The Law Society of New South Wales

ACN 000 000 699

Annual financial report for the year ended 30 June 2019

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 2019.

Councillors

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

Cassandra Denise Banks
Andries Gerrit Boog
Danny Wayne Bricknell
Darryl Ian Browne
Adriana Care
Amber Rachel Cerny
Elizabeth Maria Espinosa
Richard John Flitcroft
Jane Marianne Glowrey
Richard John Harvey
Douglas John Humphreys
Catherine Joy James
Zora Kekeff
Coralie Suzanne Kenny
Hugh Ignatius Macken
Ronan MacSweeney
Brett Patrick McGrath
Emily Bree Ryan
Antonella Claudia Sanderson
Terence Leland Stern
David Callum Turner
Joanne Patricia van der Plaat
Juliana Rose Warner
Mark Stephen Warton
Pauline Jennifer Wright
Jennifer Louise Lai Wah Wong

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: Ms C Banks (re-elected 25.10.18); Ms C James (elected 25.10.18); Ms Z Kekeff (re-elected 25.10.18); Mr R MacSweeney (elected 25.10.18); Mr B McGrath (elected 25.10.18); Mr D Turner (appointed 25.10.18); Ms J Warner (re-elected 25.10.18); Mr M Warton (re-elected 25.10.18).

During the year, the following Councillors retired or resigned from Council: Ms J Glowrey (retired 25.10.18); Mr D Humphreys (resigned 11.03.19); Ms C Kenny (retired 25.10.18); Ms E Ryan (retired 25.10.18); Ms P Wright (retired 31.12.18).

The company secretaries of The Law Society of New South Wales are Ms S Goldstein 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 which is in the published annual report.

Principal activities

The Law Society of New South Wales is the professional association for solicitors in New South Wales and fulfils both a regulatory and representative function on behalf of the profession. The Law Society of New South Wales 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.

Dividends

The company's constitution prohibits the distribution of dividends to its members.

Review of operations

The profit of the company before payments received pursuant to the *Justice Legislation Amendment Act (No 3) 2018* for the year was $10.5 million (2018: $1.8 million). The profit or loss of subsidiaries are as set out in their respective financial statements. The result of group operations for the year before payments made pursuant to the *Justice Legislation Amendment Act (No 3) 2018* was a profit of $16.7 million (2018: $13.5 million). Further information on the operations of the group can be found in the published annual report.

Changes in state of affairs
During the financial year the *Justice Legislation Amendment Act (No 3) 2018* commenced, which made amendments to the *Legal Profession Uniform Law Application Act 2014 No 16*. These amendments included legislating the closure of the Solicitors Mutual Indemnity Fund, with half of that Fund's monetary assets ($44.6 million) being transferred to the Law Society to be used in their entirety to subscribe for additional shares in Lawcover Insurance Pty Ltd, with the remaining half ($44.6 million) being transferred to the Public Purpose Fund for the specific purpose of creating a community legal services account with the Public Purpose Fund.

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.

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.

Rounding of amounts
The company is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, issued by the Australian Securities and Investments Commission, related to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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

On behalf of the Council

E Espinosa
Councillor

J van der Plaat
Councillor

Sydney, 19 September 2019

Auditor's Independence Declaration

As lead auditor for the audit of The Law Society of New South Wales for the year ended 30 June 2019, 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.

R Balding
Partner
PricewaterhouseCoopers

Sydney
19 September 2019

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		Consolidated		Company	
		2019	**2018**	**2019**	**2018**
	Note	**$'000**	**$'000**	**$'000**	**$'000**
Revenue	6	111,100	101,333	31,416	31,200
Investment revenue	7	17,316	10,263	11,579	1,475
Other income	8	9,539	8,902	9,539	8,902
Employee benefits expense	9	(29,362)	(27,456)	(21,859)	(20,285)
Depreciation and amortisation expense	9	(2,126)	(2,402)	(1,498)	(1,696)
Law Council capitation fees		(3,265)	(3,117)	(3,265)	(3,117)
Outwards reinsurance premium expense	25	(7,804)	(7,828)	-	-
Claims expense	25	(49,829)	(41,972)	-	-
Consulting and professional fees expense		(8,818)	(7,479)	(4,888)	(4,720)
Other expenses		(14,037)	(12,694)	(10,544)	(9,955)
Profit before income tax and payment made pursuant to *Justice Legislation Amendment Act (No 3) 2018*		22,714	17,550	10,480	1,804
Income tax expense	10	(5,999)	(4,033)	-	-
Profit after income tax and before payment made pursuant to *Justice Legislation Amendment Act (No 3) 2018*		16,715	13,517	10,480	1,804
Payment (made) received pursuant to *Justice Legislation Amendment Act (No 3) 2018*		(44,600)	-	44,600	-
(Loss) profit for the year		(27,885)	13,517	55,080	1,804
Other comprehensive income					
Items that will not be reclassifed to profit or loss					
Revaluation of land and buildings		-	16,050	-	16,050
Other comprehensive income for the year, net of tax		-	16,050	-	16,050
Total comprehensive (loss) income for the year		(27,885)	29,567	55,080	17,854
(Loss) profit is attributable to:					
Members of The Law Society of New South Wales		(27,885)	13,517	55,080	1,804
		(27,885)	13,517	55,080	1,804
Total comprehensive (loss) income for the year is attributable to:					
Members of The Law Society of New South Wales		(27,885)	29,567	55,080	17,854
		(27,885)	29,567	55,080	17,854

The above statements of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

		Consolidated		Company	
		2019	2018	2019	2018
	Note	$'000	$'000	$'000	$'000
Assets					
Current assets					
Cash and cash equivalents		25,530	29,091	20,202	12,326
Trade and other receivables	11	9,389	8,648	537	561
Investments	12	175,259	213,786	52,171	41,019
Current tax assets		-	2,451	-	-
Other assets	13	2,116	2,371	1,637	1,735
Total current assets		212,294	256,347	74,547	55,641
Non-current assets					
Receivables	14	6,865	8,682	-	-
Investments	15	244,149	222,625	44,600	6,000
Property, plant and equipment	16	53,789	53,878	52,940	53,579
Deferred tax assets	17	2,142	2,230	-	-
Intangible assets	18	1,219	2,161	643	1,226
Total non-current assets		308,164	289,576	98,183	60,805
Total assets		520,458	545,923	172,730	116,446
Liabilities					
Current liabilities					
Trade and other payables	19	8,410	7,915	2,768	3,084
Current tax liabilities		5,909	-	-	-
Provisions	20	66,880	58,996	3,014	2,927
Other liabilities	21	91,987	94,128	25,075	23,728
Total current liabilities		173,186	161,039	30,857	29,739
Non-current liabilities					
Deferred tax liabilities	22	-	28	-	-
Provisions	23	79,362	89,061	756	670
Total non-current liabilities		79,362	89,089	756	670
Total liabilities		252,548	250,128	31,613	30,409
Net assets		267,910	295,795	141,117	86,037
Equity					
Reserves	24	37,541	44,564	37,541	44,564
Retained earnings	24	230,369	251,231	103,576	41,473
Total equity		267,910	295,795	141,117	86,037

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

Consolidated	**Reserves**	**Retained earnings**	**Total**
	$'000	**$'000**	**$'000**
Balance at 1 July 2017	28,514	237,714	266,228
Profit after income tax	-	13,517	13,517
Other comprehensive income	16,050	-	16,050
Total comprehensive income	16,050	13,517	29,567
Balance at 30 June 2018	44,564	251,231	295,795
Loss after income tax	-	(27,885)	(27,885)
Other comprehensive income	-	-	-
Total comprehensive income	-	(27,885)	(27,885)
Transfer to retained earnings	(7,023)	7,023	-
Balance at 30 June 2019	37,541	230,369	267,910

Company	**Reserves**	**Retained earnings**	**Total**
	$'000	**$'000**	**$'000**
Balance at 1 July 2017	28,514	39,669	68,183
Profit after income tax	-	1,804	1,804
Other comprehensive income	16,050	-	16,050
Total comprehensive income	16,050	1,804	17,854
Balance at 30 June 2018	44,564	41,473	86,037
Profit after income tax	-	55,080	55,080
Other comprehensive income	-	-	-
Total comprehensive income	-	55,080	55,080
Transfer to retained earnings	(7,023)	7,023	-
Balance at 30 June 2019	37,541	103,576	141,117

