

The Law Society of New South Wales

Concise financial report for the year ended 30 June 2014

The concise financial report is an extract from the full financial report for the year ended 30 June 2014. The financial statements and specific disclosures included in the concise financial report have been derived from the full financial report.

The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of The Law Society of New South Wales and its subsidiaries as the full financial report.

The full financial report and the auditor's report will be sent to members on request, free of charge. Alternatively, members can access both the full financial report and the concise report via the internet on The Law Society of New South Wales' website: www.lawsociety.com.au

Councillors' report

The Council present their report on the consolidated entity (hereafter referred to as the group) consisting of The Law Society of New South Wales (the company) and the entities it controlled at the end of, or during, the year ended 30 June 2014.

Councillors

The members of the Council in office during or since the end of the financial year were:

Darryl Ian Browne	Mary Josephine Esther Macken
John Clarence Dobson	Alan Malcolm McMurrin
Justin Joseph Dowd	Robert Brian Mooy
John Francis Eades	Alexandra Elizabeth Rose
Elizabeth Maria Espinosa	Thomas Carson Spohr
Roslyn Elizabeth Everett	Terence Leland Stern
Heidi Frances Fairhall	Pamela Gaibrielle Suttor
Patrick Rafael Garcia	Gary Stephen Ulman
Jane Marianne Glowrey	Joanne Patricia van der Plaats
Richard John Harvey	Mark Stephen Warton
Douglas John Humphreys	Penelope Jane Waters
Zora Kekeff	Pauline Jennifer Wright
Coralie Suzanne Kenny	

All members of the Council are practising solicitors of the Supreme Court of New South Wales.

During the year, the following Councillors were elected, re-elected or appointed to Council: Mr D Browne (re-elected, 24.10.13); Mr J Dowd (re-elected 24.10.13); Ms E Espinosa (elected 24.10.13); Mr P Garcia (elected 24.10.13); Mr R Harvey (re-elected 24.10.13); Mr T Spohr (appointed 24.10.13); Ms P Wright (re-elected 24.10.13).

During the year, the following Councillors retired or resigned from Council: Ms H Fairhall (retired 24.10.13); Mr A McMurrin (retired 24.10.13); Ms A Rose (retired 24.10.13).

The company secretaries of The Law Society of New South Wales are Mr C Cawley and Mr K Tickle.

Council meetings

A table setting out the number of Council meetings held during the financial year and the number of meetings attended by each Councillor is included in the corporate governance statement.

Principal activities

The Law Society of New South Wales is the professional association for solicitors in NSW, and fulfils both a regulatory and representative function on behalf of the profession. The Law Society is also the parent company of the Lawcover group of companies, which provide professional indemnity insurance to legal firms. During the course of the year there was no significant change in the nature of these activities.

Review of operations

The result of group operations for the year was a surplus of \$16.2 million (2013: \$11.6 million). The company's constitution prohibits the distribution of dividends to its members.

Changes in state of affairs

During the financial year there was no significant change in the state of affairs of the group other than that referred to in the financial statements or notes thereto.

Subsequent events

There has not arisen in the interval between the end of the financial year and the date of this report any item, event or transaction of a material or unusual nature likely, in the opinion of the Councillors, to affect significantly the operations of the group, the results of those operations or the state of affairs of the group in future financial years.

Future developments

There are no likely developments in the operations of the group which would significantly affect the results of future operations.

Indemnification of officers and auditors

During the financial year, the company paid a premium in respect of a contract insuring the Councillors of the company (as named above) and all executive officers of the company against a liability incurred as such a Councillor or executive officer to the extent permitted by the *Corporations Act 2001*.

The company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company against a liability incurred as such an officer or auditor.

Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Councillors' report have been rounded off in accordance with that Class Order, unless specifically stated to be otherwise.

Auditor's independence declaration

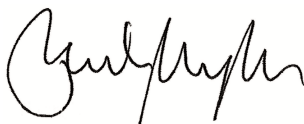
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 3.

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

On behalf of the Council



R Everett
Councillor



P Wright
Councillor

Sydney, 4 September 2014



Auditor's Independence Declaration

As lead auditor for the audit of The Law Society of New South Wales for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of The Law Society of New South Wales and the entities it controlled during the period.

A handwritten signature in black ink that reads 'J Gorton'.

