 2003. The discretionary indemnity provided by MIPS to its members covers incidents reported under extended reporting benefit and death, disability or retirement arrangements.

The provision for discretionary indemnity obligations, has been based on the final (June 2016) actuarial valuation and includes current case estimates plus an allowance for incidents that have occurred but for which a request for indemnity has yet to be received.

MIPS includes a prudential margin in determining the fair value of the provision, as a transfer of obligations would typically include such a margin to allow for inherent uncertainty. As MIPS is no longer providing discretionary medical indemnity cover to its members for new medical indemnity incidents, and the nature of indemnity obligations is volatile, the June 2016 prudential margin for the provision was based on a 75% confidence interval plus an additional prudential margin to ensure the sum of all prudential margins is sufficient to cover a single large claim. As a result it is believed the total prudential margin adopted was greater than the 75% confidence interval for both the Society and the Group. The total prudential margin established at June 2016 is being amortised over 3 years. Further details on the assumptions supporting the estimate are disclosed in Note 2.

The overall provision also includes an estimate for the cost of the discretionary non-medical indemnity assistance offered through MIPS Protections under MIPS AFSL. This member benefit applies to matters that arise from a member's practice or their studies or profession.

Provisions for employee leave benefits

(i) Wages and salaries, annual leave and personal leave

Liabilities for wages and salaries, annual leave and accumulated personal leave expected to be settled within 12 months of the reporting date are recognised in Provisions in Note 23, in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating personal leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date 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 yield at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash flows.

(iii) Retirement benefit obligations

The employees' nominated superannuation funds receive contributions from the Group. Contributions to the funds are recognised as an expense monthly as they become payable.

(j) Reinsurance and other recoveries receivable

The Group has insurance risk in the normal course of business of its companies. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. Any impairment loss is recorded in the Statement of Comprehensive Income.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, indemnity paid and the provision for indemnity obligations are recognised as revenue. Recoveries on reported claims not yet paid are measured as the present value of expected future receipts, calculated on the same basis as the liability for outstanding claims. Recoveries on the provision for indemnity obligations are not discounted.

High Cost Claims Scheme (HCCS)

Other recoveries include amounts due from the Commonwealth Government's High Cost Claims Scheme established by the *Medical Indemnity Act 2002*. Under the scheme, the Commonwealth Government makes financial contributions of 50% of the amount in excess of the HCCS threshold, currently $300,000, towards claims of the Group for each insurance or indemnification claim notified after 1 January 2003. For matters reported on or after 1 July 2018, the HCCS threshold will be $500,000.

Recoveries under the HCCS on outstanding claims are measured at the net present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims and provision for indemnification obligations.

(k) Run-Off Cover Scheme

The *Medical Indemnity Act 2002* established the Run-Off Cover Scheme (ROCS) as part of a framework for providing medical indemnity insurance for medical practitioners who have ceased practice. Under the framework:

- if a practitioner has ceased practice for three years or has reached age 65 or in other specified situations such as maternity, the practitioner's most recent medical indemnity insurer must offer a ROCS policy. Any accepted claims from the practitioner under a ROCS policy will be reimbursed by the Federal Government Department of Human Services from ROCS scheme funds;
- under the terms of the contract with the Government for the first three years following cessation of practice and whilst the practitioner is under age 65, the practitioner's most recent medical indemnity insurer must make an offer to provide insurance coverage, at a nominal premium for those members with 10 or more years of qualifying membership;
- a levy is imposed on medical indemnity insurers to cover the cost of ROCS, with the rate currently set at 5% of premium received. This levy is incorporated into the premiums charged by insurers; and
- medical indemnity insurers receive a fee for handling retirement claims on behalf of ROCS and for associated policy administration under contracts with the Government.

Provision for cessation of practice claims

The Group recognises a provision for cessation of practice claims (under both ROCS and insurance) in relation to expected future payments to practitioners who have ceased practice that have not accepted a policy at balance date, based on actuarial advice. This provision is discounted to a present value at balance date and includes an allowance for the cost of handling these claims.

Retirement claim recoveries

The Group recognises recoveries in relation to expected future recoveries associated with the provision for cessation of practice claims, based on actuarial advice. Such recoveries arise under ROCS (for eligible participants only), the High Cost Claims Scheme and reinsurance contracts in place prior to balance date. The recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the provision for retirement claims. Recoveries are also recognised in respect of claims paid but not recovered.

ROCS levy

A liability for the ROCS funding levy is recognised on business written to balance date. Levies payable are expensed on the same basis as the recognition of premium revenue, with the portion relating to unearned premium being recorded as a prepayment.

(l) Deferred acquisition costs

The acquisition costs incurred in obtaining general insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the Statement of Comprehensive Income in subsequent reporting periods.

The Group has not deferred any acquisition costs at year end or the comparative year end.

(m) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for annual reporting purposes.

Deferred income tax assets and liabilities are recognised for all taxable temporary differences.

Deferred income tax assets carry-forward unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Other taxes

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

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables, which are stated with the amount of GST included.

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

Cash flows are included in the Statement of Cash Flows on a gross basis and 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 part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(n) Assets backing general insurance liabilities

The investments portfolio of MIPSi is actively managed as part of the Group’s investment strategy to ensure that investments mature in accordance with the expected pattern of future cash flows arising from general insurance liabilities.

The Group has determined that all investments of MIPSi are held to back general insurance liabilities and their accounting treatment is described below. As these assets are managed under the Risk Management Statement (RMS) of MIPSi on a fair value basis and are reported to the Board of MIPSi on this basis, they have been valued at fair value through profit or loss.

(o) Investments

Investments within the scope of AASB 139 Financial Instruments: Recognition and Measurement are categorised as investments at fair value through profit or loss, held-to-maturity or available-for-sale. The classification depends on the purpose for which the investments were acquired.

When investments are recognised initially, they are measured at fair value, plus in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Recognition and Derecognition

All regular way purchases and sale of investments are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Investments are derecognised when the right to receive cash flows from the investments have expired or been transferred.

Subsequent measurement

(i) Investments – fair value through profit or loss

Investments classified as held for trading are included in the category of 'Investments at fair value through profit or loss'. Investments are classified as held for trading if they are acquired for the purpose of selling in the near term with intention of making a profit. Investments designated as 'fair value through profit of loss' are re-measured to fair value at balance date. Investments backing general insurance liabilities are designated 'fair value through profit or loss'. Gains or losses on financial assets held for trading are recognised in profit or loss.

(ii) Held-to-maturity investments

Non-derivative investments with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments (if any), plus or minus the cumulative amortisation using the effective interest method or any difference between the initially recognised amount and the maturity amount.

(iii) Available-for-sale investments

Available-for-sale investments are those non-derivative investments, principally equity securities that are designated as available-for-sale or are not classified as any of the two preceding categories. After initial recognition, available-for-sale securities are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

All investments are initially recognised at fair value, which is the cost of acquisition. The Group capitalises all acquisition costs. Otherwise transactions costs are capitalised on initial recognition.

Details of fair value for the different types of investments are listed below:

- Cash assets are carried at face value of the amounts deposited or drawn. The carrying amount of cash approximates to their fair value; and
- Shares, fixed interest securities, options and units in trusts listed on the stock exchange are measured at the quoted bid price of the instrument at the Statement of Financial Position date.