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

		Consolidated		Company	
		2019	**2018**	**2019**	**2018**
	Note	**$'000**	**$'000**	**$'000**	**$'000**
Cash flows from operating activities					
Receipts from customers		42,467	41,206	42,326	41,356
Payments to suppliers and employees		(54,857)	(49,685)	(40,553)	(36,217)
Premiums received		72,547	75,507	-	-
Premium rebate to policyholders		-	(10,851)	-	-
Outwards reinsurance premiums paid		(8,809)	(8,754)	-	-
Claims paid		(51,617)	(39,651)	-	-
Reinsurance and other recoveries received		5,230	6,763	-	-
Income taxes refunded		2,421	1,294	-	-
Net cash inflow from operating activities	34	7,382	15,829	1,773	5,139
Cash flows from investing activities					
Payments for purchase of investments		(258,264)	(184,237)	(20,000)	(20,000)
Proceeds on sale of investments		291,342	158,748	10,000	-
Interest received		1,723	2,421	427	238
Dividends received		-	-	10,000	-
Payments for property, plant and equipment		(1,144)	(299)	(324)	(293)
Payments for intangible assets		-	(1,116)	-	(54)
Payment made pursuant to *Justice Legislation Amendment Act (No 3) 2018*		(44,600)	-	-	-
Net cash (outflow) inflow from investing activities		(10,943)	(24,483)	103	(20,109)
Cash flows from financing activities					
Proceeds from shares bought back		-	-	6,000	-
Net cash used in financing activities		-	-	6,000	-
Net (decrease) increase in cash and cash equivalents		(3,561)	(8,654)	7,876	(14,970)
Cash and cash equivalents at the beginning of the year		29,091	37,745	12,326	27,296
Cash and cash equivalents at the end of the year		25,530	29,091	20,202	12,326

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

Notes to the financial statements

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

The company is a not-for-profit entity for the purpose of preparing the financial statements. These financial statements cover both the separate financial statements of The Law Society of New South Wales as an individual entity (the company) and the consolidated financial statements for the consolidated entity consisting of The Law Society of New South Wales and its subsidiaries (the group). The financial statements are presented in the Australian currency.

The financial statements were authorised for issue by the Councillors on 19 September 2019. The Councillors have the power to amend and reissue the financial statements.

2. Summary of significant accounting policies

This note provides a list of all significant accounting policies adopted in the preparation of these financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*.

(i) Compliance with IFRS

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

(ii) Historical cost convention

These financial statements have been prepared on the basis of historical cost, except for certain properties and investments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

(iii) New and amended standards adopted by the group

The company and group have applied the following standard for the first time for its annual reporting period commencing on 1 July 2018:

- AASB 9 *Financial Instruments (2014)*

AASB 9 *Financial Instruments* replaces AASB 139 *Financial Instruments: Recognition and Measurement*. It makes changes to previous guidance on the classification and measurement of financial assets and introduces an ‘expected credit loss’ model for impairment of financial assets.

The adoption of this standard by the company did not have any material impact on the transactions and balances recognised in the financial statements of the company or the group.

In September 2016, the AASB amended AASB 4 *Insurance Contracts* (AASB 2016-6) to provide insurers the option to defer the effective date of AASB 9 and continue to apply AASB 139 *Financial Instruments: Recognition and Measurement* until annual reporting periods beginning on or after 1 January 2021. As such, Lawcover Insurance Pty Ltd (Lawcover Insurance) has not adopted AASB 9 for the reporting period commencing on 1 July 2018.

2. Summary of significant accounting policies (continued)

The group has applied the following standards and amendments for the first time for their annual reporting period commencing on 1 July 2018:

- AASB 15 *Revenue from Contracts with Customers*

AASB 15 replaces AASB 118 *Revenue*, AASB 111 *Construction Contracts* and some revenue-related Interpretations. AASB 15 establishes a new revenue recognition model and changes the basis for deciding whether revenue is to be recognised over time or at a point in time.

The adoption of this standard did not have any material impact on the transactions and balances recognised in the financial statements of the group.

(iv) New standards and interpretations not yet adopted

The group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2018, including:

- AASB 16 *Leases* (effective for annual reporting periods on or after 1 January 2019)
- AASB 2016-6 *Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts* (effective for annual reporting periods beginning on or after 1 January 2022)
- AASB 17 *Insurance Contracts* (effective for annual periods beginning on or after 1 January 2022)

The group intends to apply the standards and amendments detailed above for the reporting periods beginning on the effective dates set out above. An assessment has been performed for the following:

- AASB 16 *Leases* will primarily affect the accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and finance leases and requires the recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for almost all lease contracts. The accounting by lessors, however, will not significantly change.

  The lease of office space by Lawcover Insurance is the group's only material lease and has been renegotiated with a new lease to commence on 1 October 2019. Based on the current lease agreement there will be a gross up of assets and liabilities to recognise the right of use asset at cost and the present value of the lease payments respectively. Currently the lease is recognised on a straight line basis through profit or loss. The adoption of AASB 16 will result in the recognition of depreciation and interest on the lease asset and liability over time which will result in some variability in profit or loss. It is not expected that there will be any material impact on the group's financial result as result of adopting this Standard.

- AASB 9 *Financial Instruments (2014)*, introduces a new simplified approach for the classification and measurement of financial assets, including a new forward-looking 'expected loss' impairment model and better aligns hedge accounting to the risk management activities of businesses. In September 2016, the AASB amended AASB 4 *Insurance Contracts* (AASB 2016-6) to provide insurers the option to defer the effective date of AASB 9 and continue to apply AASB 139 *Financial Instruments: Recognition and Measurement* until annual reporting periods beginning on or after 1 January 2021. This applies to Lawcover Insurance. From 1 January 2021, Lawcover Insurance must apply AASB 9 together with AASB 17 *Insurance Contracts* and reflect the changes in the Lawcover Insurance standalone financial statements. Lawcover Insurance is yet to undertake a detailed assessment of the impact of AASB 9, however this will be performed prior to first time adoption of the Standard.

- AASB17 *Insurance Contracts* was issued in May 2017 and will replace AASB 4 *Insurance Contracts*, which currently permits a wide variety of practices. AASB 17 will fundamentally change the accounting by all entities that issue insurance contracts. The group is yet to undertake a detailed assessment of the impact of AASB 17. However, based on Lawcover Insurance's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ended 30 June 2022.

2. Summary of significant accounting policies (continued)

(v) Critical accounting estimates
The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Information about crucial judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in note 3 - *Actuarial assumptions and methods – insurance activities*.

(b) Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of The Law Society of New South Wales ('company' or 'parent entity') as at 30 June 2019 and the results of all subsidiaries for the year then ended. The Law Society of New South Wales and its subsidiaries together are referred to in this financial report as the group or the consolidated entity.

Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

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

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

(c) Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenue is recognised for the major business activities as follows:

(i) Membership and practising certificate fees
Membership and practising certificate fees are received in advance and disclosed in the balance sheet as income received in advance. Revenue is recognised during the financial year to which the received income is attributable.

2. Summary of significant accounting policies (continued)

(ii) Premium income

Premium comprises amounts charged to policyholders, excluding amounts collected on behalf of third parties, principally stamp duties and goods and services tax (GST). The earned portion of premiums received is recognised as revenue. Premiums are treated as earned from the date Lawcover Insurance assumes the risk.

The pattern of recognition over the policy is based on time, which is considered to closely approximate the patterns of risks underwritten. Unearned premium is determined using a pro-rata method.

(iii) Reinsurance and other recoveries

Reinsurance and other recoveries on reported claims are recognised as revenue. Amounts recoverable are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(d) Income tax

No liability for income tax has been provided for The Law Society of New South Wales and the Solicitors' Mutual Indemnity Fund as they are exempt from the payment of income tax. Lawcover Pty Ltd and Lawcover Insurance Pty Ltd are both income tax paying entities.

For those non-exempt entities within the group, the income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

2. Summary of significant accounting policies (continued)

(e) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases (note 29). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease (note 9).

(f) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, and other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(g) Trade receivables

Trade receivables are recognised at fair value less a provision for impairment. Trade receivables are generally due for settlement within 30 days and therefore are all classified as current assets.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

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

(h) Investments

The group's investments are classified as fair value through profit or loss upon initial recognition. They are initially recorded at fair value (being the cost of acquisition excluding transaction costs) and are subsequently remeasured to fair value at each reporting date. Changes in the fair value are taken immediately to the statement of profit or loss. Purchases and sales of investments are recognised on a trade date basis, being the date on which a commitment is made to purchase or sell the asset.

For securities traded in an active market, the fair value is determined by reference to published closing bid price quotations. For securities that are not traded and securities that are traded in a market that is not active, fair value is determined using valuation techniques generally by reference to the fair value of recent arm's length transactions involving the same or similar instruments. Fixed and floating rate securities are valued using independently sourced valuations. For units of managed funds, this generally means using the redemption price provided by the fund manager.