J Gorton
Partner
PricewaterhouseCoopers

Sydney
4 September 2014

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THE LAW SOCIETY OF NEW SOUTH WALES
Consolidated income statement
For the year ended 30 June 2014

	Note	Consolidated	
		2014 \$'000	2013 \$'000
Revenue	3	96,485	127,452
Investment revenue		14,301	14,456
Other income		8,038	8,873
Consumables used		(167)	(177)
Employee benefits expense		(22,710)	(21,650)
Depreciation and amortisation expense		(1,872)	(1,562)
Law Council capitation fees		(2,632)	(2,556)
Outwards reinsurance premium expense		(33,738)	(35,470)
Claims expense		(21,038)	(56,857)
Consulting and professional fees expense		(7,566)	(6,821)
Other expenses		(11,145)	(10,256)
Profit before income tax		17,956	15,432
Income tax expense		(1,724)	(3,817)
Profit for the year		16,232	11,615
Profit is attributable to:			
Members of The Law Society of New South Wales		16,232	11,615
		<u>16,232</u>	<u>11,615</u>

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

THE LAW SOCIETY OF NEW SOUTH WALES
Consolidated statement of comprehensive income
For the year ended 30 June 2014

	Consolidated	
	2014	2013
	\$'000	\$'000
Profit for the year	16,232	11,615
Other comprehensive income		
Gain on revaluation of land and buildings *	878	-
Other comprehensive income for the year net of tax	878	-
Total comprehensive income for the year	17,110	11,615
Total comprehensive income for the year is attributable to:		
Members of The Law Society of New South Wales	17,110	11,615
	17,110	11,615

* This item will not be classified to profit or loss.

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

THE LAW SOCIETY OF NEW SOUTH WALES
Consolidated balance sheet
As at 30 June 2014

	Note	Consolidated	
		2014 \$'000	2013 \$'000
Current assets			
Cash and cash equivalents		47,125	34,164
Trade and other receivables	4	30,962	27,257
Investments	5	103,631	114,114
Inventories		27	14
Deferred tax assets		8,132	1,008
Other assets		697	696
Total current assets		190,574	177,253
Non-current assets			
Receivables	4	43,197	62,319
Investments	5	246,022	225,775
Property, plant and equipment		28,952	27,177
Deferred tax assets		1,469	1,470
Intangible assets		3,990	2,083
Total non-current assets		323,630	318,824
Total assets		514,204	496,077
Current liabilities			
Trade and other payables		11,463	9,519
Current tax liabilities		5,849	1,101
Deferred tax liabilities		431	133
Provisions	6	90,046	64,502
Other liabilities	7	91,278	89,833
Total current liabilities		199,067	165,088
Non-current liabilities			
Provisions	6	111,165	144,023
Other liabilities	7	70	175
Total non-current liabilities		111,235	144,198
Total liabilities		310,302	309,286
Net assets		203,902	186,791
Equity			
Reserves		17,691	16,813
Retained earnings		186,211	169,978
Total equity		203,902	186,791

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

THE LAW SOCIETY OF NEW SOUTH WALES
Consolidated statement of changes in equity
For the year ended 30 June 2014

	Consolidated		
	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 July 2012	16,813	158,364	175,177
Profit after income tax	-	11,615	11,615
Other comprehensive income	-	-	-
Total comprehensive income	-	11,615	11,615
Balance at 30 June 2013	16,813	169,979	186,792
Profit after income tax	-	16,232	16,232
Other comprehensive income	878	-	878
Total comprehensive income	878	16,232	17,110
Balance at 30 June 2014	17,691	186,211	203,902

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

THE LAW SOCIETY OF NEW SOUTH WALES
Consolidated statement of cash flows
For the year ended 30 June 2014

	Consolidated	
	2014	2013
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers	32,718	32,559
Payments to suppliers and employees	(43,219)	(40,423)
Premiums received	83,559	78,709
Outwards reinsurance premiums paid	(33,769)	(35,491)
Claims paid	(51,557)	(49,598)
Reinsurance and other recoveries received	29,168	23,696
Income taxes paid	(3,801)	(3,280)
Net cash inflow from operating activities	13,099	6,172
Cash flows from investing activities		
Payments for purchase of investments	(183,117)	(436,762)
Proceeds on sale of investments	187,202	441,744
Interest received	453	502
Payments for property, plant and equipment	(2,049)	(1,368)
Payments for intangible assets	(2,627)	(630)
Net cash (outflow) inflow from investing activities	(138)	3,486
Net increase in cash and cash equivalents	12,961	9,658
Cash and cash equivalents at the beginning of the year	34,164	24,506
Cash and cash equivalents at the end of the year	47,125	34,164

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

Financial commentary for the year ended 30 June 2014

Income statement

The Law Society of New South Wales group achieved a surplus of \$16.2 million for the year (2013: \$11.6 million). Total revenue (including investment and other income) decreased by 21.2% to \$118.8 million, while operating expenses decreased 25.5% to \$100.9 million.