Where there is no quoted market price, fair value of an investment is determined by reference to the current market value of another instrument which is substantively the same or alternatively is calculated based on the expected cash flows of the underlying net asset base of the investment.

Dividends and distributions are recognised as revenue when the right to receive payment is established. Interest revenue is recognised on an accruals basis, using the effective interest rate method.

(p) Plant and equipment

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the 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. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

Depreciation for plant and equipment is calculated using the reducing balance method to allocate their cost, while depreciation for leasehold improvements is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives of 5 years.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each Statement of Financial Position date. The Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

The assets 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 on disposals are determined by comparing proceeds with the carrying amount and are included in the Statement of Comprehensive Income.

(q) Impairment of non-financial assets

The Group conducts a bi-annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

(r) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

(s) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(t) Receivables

Receivables are initially recognised at fair value, being the amounts due. They are subsequently measured at amortised cost.

A provision for doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The charge is recognised in the Statement of Comprehensive Income.

(u) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents are as defined above.

(v) Rounding of amounts

The Group is of a kind referred to in ASIC (Rounding in Financial/Directors' Reports) Instrument 2017/191, issued by the Australian Securities and Investments Commission (ASIC), relating to the "rounding off" of amounts in the annual report. Amounts in the annual report have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Note 2: Critical accounting judgements and estimates

(a) Critical estimates and assumptions

The Group makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continuously 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 where critical estimates are applied are described below.

(i) The ultimate liability arising from claims made under insurance contracts

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the Statement of Financial Position date.

The estimated cost of claims includes direct expenses to be incurred in settling claims gross of any recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, particularly in the early stages after initial notification, it is likely that the final outcome will prove to be different from the original liability established.

The medical indemnity liability class of business will typically display greater variations between initial estimates and final outcomes than other classes of insurance because there is a degree of difficulty in estimating reserves. In calculating the estimated cost of unpaid claims, the Group relies on a variety of estimation techniques, generally based on statistical analyses and review of historical experience, which assumes that the development pattern of current claims will be consistent with past experience.

Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the value of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- Changes in Group processes which might accelerate or slow down the development and / or notification of paid or incurred claims, compared with statistics from previous periods
- Changes in legal environment
- The effects of inflation
- The impact of large losses
- Movement in industry benchmarks and
- Medical and technological developments.

Further information on the methods used in deriving the outstanding claims liability at year end are detailed in Note 3.

(ii) The ultimate obligation arising from claims made under discretionary cover

In accordance with accounting policy 1(i), MIPS recognises a liability for the estimated cost of settling discretionary medical indemnity obligations, including those incidents that have occurred but for which a request for indemnity has yet to be received. Due to the nature of the liability, it is likely that the final outcome will prove to be different from the original liability established.

Given the length of time the indemnity arrangements have been in run off there is no longer the volatility discussed above in relation to insurance contracts. The liability is based on an actuarial valuation that was obtained at June 2016.

Valuation approach
The provision for reported outstanding claims is based on actual case estimates and estimated recoveries. In addition, in estimating the liability for incidents that have occurred but for which a request for indemnity has yet to be received, management have utilised the June 2016 valuation as a basis for writing the prudential margin component off over three years.

(iii) The determination of retirement claims liabilities

Over time, an increasing proportion of reported claims will be eligible for indemnity under ROCS policies. These claims will be in relation to former MIPS members who had previously retired from medical practice over the age of 65, died or were permanently disabled and unable to work. ROCS indemnity will also cover qualifying claims against doctors on maternity leave or who are under age 65 but have ceased work for 3 years.

(iv) Assets arising from reinsurance contracts and other recoveries

Assets arising out of reinsurance contracts and other recoveries (which includes HCCS and ROCS recoveries) are also calculated using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will be ultimately received, taking into consideration factors such as counter party and credit risks. Impairment is recognised where there is objective evidence that the Group may not receive amounts due to it and these amounts can be reliably measured.

(b) Critical Judgements

It has been determined that no critical accounting judgements have been made in the year.

Note 3: Actuarial assumptions and methods

The Group provides medical indemnity insurance, which is long tail in nature and is expected to be exposed to a small number of large value claims each year. As a result, the claims experience is liable to fluctuations from year to the next and the estimates of the outstanding claims liabilities are uncertain. The process for determining the value of outstanding claims liability is described below.

The gross outstanding claims liability is estimated by considering a range of methods. The following methods are used:

- A frequency and a priori severity method which combines a projected ultimate number of claims with an a priori average claim size assumption based on an analysis of both average claims by report year and average claims by settlement year
- An aggregate paid development method which projects how the total value of paid claims develops.
- A capped/excess frequency severity method sets separate frequency and severity assumptions for small and large claims. Both the average size of settled claims and average of all claims are considered to set the severity assumptions
- A case adjustment method that adjusts individual case estimates based on detailed analyses of the factors affecting the individual reserves as well as making an allowance for late reports.
- A payment per settled claim method which projects the number of claims that will settle in each year in the future and an average size which varies based on how long they take to settle. This is the first year this method has been considered.

In order to project the ultimate payments that will be made, claims inflation is incorporated to allow for both general economic inflation as well as any superimposed inflation detected in the modelling of payment experience. The addition of superimposed inflation reflects the fact that over time claims inflation has exceeded both price inflation and wage inflation. Superimposed inflation may arise from non-economic factors such as developments of legal precedent.

The recoveries from HCCS and any reinsurance that has been secured are projected using a weighting of two approaches. The first approach is to compare individual claims with the appropriate threshold levels. The second approach is to apply aggregate assumptions of the percentages recoverable to the projected gross claim payments.

Unallocated claims handling expenses are included by applying a percentage assumption to the projected claims costs. Projected payments are discounted for the time value of money. Inherent uncertainties in this class of business are considered when setting the appropriate risk margin.

Actuarial assumptions

The following assumptions have been made in determining the outstanding claims liabilities.

Assumptions	2018	2017
Average net weighted term to settlement from reporting date	3.35 years	3.35 years
Expense rate	9.5%	10.0%
Discount rate	2.2%	2.1%
Inflation rate	3.0%	3.0%
Superimposed inflation rate	2.5%	2.5%
Level of sufficiency achieved by prudential margin	92.5%	92.5%

These assumptions represent the following:

Average net weighted term to settlement
The average net weighted term to settlement is based on historic settlement patterns.

Expense rate
Unallocated claims handling expenses were calculated by reference to both current and projected 2017/18 claims handling costs, as a percentage of projected 2017/18 gross claims payments.

Discount rate
Discount rates derived from market yields on Commonwealth Government securities as at the balance date with a term to redemption that matches as closely as possible to the term of the Group's liabilities.

Inflation
Inflation assumptions are set by reference to current economic indicators and are consistent with assumptions that were adopted in previous years.

Superimposed inflation
Superimposed inflation occurs due to non-economic effects such as court settlement amounts increasing at a faster rate than wages or CPI inflation. An allowance for superimposed inflation was made, after considering both the superimposed inflation present in the portfolio and industry superimposed inflation trends.