Investments in subsidiaries and other controlled entities are initially recognised at cost and subsequently carried in the parent's financial statements at the lower of cost and recoverable amount.

2. Summary of significant accounting policies (continued)

(i) Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(j) Property, plant and equipment

Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, 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. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Increases in the carrying amounts arising on revaluation of land and buildings are recognised, net of tax, in other comprehensive income and accumulated in reserves in equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

- Buildings	40 years
- Leasehold improvements	2 – 10 years
- Plant and equipment	2 – 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

2. Summary of significant accounting policies (continued)

(k) Intangible assets

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on the project.

Amortisation is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use. The estimated useful lives are as follows:

- Software and licences	2 – 3 years
- Developed systems	3 – 15 years

(l) Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date.

(m) Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

(n) Employee benefits

(i) Short-term obligations

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

(ii) Other long-term employee benefit obligations

The liability for long service leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service, is recognised in the provision for employee benefits and is measured as the amounts expected to be paid when the liabilities are settled in respect of services provided by employees up to the end of the reporting period.

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

(o) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

2. Summary of significant accounting policies (continued)

(p) Rounding of amounts

The company is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, issued by Australian Securities and Investments Commission, related to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(q) Outwards reinsurance expense

Amounts paid to reinsurers under insurance contracts held by Lawcover Insurance are recorded as an outwards reinsurance expense and are recognised in the statement of profit or loss 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.

(r) Outstanding claims liability

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date under the insurance contracts issued, with an additional 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, claims incurred but not reported, claims incurred but not enough reported and anticipated claims handling costs.

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

The expected future payments are discounted to present value using a risk free rate. A risk margin is applied to the outstanding claims liability, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate of the outstanding claims liability.

(s) Reinsurance recoveries receivable

Reinsurance recoveries receivable on paid claims, reported claims not yet paid, claims incurred but not reported and claims incurred but not enough reported are recognised as revenue.

Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

(t) Assets backing insurance liabilities

(i) Financial assets

Lawcover Insurance holds financial assets to back general insurance liabilities under AASB 1023, and as such these have been valued at fair value through profit or loss. Initial recognition is reported at cost and subsequent measurement is at fair value, with any resultant fair value gains or losses recognised through profit or loss.

For financial assets traded in an active market, the fair value is determined by reference to published closing bid price. For financial assets that are not traded or are traded in an inactive market, fair value is determined using valuation techniques generally by reference to the fair value of recent arm's length transactions involving the same or similar instruments. Fixed and floating rate securities are valued using independently sourced valuations. For units of managed funds, this generally means using the redemption price provided by the fund manager.

All purchases and sales of financial assets are recognised on trade date, being the date on which Lawcover Insurance commits to purchase or sell the asset

(ii) Premium receivable

Amounts due from policyholders and intermediaries are recognised at fair value, being the amounts due, and subsequently measured at amortised cost using the effective interest method less provision for impairment.

3. Actuarial assumptions and methods – insurance activities

(a) Class of business

Lawcover Insurance writes one class of business: professional indemnity insurance for solicitors primarily practising in New South Wales. This form of insurance is relatively long tailed in nature, meaning that claims are typically settled several years after being reported. The process for determining the value of outstanding claims liabilities in respect of this class is described below.

(b) Valuation methodology

Claims estimates in respect of the compulsory $2 million layer are derived from analysis of the results of several different actuarial models.

For older underwriting years, our estimate of ultimate claims is derived using an Incurred Cost Development (ICD) method. This model estimates the ultimate claims cost by applying a pattern for incurred development in the future. Future inflation is implicitly allowed for in this method since past inflation experience is embedded in the historical patterns.

For more recent underwriting years, a Bornhuetter-Ferguson (BF) method is adopted to estimate ultimate claims. This method assumes that the incurred claim experience for an underwriting quarter will develop to an initial loss rate. The method progressively blends actual incurred claims development with an incurred but not reported (IBNR) estimate based on the expected development. Under this approach, the IBNR estimate is calculated as:

- the number of solicitors insured in the underwriting quarter, multiplied by
- an assumed loss rate per solicitor for the underwriting quarter, multiplied by
- an IBNR factor expressed as a percentage of the ultimate claims cost.

The IBNR factors are derived using the Incurred Cost Development method.

From the 30 June 2019 balance date onwards, the incurred costs of claims capped under $1 million and the incurred cost claims in excess of $1 million are modelled separately.

Projected payments are discounted to allow for the time value of money. These results are increased by 6.5% (2018: 6.5%) to allow for claims handling expenses.

Risk margins are determined using a simulation model and are added to the central estimate to bring the estimated liability up to an 85% (2018: 85%) probability of adequacy.

(c) Optional Top-Up cover above the compulsory layer

Prior to 30 June 2008, optional "Top-Up" cover above the primary PI layer was placed through a related company on an agency basis. Since 1 July 2008, Lawcover Insurance has underwritten a small proportion of this exposure with the remainder written by local and international insurers. Optional Top-Up cover is not taken up by all firms underwritten for the compulsory layer.

Claim experience in the Top-Up cover is characterised by a low occurrence of claims, but high average cost when one occurs. Given the small size of the optional Top-Up cover portfolio underwritten by Lawcover Insurance, there will often be no claims over many years, but then one or more claims will occur during a year which could potentially cost several years' premium. As such, analysing past incurred patterns for Top-Up is of limited use and Lawcover Insurance have adopted a BF approach with an initial loss rate of 23% of premium up to 2013-14. Between 2014-15 and 2015-16 the initial loss rate was increased to 30% to reflect a reduction in premium rates of 25%. For 2016-17 and beyond the initial loss rate was increased to 35% to close align to historical experience of more mature years.

3. Actuarial assumptions and methods – insurance activities (continued)

(d) Actuarial assumptions and processes

The table below sets out the key assumptions underlying the valuation at 30 June 2019 compared to the assumptions at 30 June 2018.

Assumptions in respect of Underwriting Year 2018-19	**Valuation as at 30 June 2019**	**Valuation as at 30 June 2018**
IBNR%	47.0%	50.6%
Initial loss rate (loss per risk adjusted solicitor $)	645	680
Claims handling expense rate	6.5%	6.5%
Discount rate per annum	1.0%	2.1%
Inflation rate per annum	Implicit in valuation methods	4.0%
Superimposed inflation rate per annum	Implicit in valuation methods	0.0%

A description of the processes used to determine these assumptions is provided below:

(i) IBNR

This refers to the proportion of the ultimate cost of claims that is assumed to be reported to Lawcover Insurance subsequent to the valuation date in respect of the 2018-19 underwriting year. This is estimated by analysing past incurred development.

(ii) Initial loss rate (loss per risk adjusted solicitor)

The initial loss rate is estimated by analysing historical average loss rates, obtained by dividing our ultimate claims costs from the ICD and frequency/size approach, by the number of solicitors insured. For underwriting years prior to 2017-18, a risk weighting is applied to the solicitor count for the differences in risk profile of individual insured firms. From the 2018-19 underwriting year onwards, this risk weighting is no longer applied.

(iii) Claims handling expense rate

Claims handling expenses were estimated by reference to the historical claims handling expenses as a percentage of past and expected claim payments.

(iv) Discount rate

Discount rates have been derived from yields on Commonwealth Government securities as at 30 June 2019.

(v) Inflation

The view of future inflation has been set with reference to the historical increase in average claim sizes.

(vi) Superimposed inflation

Superimposed inflation occurs due to non-economic factors such as court settlements increasing at a faster rate than normal inflation. This has not been observed and as such, no allowance has been made for any superimposed inflation.

3. Actuarial assumptions and methods – insurance activities (continued)

(e) Sensitivity analysis

The tables below indicate the change in value in the total gross and net discounted central estimate of outstanding claims excluding claims handling expenses for the fifteen underwriting years ended 30 June 2005 through 2019 due to changing the valuation basis by each of the items indicated under "Scenario". It also shows the change expressed as a percentage of the total gross discounted central estimate of outstanding claims.