The movement in revenue was underpinned by the following factors:

- Premium revenue has decreased by 28.5%, following a decision by the board of Lawcover Insurance to provide for a rebate to policyholders due to the favourable claims experience seen over the past several underwriting years.
- The number of solicitors holding a practising certificate increased by 4.0% during the reporting period which, when accompanied by a voluntary membership take-up generally in line with 2013 levels, combined to increase membership and practising certificate revenues.
- Reinsurance and other recoveries decreased by 42.1%, which was primarily driven by a reduction in the claims expenses incurred by Lawcover Insurance. This was partially offset by a further recovery of \$4.7 million which was received by the Solicitors' Mutual Indemnity Fund from the HIH liquidator during the year.
- Other income has decreased by 9.4%, which was the result of reduced funding for regulatory activities received by the Law Society from the Public Purpose Fund.

Several factors have contributed to the decrease in overall expenses, with the major movements stemming from the following:

- Claim expenses decreased by 63.0%, which was principally due to releases from the outstanding claims provisions of both Lawcover Insurance and the Solicitors' Mutual Indemnity Fund respectively. With respect to Lawcover Insurance, this followed better than anticipated claim assessment results as determined by the company's appointed actuary.
- This was partially offset by a 19.8% increase in reported depreciation and amortisation as the Society and Lawcover Insurance continue to amortise ongoing investments in the group's core information systems.

Balance sheet

The group's financial position remains strong, with the total of the investment portfolios held by the Society, Lawcover Insurance and SMIF increasing by 2.9% during the financial year. Both the Society and Lawcover have continued to invest in the group's core information systems, and this is reflected in the growth of reported intangible assets. Overall, net assets of the consolidated entity increased by 9.2% from those reported 12 months earlier.

Lawcover Insurance further improved its capital position, with a capital adequacy multiple of 2.49 times APRA's prudential capital requirement at 30 June 2014.

Cash flow statement

As at 30 June 2014, the group held cash of \$47.1 million. The large recoveries received by SMIF in recent years, accompanied by strong underwriting and investment results from Lawcover Insurance have combined to significantly enhance the group's liquidity levels and overall balance sheet strength during this period.

The Council continues to closely monitor the investment strategies that both the Law Society and its subsidiaries undertake to ensure that appropriate returns are adequately balanced against any risks assumed.

1. Reporting entity

The Law Society of New South Wales is a company limited by guarantee, incorporated and domiciled in Australia. Its registered office and principal place of business is:

The Law Society of New South Wales
 170 Phillip Street
 Sydney NSW 2000

This concise financial report relates to the consolidated entity consisting of The Law Society of New South Wales and the entities it controlled at the end of, or during, the year ended 30 June 2014. The accounting policies adopted have been consistently applied to all years presented. The financial statements are presented in the Australian currency.

2. Changes in accounting policy

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

- AASB 10 *Consolidated Financial Statements*, AASB 12 *Disclosure of Interests in Other Entities*, AASB 127 *Separate Financial Statements* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*
- AASB 2012-10 *Amendments to Australian Accounting Standards – Transition Guidance and other Amendments* which provides an exemption from the requirement to disclose the impact of the change in accounting policy on the current period
- AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13*
- AASB 119 *Employee Benefits (September 2011)* and AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)*
- AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*

3. Revenue

An analysis of the group's revenue for the year is as follows:

	Consolidated	
	2014	2013
	\$'000	\$'000
Membership and practising certificate fees	17,584	16,109
Premium revenue *	59,379	83,034
Reinsurance and other recoveries	12,451	21,519
Legal training revenue	1,091	669
Member services revenue	2,454	2,447
Product sale revenue	1,063	1,050
Property rental revenue	336	252
Other revenue	2,127	2,372
	96,485	127,452

* Premium revenue is the net total of gross premiums received less policyholder rebates of \$23 million (2013: \$Nil).

4. Trade and other receivables

	Consolidated	
	2014	2013
	\$'000	\$'000
Current		
Trade receivables	1,261	252
Reinsurance and other recoveries receivable	28,891	26,656
Other receivables	810	349
	30,962	27,257
Non-current		
Reinsurance and other recoveries receivable	43,197	62,319
	43,197	62,319

5. Investments

Current		
Deposits	2,228	46,854
NCD's and bank bills	45,781	47,796
Corporate securities	38,243	3,135
Managed funds	17,379	16,329
	103,631	114,114
Non-current		
Corporate securities	246,022	225,775
	246,022	225,775

6. Provisions

Current		
Outstanding claims liabilities	64,006	61,971
Policyholder rebate	23,000	-
Lease incentive liability	199	-
Employee benefits provision	2,841	2,531
	90,046	64,502
Non-current		
Outstanding claims liabilities	109,736	143,491
Lease incentive liability	846	-
Employee benefits provision	583	532
	111,165	144,023