Sensitivity analysis – Insurance contracts

(i) Summary

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 an analysis of the sensitivity of the profit / (loss) and equity to changes in the two key assumptions both gross and net of reinsurance

Variable	Impact of movement in variable
Average net weighted term to settlement	A decrease in the average term to settlement would lead to more claims being paid sooner than anticipated. As the annual rate of claims inflation is greater than the rate of discount applied, an increase in the average term to settlement would increase the claims expense.
Expense rate	An estimate for the internal costs of handling claims is included in the outstanding claims liability. An increase or decrease in the expense rate assumption would have a corresponding impact on the claims expense.
Discount rate	The outstanding claims liability is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money. The methodology to be used for the valuation is prescribed by the Australian Prudential Regulation Authority (APRA) to a rate that should equal the yield on Commonwealth bonds with a term to redemption that matches as closely as possible the term of claims liabilities. As the discount rate relates to the yield on Government bonds which form a large part of the MIPSi investment portfolio backing the insurance liabilities, any movement in the yield which has the effect of increasing or decreasing the liabilities should have a matching increase or decrease in the value of the assets.
Inflation and superimposed inflation rates	Expected future payments are inflated to take account of inflationary increases including an amount for superimposed non-economic inflationary factors. An increase or decrease in the assumed levels of either economic or superimposed inflation would have a corresponding impact on claims expense, although the presence of the HCCS and the reinsurance programme will reduce the impact.

ii) Impact of changes in key variables

Variable	Movement in variable	Impact on Group equity/profit before tax $'000	Impact on Group equity/profit for the year after tax $'000
Inflation and superimposed inflation	+2.75% -2.75%	(4,350) 4,350	(3,045) 3,045
Claims handling costs	+1.5% -1.5%	(2,342) 2,342	(1,639) 1,639
Discount rate	+1.1% -1.1%	(2,287) 1,161	(1,601) 813

Note 4: Financial risk management objectives and policies

The financial condition and operation of the Group are affected by a number of key risks including insurance risk, interest rate risk, credit risk, liquidity risk and market risk.

In accordance with Prudential Standard GPS 110 Capital Adequacy issued by APRA, the Board and senior management have developed and implemented an Internal Capital Adequacy Assessment Process (ICAAP). The statement and objectives of the ICAAP are documented in the ICAAP Summary Statement which has been provided to APRA.

The ICAAP Summary Statement identifies and documents the policies, procedures, systems and controls in place to manage associated capital risks, including setting of capital targets that are consistent with the MIPSi's risk profile, risk appetite and relevant regulatory requirements.

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

The RMS and REMS identify MIPSi'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 MIPSi. Annually the Board of MIPSi certifies to APRA that adequate strategies have been put in place to monitor those risks, that MIPSi has systems in place to ensure compliance with legislative and prudential requirements and that the Board of MIPSi has satisfied itself as to the compliance with the RMS and REMS. The RMS and REMS have been approved by the Board and provided to APRA.

The risk management framework that supports MIPSi's RMS and REMS is used by the Group to manage risks outside the insurance operations. This includes development of an investment strategy that includes funds held by non-insurance entities.

(a) Insurance risk

MIPSi has an objective to control insurance risks thus reducing the volatility of financial results. In addition to the inherent uncertainty of insurance risk, which can lead to significant variability in the loss experience, financial results 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 business. Key aspects of the processes established in the RMS to mitigate insurance risk include:

- The maintenance and use of management information systems
- Actuarial models, using information from the management information system, are used to calculate premium and monitor claims patterns. Past experience and statistical methods are used as part of the process
- Documented procedures are followed for underwriting and accepting insurance risks
- Reinsurance is used to limit the Group's exposure to large single claims and aggregation of claims. The Group currently uses both Excess of Loss and Quota Share reinsurance. When selecting a reinsurer, the Group only considers those companies that provide high security. In order to assess this, rating information from the public domain and information gathered through internal investigation is used
- In order to limit concentration of credit risk, in purchasing reinsurance the Group has regard to existing reinsurance assets and seeks to limit excess exposure to any single reinsurer or grouping of related reinsurers
- The Group does not undertake any form of alternate risk transfer
- The mix of assets in which the Group invests is driven by the nature and term of insurance liabilities. The management of assets and liabilities is closely monitored to attempt to match maturity dates of assets with the expected pattern of claim payments
- Business is limited to only one class of insurance.

Terms and conditions of insurance business

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by the Group. All insurance contracts written are entered into on a standard form basis. The Group writes insurance contracts only on a claims-made basis, i.e. liabilities may arise in respect of claims reported during the term of the insurance contract, however, where retroactive cover is provided the event that gave rise to the claim could have occurred in a previous period.

There are no other special terms and conditions in any of the contracts that have a material impact on the financial statements.

Concentration of insurance risk

Apart from operating as a monoline insurer, the Groups's exposure to concentration of insurance risks is minimised as the Group is not affected by any natural disasters and mitigates its risk through comprehensive reinsurance programmes.

The Group's exposure to concentration of monoline insurance risk is mitigated by providing insurance for diversified membership categories in all Australian States and Territories. To manage the risks associated with various membership categories, a risk based pricing model is adopted.

Development and sensitivities of claims

There is a possibility that changes may occur in the estimate of the Group's obligations at the end of a contract period. The tables in Note 21 disclose the estimates of total claims outstanding for each underwriting year at successive year ends. Note 3 identifies the sensitivities associated with the determination of the liability for outstanding claims.

Reinsurance counterparty risk

When there is reliance on a few reinsurers, there is a potential credit risk. As far as appropriate and in accordance with the RMS, the Group will seek to diversify the reinsurance security it sources. This objective is tempered by the security constraint (which is absolute in relation to counter-party risk ratings) and the relative reinsurance capacity shortage in this segment particularly in relation to some types of reinsurance.

The administration costs that must be passed on to the Group if multiple reinsurers with small lines are involved in the programme must also be considered. Financially strong reputable reinsurers who have significant involvement in all areas of the reinsurance programme have the resources to add value to the operations of MIPS. As opportunities arise, the Group will seek to diversify security while respecting the long-term support offered by those well-known and established reinsurers who offer support across all programmes with whom relationships already exist. Long-term significant relationships are important in order to weather the regular cycles of a hardening reinsurance market and if unexpected adverse experience occurs in an underwriting year. In addition, due to the nature of insurance offered by the Group, eventual realisation of recoveries from reinsurers is likely to be over an extended period of time, during which the credit quality of the reinsurer may decline. As noted above in (a), the Group reassesses the security of reinsurers each balance date based on information in the public domain and gathered through internal investigation and advice from its reinsurance broker.

(b) Credit risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Group to incur a financial loss.

With respect to credit risk arising from the financial assets and liabilities of the Group, the Group's exposure to credit risk arises from potential default of a counterparty, with the current exposure equal to the fair value of these instruments as disclosed in the Statement of Financial Position. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables.

The Group holds no collateral as security or any other credit enhancements. There are no financial assets that are impaired, or would otherwise be impaired except for the terms having been renegotiated.

Credit risk is not considered to be significant to the Group except in relation to investments in debt securities.

With respect to all other financial assets, concentration of credit risk is managed by counterparty, and by industry sector.

Counterparty risk is not considered to be significant for cash as the total cash balance is held by counter parties with an A- or AAA rating.