Scenario – 2019	Discounted gross central estimate (excl Risk Margin)		
	Before change	After change	% Change
	$'000	$'000	%
Increase discount rate by 0.5%	117,781	116,855	(0.8%)
Increase initial loss rate by 20%	117,781	123,937	5.2%
Increase IBNR by 25%	117,781	126,480	7.4%
Increase inflation by 1%	117,781	119,317	1.3%

Scenario - 2018	Discounted gross central estimate (excl Risk Margin)		
	Before change	After change	% Change
	$'000	$'000	%
Increase discount rate by 0.5%	122,438	121,310	(0.9%)
Increase initial loss rate by 20%	122,438	129,933	6.1%
Increase IBNR by 25%	122,438	131,483	7.4%
Increase inflation by 1%	122,438	124,017	1.3%

Scenario – 2019	Discounted net central estimate (excl Risk Margin)		
	Before change	After change	% Change
	$'000	$'000	%
Increase discount rate by 0.5%	105,900	105,050	(0.8%)
Increase initial loss rate by 20%	105,900	111,995	5.8%
Increase IBNR by 25%	105,900	114,547	8.2%
Increase inflation by 1%	105,900	107,418	1.4%

Scenario - 2018	Discounted net central estimate (excl Risk Margin)		
	Before change	After change	% Change
	$'000	$'000	%
Increase discount rate by 0.5%	109,806	108,779	(0.9%)
Increase initial loss rate by 20%	109,806	117,027	6.6%
Increase IBNR by 25%	109,806	118,569	8.0%
Increase inflation by 1%	109,806	111,267	1.3%

3. Actuarial assumptions and methods – insurance activities (continued)

The scenarios listed below illustrate the change in the gross and net central estimate for the following changes in valuation assumptions:

(i) *Higher discount rates*
The scenario assumes that the discount rate used to derive the present value of the future cash flows is 0.5% per annum higher than assumed in the valuation.

(ii) *Increased initial loss rates*
This scenario assumes that the initial loss rates used in the BF method are 20% higher than in the valuation. This would increase the initial view of the estimates, but would progressively blend actual incurred claims development with the initial view.

(iii) *Increased IBNR*
This scenario assumes that the IBNR is increased by 25% for three years. This increases the liability as more claims cost will be reported to Lawcover Insurance in the future.

(iv) *Increased inflation rates*
This scenario assumes that the inflation rate will be 1% per annum higher than in the valuation. This increases the expected future payments to be made.

For the optional Top-Up liabilities, a proportional change to the claims ratio would result in a similar proportionate change in the estimated liability.

4. Insurance risk management

Lawcover Insurance maintains a Risk Management Framework ("RMF") that is the totality of systems, structures, policies, processes, and people that identify, measure, evaluate, monitor, report and control or mitigate all internal and external sources of material risk.

Amongst other things, the RMF includes the Risk Appetite Statement, Risk Management Strategy, Reinsurance Management Strategy, Internal Capital Adequacy Assessments Process ("ICAAP") and policies & procedures.

Given the nature of Lawcover Insurance's business, the key risks that impact financial performance arise from insurance activities. The main insurance risks can be summarised into the following categories:

(a) Pricing and underwriting risk
This is the risk of mispricing insurance policies which could arise due to changes in legislation, using incomplete data or incorrect assumptions for pricing purposes.

Lawcover Insurance uses a range of techniques to mitigate this risk including sophisticated pricing tools, analysis of claims data, expertise of underwriters and claims managers, as well as advice from subject matter experts (such as actuaries).

Underwriting procedures including authorities, limits, risk assessment criteria and selection criteria are documented and collated in underwriting policies. These processes are regularly reviewed, particularly when changes occur in the internal or external environment.

4. Insurance risk management (continued)

(b) Claims management

Prudent management of claims is a pre-requisite for effective financial management. Lawcover Insurance has established procedures for the acceptance and management of its insurance claims. The claims policies state the set protocols and designation limits by which claims are managed and settled. Procedures exist for the close monitoring of all open claims and regular claim audits and peer reviews are undertaken to ensure that these procedures are strictly adhered to.

(c) Reserving risk

Reserving risk is the risk that the reserves allocated for expected losses turn out to be insufficient.

Lawcover Insurance uses a range of techniques to mitigate this risk including a detailed reserving process which compares, claim by claim, estimates established by the claims team with a top down statistical view developed by Lawcover Insurance's appointed actuary.

Actuarial reserving is also subject to quarterly updates which helps ensure that the reserving levels are appropriate and take account of emerging claims experience.

(d) Concentration risk

Lawcover Insurance provides a single type of insurance (professional indemnity) to a single group of insureds (law practices), largely concentrated in the state of New South Wales. This presents a significant concentration risk that is managed through underwriting discipline, risk management services, policy wordings including policy limits and reinsurance.

(e) Reinsurance risk

Reinsurance risk arises where reinsurance contracts put in place to reduce gross insurance risk do not perform as anticipated, result in coverage disputes or prove inadequate in terms coverage purchased. Failure of a reinsurer to pay a valid claim is considered a credit risk which is detailed in note 5.

Lawcover Insurance's reinsurance programmes seek to protect group capital from adverse volume or volatility of claims. Lawcover Insurance has policies, procedures and controls in place to manage the selection, implementation, monitoring and review of reinsurance programmes to ensure they remain effective and appropriate.

5. Financial risk management

(a) Overview

The company's and group's principal financial assets include cash, short term deposits, interest bearing securities, managed funds and reinsurance recoveries. The company and group are exposed to credit risk, liquidity risk and market risk. This note presents information about the company's and group's exposure to each of the above risks, and their objectives, policies and processes for managing risk.

(b) Risk management framework

The Council has overall responsibility for the group's risk management framework. The Council has established the Audit & Finance Committee, which is responsible for monitoring the establishment and maintenance of effective corporate governance processes, which includes risk management and compliance. The committee reports regularly to the Council on its activities.

The group's risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. The Audit & Finance Committee oversees how management monitors compliance with the group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the group.

5. Financial risk management (continued)

(c) Credit risk

Credit risk is the risk of loss from a counterparty failing to meet their obligations and the loss in value of assets due to deterioration in credit quality. The group's credit risk arises predominantly from the investment and reinsurance activities of Lawcover Insurance.

Investments in financial instruments held by individual entities within the group are held in accordance with their respective investment guidelines. Reinsurance is used to mitigate insurance risk, but also exposes Lawcover Insurance to further credit risk. Lawcover Insurance reduces this risk by limiting exposure to a single counterparty and only trading with counterparties with strong credit ratings.

No financial asset is past due or impaired as at balance date. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

The following table provides information regarding the group's aggregate credit risk exposure at balance date in respect of the major classes of financial assets. The analysis classifies the assets according to Standard & Poor's counterparty credit ratings. Ratings falling outside the range of AAA to A are classified as speculative grade.

	Credit rating				Not rated	Total
	AAA $'000	AA $'000	A $'000	Speculative grade $'000	$'000	$'000
2019						
Cash & cash equivalents	-	25,530	-	-	-	25,530
Short term deposits	-	27,987	-	-	-	27,987
Interest bearing securities	157,070	90,522	34,391	23,142	-	305,125
Reinsurance recoveries	-	5,672	10,127	-	6	15,805
Managed funds	-	-	-	-	86,296	86,296
	157,070	149,711	44,518	23,142	86,302	460,743
2018						
Cash & cash equivalents	-	29,091	-	-	-	29,091
Short term deposits	-	94,142	-	-	-	94,142
Interest bearing securities	133,670	90,851	49,394	11,014	-	284,929
Reinsurance recoveries	-	9,719	6,611	-	59	16,389
Managed funds	-	-	-	-	57,340	57,340
	133,670	223,803	56,005	11,014	57,399	481,891

Reinsurance recoveries disclosed within this note include those receivable on both paid and outstanding claims.

(d) Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

5. Financial risk management (continued)

(e) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control risk exposures within acceptable parameters, while optimising the return.

Interest rate and price risk

The group is exposed to interest rate risk arising from the risk that the value of financial assets held by the group will fluctuate as a result of changes in market interest rates. Equity price risk arises from investments held by the group and classified at fair value through profit or loss. To manage the interest rate and price risk arising from investments in cash deposits, wholesale unit trusts and corporate securities, the group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits and guidelines set by each entity within the group. Lawcover Insurance also enters into interest rate futures contracts to manage the interest rate risk on its bond portfolio.