7. Other liabilities

	Consolidated	
	2014	2013
	\$'000	\$'000
Current		
<i>Deferred revenue</i>		
Membership and practising certificate fees	17,459	16,071
Premiums received in advance	73,103	72,884
Claims handling revenue	70	14
Other	646	864
	91,278	89,833
Non-current		
<i>Deferred revenue</i>		
Claims handling revenue	70	175
	70	175

8. Subsidiaries

Name of entity	Country of incorporation	% Equity interest		Investment \$	
		2014	2013	2014	2013
Lawcover Pty Ltd (i)	Australia	100	100	2	2
Lawcover Insurance Pty Ltd (ii)	Australia	100	100	6,000,000	6,000,000
Solicitors' Mutual Indemnity Fund (iii)	Australia	100	100	-	-
				6,000,002	6,000,002

- (i) **Lawcover Pty Ltd.** Incorporated in New South Wales on 19 June 1987. Contributed equity of 2 ordinary shares fully paid.
- (ii) **Lawcover Insurance Pty Ltd.** Incorporated in New South Wales on 17 January 2001 and commenced operations in April 2004. Contributed equity of 6,000,000 ordinary shares fully paid. The company was established to underwrite compulsory professional indemnity insurance for solicitors.
- (iii) **Solicitors' Mutual Indemnity Fund.** The Solicitors' Mutual Indemnity Fund is set up under Division 3 of Part 3.3 of the *Legal Profession Act 2004* to provide indemnity cover to solicitors. The Law Society of New South Wales has no investment in the Fund and all assets of the Fund can only be used for the purposes of Division 3 of Part 3.3 of the *Legal Profession Act 2004*.

9. Members guarantee

The Law Society of New South Wales is a company limited by guarantee. In the event that The Law Society of New South Wales is wound up, the liability of members towards meeting any outstanding obligations of the consolidated entity is limited to \$2 per member.

10. Events occurring after the reporting date

There has not arisen in the interval between the end of the financial year and the date of this report any item, event or transaction of a material or unusual nature likely, in the opinion of the Councillors, to affect significantly the operations of the group, the results of those operations or the state of affairs of the group in future financial years.

The Councillors declare that in their opinion, the concise financial report of the consolidated entity for the year ended 30 June 2014 as set out on pages 4 to 12 complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

The concise financial report is an extract from the full financial report for the year ended 30 June 2014. The financial statements and specific disclosures included in the concise financial report have been derived from the full financial report.

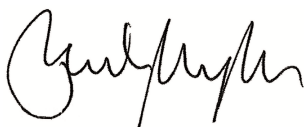
The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report, which is available on request.

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

On behalf of the Council



R Everett
Councillor



P Wright
Councillor

Sydney, 4 September 2014



Independent auditor's report to the members of The Law Society of New South Wales

Report on the concise financial report

We have audited the accompanying concise financial report of The Law Society of New South Wales (the company), which comprises the balance sheet as at 30 June 2014, the income statement, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and related notes, derived from the audited financial report of the company for the year ended 30 June 2014. The concise financial report does not contain all the disclosures required by the Australian Accounting Standards and accordingly, reading the concise financial report is not a substitute for reading the audited financial report.

Councillors' responsibility for the concise financial report

The Councillors are responsible of the preparation of the concise financial report in accordance with Accounting Standard AASB 1039 *Concise Financial Reports*, and the *Corporations Act 2001*, and for such internal control as the directors determine are necessary to enable the preparation of the concise financial report.

Auditor's responsibility

Our responsibility is to express an opinion on the concise financial report based on our audit procedures which were conducted in accordance with Auditing Standard 810 Engagement to Report on Summary Financial Statements. We have conducted an independent audit, in accordance with Australian Auditing Standards, of the financial report of the company for the year ended 30 June 2014. We expressed an unmodified audit opinion on that financial report in our report dated 4 September 2014. The Australian Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report for the year is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the concise financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the concise financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the concise financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Our procedures include testing that the information in the concise financial report is derived from, and is consistent with, the financial report for the year, and examination on a test basis, of audit evidence supporting the amounts and other disclosures which were not directly derived from the financial report for the year. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report complies with AASB 1039 *Concise Financial Reports*.

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

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**Independent auditor's report to the members of
The Law Society of New South Wales (continued)**

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of The Law Society of New South Wales would be in the same terms if given to the directors as at the date of this auditor's report.

Auditor's opinion

In our opinion, the concise financial report of The Law Society of New South Wales for the year ended 30 June 2014 complies with Australian Accounting Standard AASB 1039 *Concise Financial Reports*.

PricewaterhouseCoopers

PricewaterhouseCoopers

J Gorton

J Gorton
Partner

Sydney
4 September 2014