The split of investment by class (bank term deposits, bank bills, equity and fixed interest securities) and maturity profile is shown in Note 14. An industry sector analysis of the investments in financial assets is as follows:

Value of investments by sector

Sector	Group		Society	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Energy	5,581	3,716	5,581	3,716
Materials	12,384	5,547	12,384	5,547
Industrials	3,199	2,688	3,199	2,688
Consumer Discretion	-	1,587	-	1,587
Consumer Staples	5,299	6,898	5,299	6,898
Health Care	5,197	1,455	5,197	1,455
Information Technology	1,345	1,446	1,345	1,446
Government	76,680	63,355	-	-
Financials	237,653	221,588	120,392	106,460
Telecommunications	939	2,402	939	2,402
Other	2,108	-	2,108	-
Total Investments	350,385	310,682	156,444	132,199

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using Standard and Poor's rating categories, in accordance with the investment mandate of the Group. The Group's exposure in each grade is monitored on a monthly basis. This review process allows the Group to assess the potential loss as a result of risks and take corrective action.

The table below shows the credit quality by class of asset for debt instruments for the Group.

2018 Group	AAA to AA- $'000	A+ to A- $'000	BBB+ to BBB- $'000	Other * $'000	Total $'000
Bank term deposits	5,149	43,200	12,858	-	61,207
Floating rate notes	44,407	23,127	82,091	-	149,625
Government bonds	76,680	-	-	-	76,680
Total debt investments	126,236	66,327	94,949	-	287,512

2017 Group	AAA to AA- $'000	A+ to A- $'000	BBB+ to BBB- $'000	Other * $'000	Total $'000
Bank term deposits	48,343	13,411	-	-	61,754
Floating rate notes	74,437	34,181	31,830	-	140,448
Government bonds	63,355	-	-	-	63,355
Total debt investments	186,135	47,592	31,830	-	265,557

*Other consists of debt instruments which do not yet have a rating for example for new issues, but are selected in line with the investment mandate of the Group.

The table below shows the credit quality by class of asset for debt instruments for the Society.

2018 Society	AAA to AA- $'000	A+ to A- $'000	BBB+ to BBB- $'000	Other * $'000	Total $'000
Bank term deposits	500	25,700	8,727	-	34,927
Floating rate notes	12,881	8,800	36,963	-	58,644
Total debt investments	13,381	34,500	45,690	-	93,571

2017 Society	AAA to AA- $'000	A+ to A- $'000	BBB+ to BBB- $'000	Other * $'000	Total $'000
Bank term deposits	26,450	8,018	-	-	34,468
Floating rate notes	18,681	10,127	23,798	-	52,606
Total debt investments	45,131	18,145	23,798	-	87,074

*Other consists of debt instruments which do not yet have a rating for example for new issues, but are selected in line with the investment mandate of the Society.

(c) Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet obligations to repay financial liabilities as and when they fall due.

The Group manages liquidity risk primarily through the investment strategy (discussed above) and ongoing monitoring of its capital adequacy multiple for MIPSi. MIPSi's Prescribed Capital Amount Coverage Ratio (PCR) multiple is calculated every month as well as each quarter as part of routine reporting to APRA. The Prescribed Capital Coverage Ratio serves as a measure of insurer solvency.

Trade payables and other financial liabilities of the Group and Society (excluding indemnity related provisions held by the Society) generally mature within 12 months of being incurred.

(d) Market risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and equity prices. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandate limits and investment strategies.

In accordance with its investment strategy, the Group invests in equities and hybrids with designated allocation targets. There are specified allowable ranges within which the investments portfolio may vary from the neutral/target allocation. The investment strategy includes an assessment of the risk profile of the shares in which the Group invests and also exposure restrictions based on APRA credit ratings.

There are no off-statement of financial position derivative transactions or open option positions at year end. The Group's financial assets and liabilities are carried at amounts that approximate their fair value.

(i) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group has established limits on investments in interest bearing assets, which are monitored on a daily basis. The Group may use derivatives to hedge against unexpected increases in interest rates.

The following table demonstrates the sensitivity of the Group's Statement of Comprehensive Income to a reasonably possible change in interest rates, with all other variables held constant.

The sensitivity of the Statement of Comprehensive Income is the effect of the assumed changes in interest rates on changes in fair value of investments for the year, based on revaluing fixed rate financial assets at 30 June 2018.

The basis points sensitivity is based on the volatility of change in the global interest rates over the last 10 years.

Interest rate risk

		Group		Society	
Interest rate	Change in basis points Increase / decrease	After tax effect on Profit higher/(lower) $'000	Equity higher/(lower) $'000	After tax effect on Profit higher/(lower) $'000	Equity higher/(lower) $'000
2018	+150	(2,640)	-	-	-
	-150	2,496	-	-	-
2017	+150	(2,700)	-	-	-
	-150	1,924	-	-	-

(ii) Equity price risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in market prices, whether those changes are caused by factors specific to the individual stock or factors affecting all instruments in the market. Equity price risk exposure arises from the Group's investment portfolio. The effect on net assets attributable to equity and operating profit before distribution due to reasonably possible changes in market factors, as represented by the equity indices, with all other variables held constant is indicated in the table below .

Accounting Assumptions – Variability of equity price

The sensitivity is based on the volatility of change in the individual composite indices over the last 10 years.

Index	Change in equity price %	2018 After tax effect on Profit higher/(lower) $'000	2018 After tax effect on equity $'000	2017 After tax effect on Profit higher/(lower) $'000	2017 After tax effect on equity $'000
Group	+20%	-	8,802	-	6,317
ASX	-20%	-	(8,802)	-	(6,317)
Society	+20%	-	8,802	-	6,317
ASX	-20%	-	(8,802)	-	(6,317)

(iii) Foreign currency risk

The Group has no foreign currency risk as all agreements and transactions are in Australian dollars.

Note 5: Fair values

All of the Group's financial assets are based upon quoted market prices. As a result all of the Group's financial assets have been classified as level 1 investments. Level 1 method is where the fair value is calculated using quoted prices in active markets. Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs.

The financial assets and liabilities included in the Statement of Financial Position are carried at their fair value or at amounts that approximate their fair values. Refer to Note 1 for the methods and assumptions adopted in determining fair values for investments.

Note 6: Operating income

	Group		Society	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Subscription revenue	57,266	56,318	57,266	56,318
Service fee	-	-	5,229	6,077
Recovery of expenses incurred	855	815	855	815
Quota share commission	5,238	4,760	-	-
Sundry income	71	85	-	31
Operating Income	63,430	61,978	63,350	63,241

Note 7: Net claims incurred

All insurance business is underwritten by MIPSi and all net claims incurred information relates to the Group.

	2018 Current year $'000	2018 Prior years $'000	2018 Total $'000	2017 Current year $'000	2017 Prior years $'000	2017 Total $'000
Gross claims incurred						
Undiscounted	60,140	(839)	59,301	51,655	29,784	81,439
Discount movement	(4,774)	3,156	(1,618)	(4,016)	(238)	(4,254)
Gross claims discounted	55,366	*2,317	57,683	47,639	*29,546	77,185
Prudential margin	14,663	(5,266)	9,397	11,245	1,038	12,283
Claim expense	70,029	(2,949)	67,080	58,884	30,584	89,468
Reinsurance and other recoveries						
Undiscounted	36,466	2,642	39,108	31,016	18,819	49,835
Discount movement	(3,371)	2,074	1,297	(2,805)	(234)	(3,039)
Reinsurance recoveries discounted	33,095	*4,716	(37,812)	28,211	*18,585	46,796
Prudential margin	9,086	(2,223)	6,863	6,765	1,101	7,866
Reinsurance and other recoveries	42,181	2,493	44,674	34,976	19,686	54,662
Net Claims incurred	27,848	(5,442)	22,406	23,908	10,898	34,806

Current year amounts relate to risks borne in the current financial year. Prior period amounts relate to a reassessment of the risks borne in all previous financial years.