The group's overall exposure to both interest rate and price risk, including the average effective interest rate of each financial asset class, is illustrated in the tables below:

			Fixed maturity dates				
At 30 June 2019	**Average effective interest rate %**	**Variable interest rate $'000**	**Less than 1 year $'000**	**1-5 years $'000**	**5+ years $'000**	**Non interest bearing $'000**	**Total $'000**
Financial assets							
Cash and cash equivalents	1.2%	25,530	-	-	-	-	25,530
Short term deposits	2.4%	27,987	-	-	-	-	27,987
NCD's and bank bills	1.2%	-	14,969	-	-	-	14,969
Corporate securities	1.2%	8,842	44,709	180,919	55,686	-	290,156
Managed funds		-	-	-	-	86,296	86,296
		62,359	59,678	180,919	55,686	86,296	444,938

			Fixed maturity dates				
At 30 June 2018	**Average effective interest rate %**	**Variable interest rate $'000**	**Less than 1 year $'000**	**1-5 years $'000**	**5+ years $'000**	**Non interest bearing $'000**	**Total $'000**
Financial assets							
Cash and cash equivalents	1.1%	29,091	-	-	-	-	29,091
Short term deposits	2.5%	94,142	-	-	-	-	94,142
NCD's and bank bills	2.1%	-	29,920	1,300	-	-	31,220
Corporate securities	2.3%	6,627	32,384	193,569	21,129	-	253,709
Managed funds		-	-	-	-	57,340	57,340
		129,860	62,304	194,869	21,129	57,340	465,502

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for financial instruments at the end of the reporting period. A 25 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the group's investment income would increase/decrease by $1.29 million (2018: decrease/increase by $0.91 million) on a post-tax basis with income tax expense calculated at 30% (2018: 30%).

5. Financial risk management (continued)

(f) Fair value measurements

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

(a) quoted prices (unadjusted) in active markets for identical assets (level 1);
(b) inputs other than quoted prices included within level 1 that are observable for the asset, either directly (as prices) or indirectly (derived from prices) (level 2); and
(c) inputs for the asset that are not based on observable market data (unobservable inputs) (level 3).

The following table represents the group's financial assets measured and recognised at fair value at 30 June 2019 and 30 June 2018:

At 30 June 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets at fair value through profit or loss				
Interest bearing investments	27,981	305,131	-	333,112
Managed funds	-	86,296	-	86,296
	27,981	391,427	-	419,408

At 30 June 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets at fair value through profit or loss				
Interest bearing investments	102,837	276,234	-	379,071
Managed funds	-	57,340	-	57,340
	102,837	333,574	-	436,411

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reported period. The quoted market price used for financial assets held by the group is either the current bid price or, in the case of unit trusts, the unit redemption price. These instruments are included in level 2.

6. Revenue

	Consolidated		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Membership and practising certificate fees	24,489	23,055	24,489	23,055
Premium revenue	76,035	74,787	-	-
Reinsurance and other recoveries	3,641	(4,685)	-	-
Legal training revenue	1,331	1,499	1,331	1,499
Member services revenue	1,809	2,244	1,809	2,244
Product sale revenue	1,128	1,195	1,128	1,195
Property rental revenue	407	381	407	381
Other revenue	2,260	2,857	2,252	2,826
	111,100	101,333	31,416	31,200

7. Investment revenue

	Consolidated		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Interest income	1,241	2,373	427	238
Dividends	-	-	10,000	-
Fair value gains on financial assets at fair value through profit and loss	16,075	7,890	1,152	1,237
	17,316	10,263	11,579	1,475

8. Other income

Public Purpose Fund receipts				
Received under s.53 of the LPUL App Act 2014	8,190	7,633	8,190	7,633
Received under s.55 of the LPUL App Act 2014	450	440	450	440
	8,640	8,073	8,640	8,073
Legal Practitioners Fidelity Fund receipts				
Received under s.118 of the LPUL App Act 2014	839	784	839	784
Law Week Trust receipts	60	45	60	45
	9,539	8,902	9,539	8,902

LPUL App Act 2014 refers to the *Legal Profession Uniform Law Application Act 2014*.

9. Expenses

Profit before income tax expenses includes the following specific expenses:

Employee benefits expense				
Wages and salaries	25,518	23,752	19,021	17,658
Defined contribution superannuation expense	2,037	1,983	1,569	1,511
Other employee benefits expense	1,807	1,721	1,269	1,116
Total employee benefits expense	29,362	27,456	21,859	20,285
Depreciation and amortisation expense				
Depreciation				
Buildings	675	525	675	525
Plant and equipment	557	527	288	244
Amortisation				
Software	894	1,350	535	927
Total depreciation and amortisation expense	2,126	2,402	1,498	1,696

10. Income tax expense

	Consolidated		Company	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Income tax expense				
Current tax	6,059	252	-	-
Deferred tax	(60)	3,272	-	-
Adjustments for current tax of prior periods	-	509	-	-
	5,999	4,033	-	-

(a) Reconciliation of income tax expense to prima facie tax payable

	Consolidated 2019 $'000	Consolidated 2018 $'000	Company 2019 $'000	Company 2018 $'000
Profit from operations before exceptional item and income tax expense	22,714	17,550	10,480	1,804
Less profit from tax-exempt operations	(1,110)	(3,770)	(10,480)	(1,804)
	21,604	13,780	-	-
Tax at the Australian tax rate of 30% (2018 - 30%)	6,481	4,134	-	-
Non-deductible expenses	(218)	6	-	-
Adjustments for current tax of prior periods	(267)	(72)	-	-
Utilisation of previously unrecognised tax losses	-	(35)	-	-
Change in unrecognised deferred tax assets	3	-	-	-
Income tax expense	5,999	4,033	-	-

The tax rate used for the 2019 and 2018 reconciliation above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian Law.

No liability for income tax has been provided for The Law Society of New South Wales and the Solicitors' Mutual Indemnity Fund as they are exempt from the payment of income tax.

Lawcover Pty Ltd and Lawcover Insurance Pty Ltd are both income tax paying entities.

11. Current assets – Trade and other receivables

	Consolidated		Company	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Trade receivables	5	8	94	110
Provision for impairment of receivables	-	-	-	-
	5	8	94	110
Goods and services tax recoverable	1	-	-	-
Other receivables				
Receivable from Legal Practitioners Fidelity Fund	68	155	68	155
Reinsurance recoveries receivable *	8,940	7,707	-	-
Interest receivable	69	482	69	-
Other	306	296	306	296
	9,389	8,648	537	561
	9,389	8,648	537	561

* Refer to note 14 for the non-current portions of these receivables, and note 25(c) for further information relating to reinsurance recoveries receivable.

11. Current assets – Trade and other receivables (continued)

(a) Impaired trade receivables

As at 30 June 2019 current trade receivables of the group with a nominal value of $Nil (2018: $Nil) were impaired. There were no impaired trade receivables for the parent in 2019 or 2018.

(b) Past due but not impaired

As at 30 June 2019, trade receivables of $17,408 (2018: $7,265) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Consolidated		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
(b) Past due but not impaired				
1 to 3 months	13	7	13	7
3 to 6 months	4	-	4	-
Over 6 months	-	-	-	-
	17	7	17	7

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

(c) Fair value and credit risk

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

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above. Refer to note 5 for more information on the risk management policy of the group and the credit quality of the entity’s trade receivables.

12. Current assets – Investments

	Consolidated		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Financial assets at fair value through profit or loss				
Deposits	27,987	94,142	25,000	15,000
Negotiable certificates of deposit	14,969	31,220	-	-
Corporate and government securities	46,007	31,084	-	-
Managed funds	86,296	57,340	27,171	26,019
	175,259	213,786	52,171	41,019

Changes in fair values of financial assets at fair value through profit or loss are recorded in ‘investment income’ in profit or loss (note 7).

Risk exposure

Information about the group's exposure to price risk is provided in note 5.

13. Current assets – Other assets

	Consolidated		Company	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Prepayments	2,030	2,229	1,609	1,644
Other	86	142	28	91
	2,116	2,371	1,637	1,735

14. Non-current assets – Receivables

Reinsurance recoveries receivable *	6,865	8,682	-	-
	6,865	8,682	-	-

* Refer to note 11 for the current portions of these receivables, and note 25(c) for further information relating to reinsurance recoveries receivable.

(a) Impaired receivables and receivables past due

None of the non-current receivables are impaired or past due but not impaired.

(b) Credit risk

Information about the group's exposure to credit risk is provided in note 5. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above.

15. Non-current assets – Investments

	Consolidated		Company	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Investments carried at cost				
Shares in subsidiaries *	-	-	44,600	6,000
	-	-	44,600	6,000
Financial assets at fair value through profit or loss				
Corporate and government securities **	244,149	222,625	-	-
	244,149	222,625	-	-
	244,149	222,625	44,600	6,000

* Refer to note 31 for further information relating the company’s investment in subsidiaries.