* These amounts are impacted by both changes in assumptions and other factors (including reassessments of individual case estimates). The significant changes in assumptions are as follows:

	2018 Gross claims $'000	2018 Recoveries $'000	2018 Net $'000	2017 Gross claims $'000	2017 Recoveries $'000	2017 Net $'000
Changes in assumptions						
Claims development	3,137	4,486	7,623	31,406	(19,626)	11,780
Discount rate/claims handling expenses	(820)	230	(590)	(1,860)	1,040	(820)
Total change in assumptions	2,317	4,716	7,033	29,546	(18,586)	10,960

Note 8: Investment result

	Group 2018 $'000	Group 2017 $'000	Society 2018 $'000	Society 2017 $'000
Investment revenue				
Interest received on bank accounts	841	1,245	421	725
Interest on investments - Not held as FVTPL*	3,047	3,710	2,905	3,542
Interest on investments - Held as FVTPL*	6,933	5,829	-	-
Dividends received	3,492	2,738	3,492	2,125
Total investment revenue	14,313	13,522	6,818	6,392
Gains (losses) on investments				
Realised gains/(losses) on investments at FVTPL	(1,080)	1,077	-	-
Unrealised gains/(losses) on investments at FVTPL	(684)	(1,058)	-	-
Realised gains/(losses) on available-for-sale investments	42	2,119	42	2,119
Unrealised gains/(losses) on available-for-sale investments	-	434	(130)	434
Total gains/(losses) on investment	(1,722)	2,572	(88)	2,553
Expenses on Investment not held as FVTPL*	(477)	(446)	(477)	(446)
Expenses on Investment held as FVTPL*	(492)	(447)	-	-
Investment result	11,622	15,201	6,253	8,499

*FVTPL – Fair value through profit & loss

Note 9: Indemnification expense

	Group 2018 $'000	Group 2017 $'000	Society 2018 $'000	Society 2017 $'000
Charge for indemnity obligations	(9)	177	(9)	177
Movement in recoveries				
- undiscounted	45	56	45	56
Indemnification expense	36	233	36	233

Note 10: Other operating expenses

	Group 2018 $'000	Group 2017 $'000	Society 2018 $'000	Society 2017 $'000
Employee remuneration	6,412	6,135	6,411	6,139
Non-executive directors' remuneration	1,310	1,177	546	550
Employment oncost	529	518	492	488
Cases committee	1,894	1,773	1,894	1,773
Professional services expense	1,753	1,474	546	403
Marketing	1,426	1,118	1,426	1,118
Lease and occupancy expense	1,006	941	1,006	941
IT and communication expense	1,168	1,308	1,168	1,308
Financial Institution charges	361	420	360	149
Travel and accommodation	360	298	276	218
Insurance	177	163	177	163
Depreciation expense	139	187	139	185
Other expenses from ordinary activities	588	542	465	420
Less Reallocation to claims expense	(3,300)	(3,200)	-	-
Other operating expenses	13,823	12,854	14,906	13,855

Note 11: Income tax

	Group 2018 $'000	Group 2017 $'000	Society 2018 $'000	Society 2017 $'000
Reconciliation between net profit before tax and tax expense				
Net profit before tax	14,446	7,762	12,886	20,490
Tax calculated at rate of 30%	4,334	2,329	3,865	6,147
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Net mutual (income)/expense	(3,791)	(5,001)	(3,791)	(5,001)
Tax deferred trust income	(4)	(5)	(4)	(5)
Entertainment and other	41	38	41	32
Adjusted Income Tax	580	(2,639)	111	1,173
Write off of deferred tax asset balance	(3)	-	-	-
Tax losses of prior years recouped	(3)	(2)	-	-
Under (over) provision in previous year	-	5	-	-
Tax charge/(benefit) for the year	574	(2,636)	111	1,173
Income tax expense				
Charge for current tax payable	968	(561)	138	1,056
Deferred tax movement	(391)	(2,078)	(27)	117
Adjustments in respect of prior years	(3)	3	-	-
Tax expense/(benefit) charged to Statement of Comprehensive Income	574	(2,636)	111	1,173
Tax charged to other comprehensive income				
Deferred tax related to items in other comprehensive income	1,063	161	1,063	161
Tax charged to other comprehensive income	1,063	161	1,063	161

Imputation credits and rebateable dividends have been included in profit before tax.

Note 12: Cash and cash equivalents

	Group 2018 $'000	Group 2017 $'000	Society 2018 $'000	Society 2017 $'000
Cash and cash equivalents	62,893	81,918	41,558	51,927

Cash at bank and trust account earns interest at a floating rate. As at 30 June 2018, the Group average interest rate was **1.69%** (2017: 1.83%). Over the full year the Group weighted average interest rate was **2.02%** (2017: 1.80%)

Note 13: Receivables

	Group 2018 $'000	Group 2017 $'000	Society 2018 $'000	Society 2017 $'000
Premiums and subscriptions receivable				
Receivables from members*	12,365	7,468	12,365	7,468
Provision for doubtful debts	(100)	(100)	(100)	(100)
PSS receivable	551	442	551	442
Premium and subscription receivables	12,816	7,810	12,816	7,810
Other receivables				
Trade debtors	-	13	-	13
Receivable from related entities	-	-	2	39
Other receivables	-	13	2	52
Total receivables	12,816	7,823	12,818	7,862

*Receivables past due but not considered impaired are; Group $22,945 (2017: $2,130); Society $22,945 (2017: $2,130):

The ageing analysis of receivable past due but not considered impaired are as below:

		31-60 days $	61-90 days $	Over 91 days $	Total $
2018	Group	-	2,659	20,286	22,945
	Society	-	2,659	20,286	22,945
2017	Group	-	-	2,130	2,130
	Society	-	-	2,130	2,130

Other balances within receivables from members & PSS receivable do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

Note 14: Investments

	Group		Society	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Investments – 'held-to-maturity'				
Bank term deposits	40,238	39,373	34,927	34,468
Investments – 'available for sale'				
Equity securities – listed entities	62,873	45,125	62,873	45,125
Floating rate notes	58,644	52,606	58,644	52,606
	121,517	97,731	121,517	97,731
Investments – 'fair value through profit or loss'				
Bank term deposits	20,969	22,381	-	-
Floating rate notes	90,981	87,842	-	-
Fixed interest securities	76,680	63,355	-	-
	188,630	173,578	-	-
Total investments	350,385	310,682	156,444	132,199
Current investments	100,527	60,226	81,300	53,643
Non-current investments	249,858	250,456	75,144	78,556
Total investments	350,385	310,682	156,444	132,199

The weighted average interest rate for interest bearing investments is 3.49% (2017: 3.16%) and the following table summarises the interest rate sensitivity (repricing profile) of the Group's exposure to fixed interest securities based on earlier of contractual maturity or repricing.

	Group		Group	
Maturity	2018 Average rate	2018 $'000	2017 Average rate	2017 $'000
Less than 12 months	1.94%	5,055	-	-
One to two years	2.01%	10,939	3.34%	20,338
Two to three years	2.18%	13,902	1.90%	6,092
Three to four years	2.80%	17,520	-	-
Four to five years	2.27%	24,164	2.80%	18,013
Over five years	2.54%	5,100	2.23%	18,912
Total fixed interest securities		76,680		63,355

Note 15: Reinsurance and other recoveries receivable

	Group		Society	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Expected future recoveries on outstanding claims				
- from reinsurers	65,053	57,750	-	-
- from HCCS	53,623	47,174	-	-
	118,676	104,924	-	-
Discounted to present value	(8,017)	(6,715)	-	-
Prudential Margin	35,269	28,407	-	-
	145,928	126,616	-	-
Retirement claim recoveries from ROCS	7,862	8,380	-	-
Receivable from excess of loss reinsurers	880	-	-	-
Expected future recoveries on outstanding claims	154,670	134,996	-	-
Expected future recoveries on indemnity obligations				
- from insurers and reinsurers	110	165	110	165
- from ROCS	-	-	-	-
- from HCCS	-	-	-	-
Expected future recoveries on indemnity obligations	110	165	110	165
Total reinsurance and other recoveries receivable	154,780	135,161	110	165
Current reinsurance and other recoveries receivable	33,289	29,110	55	82
Non-current reinsurance and other recoveries receivable	121,491	106,051	55	83
Total reinsurance and other recoveries receivable	154,780	135,161	110	165
Movement – outstanding claim recoveries				
Brought forward	134,996	101,083	-	-
Recognised in the Statement of Comprehensive Income (refer Note 7)	37,811	46,796	-	-
Movement in prudential margin	6,863	7,866	-	-
Recoveries received/receivable during the year	(25,000)	(20,749)	-	-
Carried forward	154,670	134,996	-	-
Movement – indemnity obligation recoveries				
Brought forward	165	555	165	555
Recognised in the Statement of Comprehensive Income (refer Note 9)	(45)	(56)	(45)	(56)
Movement in prudential margin	-	-	-	-
Recoveries received during the year	(10)	(334)	(10)	(334)
Carried forward	110	165	110	165

Note 16: Other assets

	Group		Society	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Deferred master policy expense	-	-	43,919	38,273
Deferred ROCS expense	1,418	1,142	-	-
Deferred reinsurance premium	21,922	19,206	-	-
Prepayments	606	461	587	446
Quota share commission receivable	5,653	5,233	-	-
Other	2,566	2,081	1,030	782
Total other assets	32,165	28,123	45,536	39,501

Note 17: Plant and equipment

	Group		Society	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Plant and equipment – at cost	1,023	1,301	1,023	1,301
Less: Accumulated depreciation	(661)	(817)	(661)	(817)
Total plant and equipment	362	484	362	484
Movements				
Opening amount	484	624	484	607
Additions	47	105	47	105
Disposals	(8)	(58)	(8)	(43)
Write-off	(22)	-	(22)	-
Depreciation expense	(139)	(187)	(139)	(185)
Closing amount	362	484	362	484

Note 18: Investments in subsidiaries

	Group		Society	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
MIPS Insurance Pty Ltd (MIPSi)	-	-	36,250	36,250
Professional Management Australia Pty Ltd (PMA)	-	-	250	250
Queensland Doctors' Mutual Pty Ltd (QDM)	-	-	8	8
Total investment in subsidiaries	-	-	36,508	36,508

Name of Company	Principal Activity	Country of incorporation	Class of Shares	Ownership interest 2018 %	Ownership interest 2017 %
MIPS Insurance Pty Ltd	Insurance	Australia	Ordinary	100	100
Professional Management Australia Pty Ltd	Dormant	Australia	Ordinary	100	100
Queensland Doctors' Mutual Pty Ltd	Medical defence organisation	Australia	Ordinary	100	100
Asclepius Underwriting Pty Ltd (Subsidiary of QDM)	Insurance	Australia	Ordinary	100	100

Note 19: Deferred tax asset /(liability)

	Group 2018 $'000	Group 2017 $'000	Society 2018 $'000	Society 2017 $'000
Amounts recognised in profit or loss				
Accrual for audit fees	32	60	7	18
Provision for employee entitlements	526	474	526	474
Provision for indirect claims handling costs	4,450	4,177	-	-
Investment revaluations	177	184	27	8
Interest receivable	(42)	(33)	-	-
Dividend receivable	(167)	(91)	(167)	(91)
Impairment of investments per AASB 136	-	471	-	471
Provision for FBT	4	3	4	3
Provision for Legal Fees	-	15	-	-
Provision for Leasehold make good	25	-	25	-
Market value adjustment Fixed interest securities	737	555	40	23
Amounts recognised in equity				
Investment revaluations	(1,418)	(826)	(1,418)	(826)
Deferred tax asset / (liability)	4,324	4,989	(956)	80
Amounts recognised in deferred tax losses				
Recognition of tax losses	1,020	1,844	-	-
Total net deferred tax asset/(liability)	5,344	6,833	(956)	80
Movements				
Opening balance at 1 July	6,833	3,077	80	363
Credited / (charged) to other comprehensive income	(1,063)	(161)	(1,063)	(161)
Adjustment to opening DTL/DTA	3	(5)	-	(5)
Recognition of / (recoupment of) tax losses	(820)	1,627	-	-
Conversion of franking credits to tax losses	-	217	-	-
Credited / (charged) to the Statement of Comprehensive Income	391	2,078	27	(117)
Closing balance at 30 June	5,344	6,833	(956)	80
Asset to reverse within 12 months	2,312	3,482	462	906
Asset/(Liability) to reverse after 12 months	3,032	3,351	(1,418)	(826)
Net deferred tax asset/(liability)	5,344	6,833	(956)	80

Note 20: Payables

		Group 2018 $'000	Group 2017 $'000	Society 2018 $'000	Society 2017 $'000
Related party payables	Note 27	-	-	43,927	34,793
Trade creditors		3,330	3,034	67	73
Accrued reinsurance expense		21,923	19,206	-	-
Professional fees payable		109	223	29	73
ROCS levy payable		1,418	1,145	-	-
Net GST payable		2,665	2,971	2,841	3,068
Accruals		1,398	1,246	485	248
Other		5,768	5,244	118	12
Other payables		36,610	33,069	3,540	3,474
Total Payables		36,610	33,069	47,467	41,748

Payables are interest free and unsecured.

Note 21: Outstanding claims

	Group		Society	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
(a) Outstanding claims liability				
Central estimate	156,125	139,223	-	-
Claims handling costs	14,832	13,922	-	-
	170,957	153,145	-	-
Discount to present value	(11,029)	(9,406)	-	-
Discounted claims liability	159,928	143,739	-	-
Prudential margin (refer Note 21(c))	50,972	41,576	-	-
	210,900	185,315	-	-
Eligible retirement claims (subject to ROCS) (refer Note 2(a)(iii))	5,071	5,611	-	-
Total gross outstanding claims liability	215,971	190,926	-	-
Current gross outstanding claims liability	42,372	37,962	-	-
Non-Current gross outstanding claims liability	173,599	152,964	-	-
Total gross outstanding claims liability	215,971	190,926	-	-
(b) Movements				
Brought forward	190,926	141,047	-	-
Recognised in the Statement of Comprehensive Income (refer Note 7)				
- Incurred claims	57,683	77,185	-	-
- Prudential margin	9,397	12,283	-	-
Claims payments during the year	(42,035)	(39,589)	-	-
Carried forward	215,971	190,926	-	-
(c) Prudential margin				
Level of sufficiency (refer Note 3)	92.5%	92.5%	-	-
Prudential margin as a percentage of the net discounted claims liability	31.9%	28.9%	-	-

(d) Claims development table - Group

The following tables show the development of gross and net undiscounted outstanding claims relative to the ultimate expected claims for the 15 accident years since incorporation of MIPS Insurance Pty Ltd.