** Refer to note 12 for the current portions of these financial assets.

16. Non-current assets – Property, plant and equipment

Consolidated	**Land and buildings at fair value $'000**	**Plant and equipment at cost $'000**	**Total $'000**
At 1 July 2017			
Cost or fair value	38,000	3,340	41,340
Accumulated depreciation	(525)	(2,235)	(2,760)
Net book amount	37,475	1,105	38,580
Year ended 30 June 2018			
Opening net book amount	37,475	1,105	38,580
Revaluation increment	16,050	-	16,050
Additions	-	300	300
Depreciation	(525)	(527)	(1,052)
Closing net book amount	53,000	878	53,878
At 1 July 2018			
Cost or fair value	53,000	3,640	56,640
Accumulated depreciation	-	(2,762)	(2,762)
Net book amount	53,000	878	53,878
Year ended 30 June 2019			
Opening net book amount	53,000	878	53,878
Additions	115	1,028	1,143
Depreciation	(675)	(557)	(1,232)
Closing net book amount	52,440	1,349	53,789
At 30 June 2019			
Cost or fair value	53,115	4,528	57,643
Accumulated depreciation	(675)	(3,179)	(3,854)
Net book amount	52,440	1,349	53,789

16. Non-current assets – Property, plant and equipment (continued)

Company	**Land and buildings at fair value $'000**	**Plant and equipment at cost $'000**	**Total $'000**
At 1 July 2017			
Cost or fair value	38,000	1,510	39,510
Accumulated depreciation	(525)	(980)	(1,505)
Net book amount	37,475	530	38,005
Year ended 30 June 2018			
Opening net book amount	37,475	530	38,005
Revaluation increment	16,050	-	16,050
Additions	-	293	293
Depreciation	(525)	(244)	(769)
Closing net book amount	53,000	579	53,579
At 1 July 2018			
Cost or fair value	53,000	1,803	54,803
Accumulated depreciation	-	(1,224)	(1,224)
Net book amount	53,000	579	53,579
Year ended 30 June 2019			
Opening net book amount	53,000	579	53,579
Additions	115	209	324
Depreciation	(675)	(288)	(963)
Closing net book amount	52,440	500	52,940
At 30 June 2019			
Cost or fair value	53,115	1,920	55,035
Accumulated depreciation	(675)	(1,420)	(2,095)
Net book amount	52,440	500	52,940

(a) Valuations of land and buildings

An independent valuation of the company's land and building has been performed by Colliers to determine the fair value. The valuation, which conformed to Australian Valuation Standards, was performed on the basis of capitalising the estimated net income at 5.5%. The effective date of the valuation was 30 June 2018.

(b) Carrying amounts that would have been recognised if land and buildings were stated at cost

If freehold land and buildings were stated on the historical cost basis, the amounts would be as follows:

	Consolidated		**Company**	
	2019 $'000	**2018 $'000**	**2019 $'000**	**2018 $'000**
Freehold land				
Cost	1,000	1,000	1,000	1,000
Net book amount	1,000	1,000	1,000	1,000
Buildings				
Cost	25,022	24,907	25,022	24,907
Accumulated depreciation	(8,294)	(7,780)	(8,294)	(7,780)
Net book amount	16,728	17,127	16,728	17,127

17. Deferred tax assets

	Consolidated		Company	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
The balance comprises temporary differences attributable to:				
Insurance provisions	1,510	1,569	-	-
Other items	632	661	-	-
Total deferred tax assets	2,142	2,230	-	-
Deferred tax assets expected to be recovered within 12 months	1,221	1,188	-	-
Deferred tax assets expected to be recovered after more than 12 months	921	1,042	-	-
	2,142	2,230	-	-

18. Non-current assets – Intangible assets

Consolidated	**Software and systems $'000**	**Total $'000**
At 1 July 2017		
Cost	8,421	8,421
Accumulated amortisation and impairment	(6,026)	(6,026)
Net book amount	2,395	2,395
Year ended 30 June 2018		
Opening net book amount	2,395	2,395
Additions	1,116	1,116
Amortisation charge *	(1,350)	(1,350)
Closing net book amount	2,161	2,161
At 1 July 2018		
Cost	9,537	9,537
Accumulated amortisation and impairment	(7,376)	(7,376)
Net book amount	2,161	2,161
Year ended 30 June 2019		
Opening net book amount	2,161	2,161
Disposals	(48)	(48)
Amortisation charge *	(894)	(894)
Closing net book amount	1,219	1,219
At 30 June 2019		
Cost	9,489	9,489
Accumulated amortisation and impairment	(8,270)	(8,270)
Net book amount	1,219	1,219

18. Non-current assets – Intangible assets (continued)

Company	Software and systems $'000	Total $'000
At 1 July 2017		
Cost	6,061	6,061
Accumulated amortisation and impairment	(3,963)	(3,963)
Net book amount	2,098	2,098
Year ended 30 June 2018		
Opening net book amount	2,098	2,098
Additions	55	55
Amortisation charge *	(927)	(927)
Closing net book amount	1,226	1,226
At 1 July 2018		
Cost	6,116	6,116
Accumulated amortisation and impairment	(4,890)	(4,890)
Net book amount	1,226	1,226
Year ended 30 June 2019		
Opening net book amount	1,226	1,226
Disposals	(48)	(48)
Amortisation charge *	(535)	(535)
Closing net book amount	643	643
At 30 June 2019		
Cost	6,068	6,068
Accumulated amortisation and impairment	(5,425)	(5,425)
Net book amount	643	643

* Amortisation expense is included in the line item ‘depreciation and amortisation expense’ in profit or loss.

19. Current liabilities – Trade and other payables

	Consolidated		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Trade payables	5,045	4,799	941	1,316
Goods and services tax payable	894	71	894	71
Other payables				
Payable to Legal Practitioners Fidelity Fund	236	837	236	837
Payable to Public Purpose Fund	-	135	-	135
Accrued expenses	1,885	1,704	395	454
Other taxes payable	350	369	302	271
	8,410	7,915	2,768	3,084

20. Current liabilities – Provisions

	Consolidated		Company	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Employee benefits	3,750	3,585	3,014	2,927
Lease incentive liability	70	273	-	-
Outstanding claims liability *	63,060	55,138	-	-
	66,880	58,996	3,014	2,927

The current provision for employee benefits includes annual leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service. The entire amount of the annual leave provision is presented as current, since the group does not have an unconditional right to defer settlement for any of these obligations.

* Refer to note 25(d) for further information relating to the group's outstanding claims liability.

21. Current liabilities – Other liabilities

	Consolidated		Company	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Deferred revenue				
Membership and practising certificate fees	23,831	22,447	23,831	22,447
Premiums received in advance	66,912	70,400	-	-
Other	1,244	1,281	1,244	1,281
	91,987	94,128	25,075	23,728

22. Deferred tax liabilities

Other items	-	28	-	-
Total deferred tax liabilities	-	28	-	-
Deferred tax liabilities expected to be recovered within 12 months	-	28	-	-
Deferred tax liabilities expected to be recovered after more than 12 months	-	-	-	-
	-	28	-	-

23. Non-current liabilities – Provisions

	Consolidated		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Employee benefits - long service leave	976	894	756	670
Lease incentive liability	-	71	-	-
Outstanding claims liability *	78,386	88,096	-	-
	79,362	89,061	756	670

* Refer to note 25(d) for further information relating to the group's outstanding claims liability.

24. Reserves and retained earnings

(a) Reserves

	Consolidated		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Asset revaluation	37,541	37,541	37,541	37,541
Special projects	-	7,023	-	7,023
	37,541	44,564	37,541	44,564
Movements:				
Asset revaluation reserve				
Balance 1 July	37,541	21,491	37,541	21,491
Revaluation	-	16,050	-	16,050
Balance 30 June	37,541	37,541	37,541	37,541
Special projects reserve				
Balance 1 July	7,023	7,023	7,023	7,023
Transfer to retained earnings	(7,023)	-	(7,023)	-
Balance 30 June	-	7,023	-	7,023

(b) Retained earnings

Movements in retained earnings were as follows:

	Consolidated 2019	Consolidated 2018	Company 2019	Company 2018
Balance 1 July	251,231	237,714	41,473	39,669
Net (loss) profit for the year	(27,885)	13,517	55,080	1,804
Transfer from special projects reserve	7,023	-	7,023	-
Balance 30 June	230,369	251,231	103,576	41,473

(c) Nature and purpose of reserves

(i) Asset revaluation reserve

The asset revaluation reserve is used to record increases and decreases in the fair value of land and buildings to the extent that they offset one another.