(i) Gross

Accident year	Up to 2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	Total $'000
Estimate of ultimate claims cost											
At end of accident year		25,513	36,420	24,651	28,006	21,744	25,377	28,340	39,708	47,956	
One year later		22,525	29,988	23,739	24,487	23,616	25,285	37,111	45,077		
Two years later		18,977	28,459	25,333	27,350	24,977	34,392	43,594			
Three years later		18,818	16,419	20,356	27,612	31,647	33,849				
Four years later		17,051	15,979	27,301	32,869	31,472					
Five years later		21,669	18,898	32,937	34,586						
Six years later		22,306	18,538	28,556							
Seven years later		22,595	18,624								
Eight year later		21,380									
Current estimate of cumulative claims cost	101,085	21,380	18,624	28,556	34,586	31,472	33,849	43,594	45,077	47,956	406,179
Cumulative payments	(100,077)	(18,601)	(17,185)	(26,921)	(26,089)	(20,327)	(15,680)	(12,986)	(9,266)	(1,723)	(248,855)
Outstanding claims – undiscounted	1,008	2,779	1,439	1,635	8,497	11,145	18,169	30,608	35,811	46,233	157,324
Claims handling costs											14,832
ROCS claims											4,511
Discount											(11,668)
Prudential margin (at 92.5% confidence level)											50,972
Total gross outstanding claims											215,971

(ii) Net

Accident year	Up to 2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	Total $'000
Estimate of ultimate claims cost											
At end of accident year		23,658	26,229	15,942	9,831	8,297	9,561	10,211	13,602	16,008	
One year later		20,044	23,380	13,721	9,360	8,719	9,243	12,409	15,330		
Two years later		16,237	21,110	14,638	9,756	8,823	12,047	15,194			
Three years later		14,349	13,158	11,775	9,159	11,665	12,112				
Four years later		13,722	12,790	13,197	10,727	11,411					
Five years later		16,343	14,600	15,034	9,140						
Six years later		16,505	14,626	11,816							
Seven years later		16,989	14,792								
Eight year later		16,637									
Current estimate of cumulative claims cost	77,031	16,637	14,792	11,816	9,140	11,411	12,112	15,194	15,330	16,008	199,471
Cumulative payments	(78,178)	(15,888)	(14,958)	(12,988)	(10,269)	(10,187)	(8,001)	(5,892)	(6,988)	(1,464)	(164,813)
Outstanding claims – undiscounted	(1,147)	749	(166)	(1,172)	(1,129)	1,224	4,111	9,302	8,342	14,544	34,658
Claims handling costs											14,832
Net ROCS claims											-
Discount											(3,012)
Prudential margin (at 92.5% confidence level)											15,703
Total net outstanding claims											62,181

Note 22: Other liabilities

	Group 2018 $'000	Group 2017 $'000	Society 2018 $'000	Society 2017 $'000
Subscription income received in advance	43,094	39,052	43,094	39,052
Total other liabilities	43,094	39,052	43,094	39,052

Note 23: Provisions

	Group 2018 $'000	Group 2017 $'000	Society 2018 $'000	Society 2017 $'000
Provision for indemnity obligations (refer Note 1(h))				
Indemnity Obligations	1,321	1,343	1,321	1,343
Prudential margin	444	667	444	667
	1,765	2,010	1,765	2,010
Employee entitlements (refer Note 1(i))	2,208	1,986	2,208	1,986
Total provisions	3,973	3,996	3,973	3,996
Current provisions	2,599	2,128	2,599	2,128
Non-current provisions	1,374	1,868	1,374	1,868
Total provisions	3,973	3,996	3,973	3,996
Movements				
Provision for indemnity obligations				
Carrying amount at start of year	2,010	2,335	2,010	2,335
Recognised in the Statement of comprehensive income (refer note 9) net indemnity charge/(credit)	(9)	177	(9)	177
Indemnity payments made	(236)	(502)	(236)	(502)
Carrying amount at end of year	1,765	2,010	1,765	2,010

Note 24: Share capital and members' guarantee

	Society 2018 Shares	Society 2017 Shares	Society 2018 $'000	Society 2017 $'000
Issued share capital				
Ordinary shares – fully paid	100,002	100,002	100	100

The Society is limited by shares and guarantee, having both shareholders and general members.

Members and Shareholders are not entitled to dividends. Each General Member has one vote at a meeting of General Members. The Shareholders in a general meeting appoint directors.

If the Society is wound up the constitution states that each Member (other than a Member who has been a Former Member for more than one year or an Honorary Member) may be required to contribute to the assets of the Society up to an amount not exceeding $5 for payment of the debts and liabilities of the Society including the costs of the winding up.

Number of members

Membership Category	Number of members 2018	Number of members 2017
Ordinary	32,479	31,553
Student	20,829	19,981
Total Members	53,308	51,534

Note 25: Key management personnel

(a) Directors

The names of persons who were directors of the Society at any time during the financial year are as follows: A T Browning, S Carter, L Rowe, K C D Roxburgh, G R Speck, C J Steadman and B E Taylor.

(b) Remuneration

Key management personnel compensation for the years ended 30 June 2018 and 2017 is set out below. The key management personnel are: all the directors of the Society and the persons with the authority and responsibility for planning, directing and controlling the activities of the Society (A T Browning, W F Berryman and R J Miles).

Remuneration	Group 2018 $	2017 $	Society 2018 $	2017 $
Short-term benefits	2,246,423	2,053,820	1,540,529	1,474,167
Post-employment benefits	181,661	253,344	123,056	206,015
Total remuneration of key management personnel	2,428,084	2,307,164	1,663,585	1,680,182

Note 26: Remuneration of external auditors

	Group 2018 $	2017 $	Society 2018 $	2017 $
Ernst & Young				
Audit of the annual report	185,431	172,010	68,959	66,950
Audit of regulatory returns	37,131	36,050	-	-
Other audit related work	14,853	14,420	6,365	6,180
Taxation compliance services	41,715	54,590	21,115	25,750
Total remuneration of auditors	279,130	277,070	96,439	98,880

Note 27: Related parties

(a) Shareholding of the Society

MIPS Holdings Pty Ltd (MIPSH) owns 100% (2017: 100%) of the issued ordinary shares of the Society. As a shareholder, MIPSH is not entitled to a dividend or any surplus assets (except for the return of capital) in the event of a winding up.

(b) Wholly-owned Group

The wholly-owned Group consists of the Society and its wholly-owned subsidiaries MIPS Insurance Pty Ltd (MIPSi), Queensland Doctors' Mutual Pty Ltd (QDM) and Professional Management Australia Pty Ltd (PMA). Queensland Doctors' Mutual Pty Ltd (QDM) has a wholly-owned subsidiary company, Asclepius Underwriting Pty Ltd (AU).

(c) Transactions with related parties

The Group enters into transactions with its subsidiaries, associates and key management personnel in the normal course of business. Transactions are carried out on an arm's length basis.

Details of significant transactions carried out during the year with related parties are as follows;

- All insurance cover is provided to MIPS members as a member benefit by MIPS in the form of Master and Group policies. The Society has a Master Policy for insurance cover with its subsidiary MIPSi. During the year ended 30 June 2018 the Society paid $ 38,315,945 (2017: $34,714,324) to MIPSi
- MIPSi pays the Society a service fee for the provision of service under a Service Level Agreement (SLA). During the year ended 30 June 2018 the Society received $5,150,000 (2017: $5,963,000) from MIPSi. No further fees are payable by MIPSi to MIPS relating to the year ended 30 June 2018 (2017: $NIL)
- QDM pays the Society a service fee for the provision of service under a SLA. During the year ended 30 June 2018 Society received $70,000 (2017: $114,000)
- The Society provides services to AU under a SLA. No service fee is payable to the Society at this stage under the SLA.

Statement of Financial Position balances with related parties	Group		Society	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Receivables				
MIPSi	-	-	2	39
Payables				
Payable to MIPSi for Master Policy	-	-	43,927	38,274

Note 28: Reconciliation of net profit to net cash inflow from operating activities

	Group		Society	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Net profit	13,872	10,398	12,775	19,317
Non-cash items				
Depreciation	139	187	139	185
Asset write-off	22	-	22	-
Net (gain)/loss on investments	1,722	(2,572)	88	(2,553)
Changes in working capital				
(Increase)/decrease in recoveries receivable	(19,619)	(33,523)	55	390
(Increase)/decrease in receivables	(4,993)	(1,495)	(4,956)	(1,480)
(Increase)/decrease in other assets	(3,766)	(1,633)	(6,035)	(3,114)
(Increase)/decrease in current tax asset	(1,236)	(567)	(1,339)	(137)
(Increase)/decrease in deferred tax asset	423	(3,922)	(28)	123
(Increase)/decrease in deferred ROCS expense	(276)	(39)	-	-
Increase/(decrease) in accounts payable	3,541	2,380	5,719	3,783
Increase/(decrease) in current tax liabilities	-	-	-	(362)
Increase/(decrease) in outstanding claims	25,045	49,879	-	-
Increase/(decrease) in other liabilities	4,042	802	4,042	802
Increase/(decrease) in provisions	(22)	(94)	(22)	(94)
Net cash inflow/(outflow) from operating activities	18,894	19,801	10,460	16,860

Note 29: Commitments

	Group		Society	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Operating lease commitments payable:				
Not later than one year	929	930	929	930
Later than one year but not later than two years	898	922	898	922
Later than two years but not later than five years	2,821	2,793	2,821	2,793
Later than five years but not later than ten years	3,924	3,782	3,924	3,782
Total lease commitments payable	8,572	8,427	8,572	8,427

The Group has entered into leases for office space. These leases have an average life of eight years (2017 ten years) with renewal options included in the contracts.

The Group has no capital commitments as at the Statement of Financial Position date.

Note 30: Capital adequacy

All insurance business is underwritten by MIPSi. Under APRA regulations all MIPSi capital is Tier 1. The capital adequacy information relates to MIPSi.

	2018 $'000	2017 $'000
Paid-up ordinary shares	36,250	36,250
Retained earnings brought forward	116,506	125,430
Current year earnings	1,044	(8,922)
Technical provisions in excess of liability valuation (net of tax)	6,663	5,528
Premium liability surplus / (deficit) (net of tax)	(496)	1,066
	159,967	159,352
Less: deductions	(6,337)	(6,784)
Net Tier 1 capital	153,630	152,568
Total capital base	153,630	152,568
Insurance risk charge	13,958	12,075
Insurance concentration risk charge	3,500	3,500
Asset risk charge	14,962	14,059
Asset concentration risk charge	5.520	132
Operational Risk Charge	2,385	2,106
Less: aggregation benefit	(7,258)	(6,660)
Prescribed Capital Requirement Amount	33,067	25,212
Prescribed Capital Amount coverage ratio	4.65	6.05

Technical provisions in excess of liability valuation

The liability required by GPS 110 for prudential reporting purposes differs from accounting purposes. As described in Note 1(h) MIPSi applies risk margins to the central estimate of net outstanding claims to achieve a level well above the 75% minimum as required by required by paragraph 29(a) of Attachment A of APRA standard GPS 320 Actuarial and Related Matters. A summary of the level of sufficiency achieved by the prudential margin is disclosed in Note 3.

Note 31: Contingent Liability

(a) Legal proceedings:

The Group operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigations) will have a material effect on the results of the Group or the Society and their financial position.

(b) Guarantees:

The Group has issued the following guarantees at 30 June 2018:

i) A bank guarantee of $1,600,043 (2017: $1,600,043) issued to Australia and New Zealand Banking Group (ANZ) in respect of rental bond for Level 37, 55 Collins Street, Melbourne, VIC 3000 (Head office for the Society effective 2 September 2016)

ii) A bank guarantee of $448,502 (2017: $448,502) issued to ANZ in respect of rental bond for Level 37, 55 Collins Street, Melbourne, VIC 3000 (Head office for the Society)

iii) A bank guarantee of $67,782 (2017: $67,782) issued to H A Bachrach (NOM) Pty Ltd in respect of rental bond for 67 Astor Terrace Spring Hill QLD 4000. (QLD office of the Society)

iv) A bank guarantee of $15,000 (2017: $15,000) issued to Megawati Kusuma in respect of rental bond for Suite 301, 93 Pacific Highway, North Sydney, NSW 2060. (NSW office of the Society)

v) A electronics pathway facility of $300,000 (2017 $300,000) issued to to ANZ in respect to the extent ANZ will assume pay away exposure on any one day)

vi) A bank guarantee of $50,000 (2017: $50,000) issued to ANZ in respect of Commercial Card Facility

vii) A bank guarantee of $1,000 (2017: $1,000) issued to ANZ in respect of Encashment Facility.

Note 32: Events occurring after balance date

No matters or circumstances have arisen since 30 June 2018 that have significantly affected, or may significantly affect:

a) the Group or Society's operations in future years, or
b) the results of those operations in future years, or
c) the Group or Society's state of affairs in future financial years.

Note 33: Authorisation of the annual report

The annual report of the society for the year ended 30 June 2018 was authorised for issue in accordance with a resolution of directors on 26 September 2018.

Directors' declaration

In accordance with a resolution of the Directors of the Company, we state that:

In the opinion of the Directors:

a) the financial statements and notes of the Company are in accordance with the Corporations Act 2001, including:

    i. giving a true and fair view of the Company's financial position as at 30 June 2018 and of its 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;

b) the financial statements and notes also comply with International Annual reporting Standards as disclosed in Note 1; and

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

On behalf of the Board

G R Speck
Chairman

A T Browning
Managing Director

Melbourne
26 September 2018

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Independent Auditor's Report to the Members of Medical Indemnity Protection Society Ltd

Opinion

We have audited the financial report of Medical Indemnity Protection Society Pty Ltd (the Company) and its subsidiaries (collectively the Group), which comprises:

- the Group consolidated and Company statements of financial position as at 30 June 2018;
- the Group consolidated and Company statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended;
- notes to the financial statements, including a summary of significant accounting policies; and
- the directors' declaration.

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

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the year ended on that date; and

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

Basis for Opinion

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

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

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information obtained at the date of this auditor's report is the Chairman's report, Managing Director's report and the Directors' report accompanying the financial report.

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's or Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Ernst & Young

Ernst & Young

T M Dring
Partner
Melbourne
26 September 2018

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