(ii) Special projects reserve

At a meeting on 11 April 2001, the Council of The Law Society of New South Wales resolved that the balance of premium commission received from HIH Casualty & General Insurance Ltd (HIH) held in the Special Projects Reserve be so retained in case funds are needed to meet liabilities of the Solicitors' Mutual Indemnity Fund arising from the collapse of HIH. Following proclamation of the *Justice Legislation Amendment Act (No 3) 2018* on 7 December 2018, which legislated for the closure of the Solicitors' Mutual Indemnity Fund, the balance of this reserve has been transferred to retained earnings during the year ended 30 June 2019.

25. Insurance disclosures

(a) Contribution to profit from insurance activities

	Consolidated		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Gross earned premium	76,035	74,757	-	-
Outwards reinsurance premium expense	(7,804)	(7,828)	-	-
Net earned premium	68,231	66,929	-	-
Gross claims expense	(49,829)	(41,972)	-	-
Reinsurance and other recoveries revenue	3,641	(4,685)	-	-
Net claims expense	(46,188)	(46,657)	-	-
Underwriting expenses	(15,468)	(13,307)	-	-
Underwriting result	6,575	6,965	-	-

(b) Net claims incurred from insurance activities

	Consolidated 2019			Consolidated 2018		
	Current year $'000	Prior year $'000	Total $'000	Current year $'000	Prior year $'000	Total $'000
Gross claims expense						
Undiscounted	63,666	(17,526)	46,140	60,767	(18,180)	42,587
Discount movement	(1,017)	4,706	3,689	(2,533)	1,918	(615)
	62,649	(12,820)	49,829	58,234	(16,262)	41,972
Reinsurance and other recoveries						
Undiscounted	(1,505)	(1,791)	(3,296)	(1,190)	6,200	5,010
Discount movement	28	(373)	(345)	54	(379)	(325)
	(1,477)	(2,164)	(3,641)	(1,136)	5,821	4,685
Net claims incurred	61,172	(14,984)	46,188	57,098	(10,441)	46,657

(c) Reinsurance recoveries receivable from insurance activities

	Consolidated		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Expected future reinsurance recoveries undiscounted				
on claims paid	398	621	-	-
on outstanding claims	15,599	16,304	-	-
	15,997	16,925	-	-
Discount to present value	(192)	(536)	-	-
Reinsurance recoveries receivable	15,805	16,389	-	-
Current	8,940	7,707	-	-
Non-current	6,865	8,682	-	-
	15,805	16,389	-	-

25. Insurance disclosures (continued)

(d) Outstanding claims liability

Outstanding claims liability

	Consolidated		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Central estimate	112,390	119,793	-	-
Discount to present value	(1,797)	(4,828)	-	-
	110,593	114,965	-	-
Claims handling costs	7,188	7,473	-	-
	117,781	122,438	-	-
Risk margin	23,665	20,796	-	-
Gross outstanding claims liability	141,446	143,234	-	-
Current	63,060	55,138	-	-
Non-current	78,386	88,096	-	-
	141,446	143,234	-	-

Risk margin

A risk margin is included in the total insurance liabilities to allow for the inherent uncertainty in the central estimate of these liabilities. Uncertainty has been analysed taking into account a number of risks relating to the actuarial approach and assumptions, as well as more systemic factors such as the general economic and legislative environment.

The assumptions regarding uncertainty have been applied to the central estimate, including claims handling expenses, in order to arrive at an overall provision which is intended to have an 85% (2018: 85%) probability of adequacy.

	Consolidated	
	2019	2018
	%	%
Risk margins applied (Lawcover Insurance)	19.0%	16.1%

Reconciliation of movement in discounted outstanding claims liability

	Consolidated		
	Gross	Reinsurance	Net
	$'000	$'000	$'000
Year ended 30 June 2019			
Brought forward	143,234	(15,768)	127,466
Incurred claims recognised in the income statement	49,829	(3,641)	46,188
Claims payments	(51,617)	4,002	(47,615)
Carried forward	141,446	(15,407)	126,039
Year ended 30 June 2018			
Brought forward	140,912	(26,654)	114,258
Incurred claims recognised in the income statement	41,972	4,685	46,657
Claim payments	(39,650)	6,201	(33,449)
Carried forward	143,234	(15,768)	127,466

25. Insurance disclosures (continued)

Claims development table

	Underwriting year						
	Prior	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Estimate of ultimate claims cost:							
at end of policy year		47,359	49,248	49,361	50,641	53,106	
one year later		44,303	45,429	51,101	44,472		
two years later		43,789	43,939	48,551			
three years later		43,461	44,325				
four years later		42,115					
Current estimate of cumulative claims cost	506,611	42,115	44,325	48,551	44,472	53,106	
Cumulative payments	(500,605)	(35,986)	(28,968)	(32,346)	(19,313)	(9,572)	
Central estimate	6,006	6,129	15,357	16,205	25,159	43,534	112,390
Discount to present value							(1,797)
Claims handling costs							7,188
Risk margin							23,665
Outstanding claims liability							141,446

(e) Capital adequacy – Lawcover Insurance Pty Ltd

The APRA Prudential Standard GPS 110 “Capital Adequacy for General Insurers” requires additional disclosures in the financial statements to improve policyholders and market understanding of an insurer’s capital adequacy position. Disclosed below is the capital base, minimum capital requirement and capital adequacy multiple as at 30 June 2019.

It should be noted that the retained earnings as at 30 June 2019 of $127.9 million (2018: $125.0 million) disclosed below will not reconcile to the Lawcover Insurance financial statements as this amount has been determined based upon APRA Prudential Standards which is a different basis compared with the accounting retained profit of $126.7 million (2018: $121.1 million) determined under Australian Accounting Standards. Under APRA Prudential Standards premiums received in advance are treated as income with an associated premium liability, whereas premiums received in advance are treated as a liability and not as income under Australian Accounting Standards. The APRA disclosures demonstrate that Lawcover Insurance has capital at 30 June 2019 in excess of the minimum required by APRA. The following table shows the capital adequacy calculated in accordance with the APRA prudential framework. The 2019 position reflects the June 2019 quarter APRA returns (unaudited) with the 2018 comparative being reflective of the 2018 annual return.

	2019	**2018**
	$'000	**$'000**
Lawcover Insurance Pty Ltd Tier 1 capital base		
Ordinary shares	44,600	6,000
Retained earnings as at 30 June (adjusted)	127,882	125,020
LawCover Insurance Pty Ltd capital base and adjusted net assets	172,482	131,020
Prudential capital requirement	42,268	40,282
Prescribed capital amount coverage	4.08	3.25

25. Insurance disclosures (continued)

(f) Capital management – Lawcover Insurance Pty Ltd

Lawcover Insurance's objectives when managing capital are to maintain an optimal capital structure whilst meeting capital adequacy requirements and providing security for policyholders.

Lawcover Insurance is subject to externally imposed capital requirements set and monitored by regulatory bodies. These requirements are in place to ensure sufficient solvency margins for the protection of policyholders. In addition, Lawcover Insurance aims to maintain robust capital ratios in order to support its business objectives.

The management of Lawcover Insurance monitors its capital levels on an ongoing basis, with particular focus on the following:

- Lawcover Insurance is subject to APRA prescribed capital requirements. Lawcover Insurance management actively manages capital in order to achieve an internal benchmark capital adequacy range of 2.0 to 2.5 times. At 30 June 2019 the prescribed capital adequacy is 4.08 (unaudited), which is an increase from 3.25 in 2018.
- Lawcover Insurance is subject to local prudential standards requiring that a minimum level of capital is maintained to meet obligations to policyholders. It is the Lawcover Insurance's policy to maintain a capital base appropriate to its size, business mix, complexity and risk profile which meets regulatory requirements.

In addition to the management reporting and planning processes, Lawcover Insurance has dedicated staff responsible for understanding the regulatory capital requirements for its operations. The quality of assets (particularly investments and reinsurance recoveries) is monitored on an ongoing basis to ensure issues are identified early and remedial action, where necessary, is taken to restore effective capital performance.

26. Key management personnel disclosures

	Consolidated		Company	
	2019	2018	2019	2018
	$	$	$	$
Short-term employee benefits	4,186,699	3,927,476	1,618,132	1,542,165
Post-employment benefits	319,414	342,972	142,486	145,434
Termination benefits	-	141,152	-	-
	4,506,113	4,411,600	1,760,618	1,687,599

Councillors' remuneration

Councillors are not provided with any remuneration in relation to the management of The Law Society of New South Wales, with the exception of the President of The Law Society of New South Wales whose allowance is tied to the remuneration paid a Judge of the District Court of New South Wales. Each Presidency is for a calendar year whereas these accounts relate to the financial year ended 30 June 2019.

Directors' remuneration

Directors' fees are paid to the Directors of Lawcover Pty Ltd and Lawcover Insurance Pty Ltd.

27. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the group:

	Consolidated		Company	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
PwC Australia				
Audit and review of financial statements	287,809	279,426	143,940	139,748
Other services				
Audit of regulatory returns	39,088	35,771	2,244	-
Tax compliance services	24,284	24,305	-	19,890
Other services	95,443	103,051	61,259	-
Total remuneration of PwC Australia	446,624	442,553	207,443	159,638

It is the group's policy to employ PwC on assignments additional to their statutory audit duties where PwC's expertise and experience with the group are important. These assignments relate principally to either tax or risk management advice, or where PwC is awarded assignments on a competitive basis. It is the policy to seek competitive tenders for all major consulting projects.

28. Contingencies

As at 30 June 2019, and at the date of this report, there are no known contingent liabilities or contingent assets which are likely to affect the group's financial position (2018: $Nil).

29. Commitments

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as a liability is as follows:

	Consolidated		Company	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Property, plant and equipment	-	-	-	-
Intangible assets	-	-	-	-

(b) Lease commitments: group as lessee

Non-cancellable operating leases

The group leases offices under non-cancellable operating leases expiring within one to five years. These leases include $994,499 of bank guarantees that exist with Westpac Banking Corporation.

	Consolidated		Company	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Within one year	786	762	-	-
Later than one year but not later than five years	3,406	193	-	-
Later than five years	-	-	-	-
	4,192	955	-	-

30. Related party transactions

(a) Transactions with Councillors

During the financial year transactions were undertaken between The Law Society of New South Wales and firms of which Councillors are partners, consultants or employees. Such transactions were undertaken in the normal course of business and were made on normal commercial terms and conditions.

(b) Transactions with subsidiaries

During the financial year transactions were undertaken between The Law Society of New South Wales and its subsidiaries. These transactions are listed below:

(i) Lawcover Insurance Pty Ltd, a controlled entity, paid the Law Society of New South Wales a dividend of $10 million (2018: $Nil).
(ii) Lawcover Insurance Pty Ltd, a controlled entity, paid the Law Society of New South Wales $6 million to buy back 6,000,000 or ordinary shares (2018: $Nil).
(iii) Lawcover Insurance Pty Ltd, a controlled entity, paid the Law Society of New South Wales $116,157 (2018: $111,563) for access to data used in the distribution of its insurance products.
(iv) Lawcover Insurance Pty Ltd, a controlled entity, paid The Law Society of New South Wales $73,125 (2018: $113,050) for management and administration services.
(v) Lawcover Pty Ltd, a controlled entity, paid The Law Society of New South Wales $875 (2018: $5,950) for management and administration services.
(vi) Solicitors Mutual Indemnity Fund, a controlled entity, transferred to The Law Society of New South Wales $44.6 million for the purpose of subscribing for additional shares in Lawcover Insurance Pty Ltd (2018: $Nil).

Transactions and balances between the company and its subsidiaries were eliminated in the preparation of consolidated financial statements for the consolidated entity.

(c) Transactions with other related parties

During the financial year ended 30 June 2019 The Law Society of New South Wales received payments for management and administration services provided to the following related parties:

(i) Public Purpose Fund $60,000 (2018: $60,000)
(ii) Legal Practitioners Fidelity Fund $839,959 (2018: $783,942)

During the financial year ended 30 June 2019 the Solicitors Mutual Indemnity Fund paid $44.6 million to the Public Purpose Fund for the purpose of establishing a community legal services account.

As at 30 June 2019, the following balances were receivable from or payable to other related parties:

(i) Receivable from Legal Practitioners Fidelity Fund $67,876 (2018: $154,840)
(ii) Payable to Legal Practitioners Fidelity Fund $235,994 (2018: $837,302)
(iii) Receivable from Public Purpose Fund $Nil (2018: $Nil)
(iv) Payable to Public Purpose Fund $Nil (2018: $134,962)

(d) Intercompany balances eliminated from balance sheet

As at 30 June 2019, the following intercompany balances between group entities were eliminated from the consolidated accounts:

(i) $116,157 payable to The Law Society of New South Wales by Lawcover Insurance Pty Ltd (2018: $111,563)
(ii) $Nil payable to Lawcover Pty Ltd by the Solicitors Mutual Indemnity Fund (2018: $74,597)
(iii) $Nil payable to the Lawcover Insurance Pty Ltd Fund by Lawcover Pty Ltd (2018: $51,955)

31. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2(b):

Name of entity	Country of incorporation	% Equity interest		Investment $	
		2019	2018	2019	2018
Lawcover Pty Ltd (i)	Australia	100	100	2	2
Lawcover Insurance Pty Ltd (ii) & (iii)	Australia	100	100	44,599,942	6,000,000
Solicitors' Mutual Indemnity Fund (iii)	Australia	-	100	-	-
				44,599,944	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 was maintained under Division 3 of Part 8 of the *Legal Profession Uniform Law Application Act 2014* (repealed). The Law Society of New South Wales had no investment in the Fund and all assets of the Fund could only be used for the purposes of Division 3 of Part 8 of the *Legal Profession Uniform Law Application Act 2014* (repealed). The *Justice Legislation Amendment Act (No 3) 2018*, which was proclaimed on 7 December 2018, legislated for the closure of the Fund. The monetary assets of the Fund were distributed in January 2019 equally between The Law Society of New South Wales ($44.6 million) and the Public Purpose Fund ($44.6 million). Pursuant to the *Justice Legislation Amendment Act (No 3) 2018*, the monetary assets transferred to the Law Society were used in their entirety to subscribe for additional capital in Lawcover Insurance. All assets of the Fund that were not monetary assets, including any rights and liabilities, were transferred directly to Lawcover Insurance.

32. 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.

33. Events occurring after the reporting period

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.

34. Reconciliation of profit after income tax to net cash flow from operating activities

	Consolidated		Company	
	2019 $'000	**2018 $'000**	**2019 $'000**	**2018 $'000**
(Loss) profit for the year	(27,885)	13,517	55,080	1,804
Depreciation and amortisation	2,126	2,402	1,498	1,696
Net loss on disposal of non-current assets	49	-	48	-
Interest and dividends received	(1,723)	(2,421)	(10,427)	(238)
Fair value gains on financial assets at fair value through profit and loss *	(16,075)	(7,890)	(1,152)	(1,237)
Payment made (received) pursuant to *Justice Legislation Amendment Act (No 3) 2018*	44,600	-	(44,600)	-
Change in operating assets and liabilities:				
Decrease in trade and other receivables	1,076	10,618	24	40
Decrease (increase) in other assets	255	(504)	98	(225)
Decrease in current tax assets	2,451	2,020	-	-
Decrease in deferred tax assets	88	3,318	-	-
Increase (decrease) in trade and other payables	495	1,045	(316)	1,584
(Decrease) increase in provisions	(1,815)	(8,107)	173	501
(Decrease) increase in other liabilities	(2,141)	1,842	1,347	1,214
Decrease in current tax liability	5,909	-	-	-
Decrease in deferred tax liabilities	(28)	(11)	-	-
Net cash inflow from operating activities	7,382	15,829	1,773	5,139

* Includes non-cash investing activities whereby the group receives an increase in units held.

In the Councillors' opinion:

(a) the financial statements and notes set out on pages 4 to 42 are in accordance with the *Corporations Act 2001*, including:
   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
   (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2019 and of their performance for the financial year ended on that date, and

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

Note 2(a) confirms that the financial statements also comply with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

On behalf of the Council

E Espinosa
Councillor

J van der Plaat
Councillor

Sydney, 19 September 2019

Independent auditor's report

To the members of The Law Society of New South Wales

Our opinion

In our opinion:

The accompanying financial report of The Law Society of New South Wales (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Company's and Group's financial positions as at 30 June 2019 and of their financial performance for the year then ended

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

What we have audited

The Company and Group financial report comprises:

- the Consolidated and Company balance sheets as at 30 June 2019
- the Consolidated and Company statements of profit or loss and other comprehensive income for the year then ended
- the Consolidated and Company statements of changes in equity for the year then ended
- the Consolidated and Company statements of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the Councillors' declaration.

Basis for opinion

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

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

Independence

We are independent of the Company and 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.

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Other information

The Councillors are responsible for the other information. The other information obtained at the date of this auditor's report comprises the Councillors' report included in the annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Councillors for the financial report

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf.

This description forms part of our auditor's report.

PricewaterhouseCoopers

R Balding
Partner

Sydney
19 September 2019