

The Law Society of New South Wales

ACN 000 000 699

Annual financial report for the year ended 30 June 2020

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 2020.

Councillors

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

| | |
|--------------------------|-------------------------------|
| Jennifer Ruth Ball | Hugh Ignatius Macken |
| Cassandra Denise Banks | Ronan MacSweeney |
| Angelo Biliias | Stephen McAuley |
| Andries Gerrit Boog | Brett Patrick McGrath |
| Danny Wayne Bricknell | Antonella Claudia Sanderson |
| Darryl Ian Browne | Terence Leland Stern |
| Adriana Care | Jade Elizabeth Tyrrell |
| Amber Rachel Cerny | David Callum Turner |
| Elizabeth Maria Espinosa | Joanne Patricia van der Plaat |
| Richard John Flitcroft | Juliana Rose Warner |
| Richard John Harvey | Mark Stephen Warton |
| Catherine Joy James | Jennifer Jane Windsor |
| Zora Kekeff | Jennifer Louise Lai Wah Wong |
| Iona Wai Ting Luke | |

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 J Ball (elected 24.10.19), Mr A Biliias (elected 24.10.19), Ms I Luke (elected 24.10.19), Mr S McAuley (elected 24.10.19), Ms J Tyrrell (elected 24.10.19), Ms J van der Plaat (re-elected 24.10.19), Ms J Windsor (appointed 24.10.19).

During the year, the following Councillors retired or resigned from Council: Mr D Browne (retired 24.10.19), Ms E Espinosa (resigned 30.05.20), Mr H Macken (retired 24.10.19), Ms A Sanderson (retired 24.10.19), Mr D Turner (retired 24.10.19).

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 deficit of the company for the year was \$0.5 million (2019: \$10.5 million profit before payments received pursuant to the *Justice Legislation Amendment Act (No 3) 2018*). The profit or loss of subsidiaries are as set out in their respective financial statements.

The result of group operations for the year was a loss of \$2.7 million (2019: \$16.7 million profit before payments made pursuant to the *Justice Legislation Amendment Act (No 3) 2018*).

Review of operations (continued)

COVID-19 has, and may continue, to adversely affect the local and global economy, which in turn may impact the performance and results of the group.

The group responded quickly to the outbreak of the COVID-19 pandemic by implementing measures to maintain the ongoing safety and well-being of employees, including allowing employees to work from home. COVID-19 has not had a direct impact on the ability to perform core business activities and continuity of service to our members was maintained throughout this transition.

Whilst the investment portfolio of the group has been impacted by the economic consequences of COVID-19, there have been no defaults in the portfolio.

As part of the premium relief package, Lawcover Insurance provided insureds with the option of renewing on the basis of estimated future activity. Whilst there has been no evidence of claims directly attributable to COVID-19, an explicit allowance of \$1.5 million has been included to reflect the uncertainty in the claims liability estimates.

Further detail regarding the Council's consideration of COVID-19 with respect to membership fees is set out in Changes in State of Affairs below.

Further information on the operations of the group can be found in the published annual report.

Changes in state of affairs

Following the onset and declaration of the COVID-19 pandemic in March 2020, the Council resolved to set membership fees at \$10 (plus GST) for the 2020-21 practising year. This represented a significant reduction from the solicitor membership fee of \$400 (plus GST) approved by Council for the 2019-20 practising year. This one-off measure will result in an estimated membership fee income decrease of \$11 million during the 2020-21 practising year relative to the 2019-20 practising year. There was no further significant change in the state of affairs of the group other than that referred to in the financial statements or notes thereto.

Subsequent events

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

Future developments

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

Indemnification of officers and auditors

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

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

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 4.

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



R Harvey
Councillor



C Banks
Councillor

Sydney, 17 September 2020



Auditor's Independence Declaration

As lead auditor for the audit of The Law Society of New South Wales for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in black ink, appearing to be 'R Balding', with a long, sweeping horizontal stroke extending to the right.

R Balding
Partner
PricewaterhouseCoopers

Sydney
17 September 2020

PricewaterhouseCoopers, ABN 52 780 433 757

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THE LAW SOCIETY OF NEW SOUTH WALES
Statements of profit or loss and other comprehensive income
For the year ended 30 June 2020

| | Note | Consolidated | | Company | |
|--|------|--------------|----------|----------|----------|
| | | 2020 | 2019 | 2020 | 2019 |
| | | \$'000 | \$'000 | \$'000 | \$'000 |
| Revenue | 6 | 108,397 | 111,100 | 32,645 | 31,416 |
| Investment revenue | 7 | 6,286 | 17,316 | (62) | 11,579 |
| Other income | 8 | 9,786 | 9,539 | 9,786 | 9,539 |
| Employee benefits expense | 9 | (31,595) | (29,362) | (23,427) | (21,859) |
| Depreciation and amortisation expense | 9 | (2,387) | (2,126) | (1,298) | (1,498) |
| Law Council capitation fees | | (3,389) | (3,265) | (3,389) | (3,265) |
| Outwards reinsurance premium expense | 26 | (8,311) | (7,804) | - | - |
| Claims expense | 26 | (60,223) | (49,829) | - | - |
| Consulting and professional fees expense | | (7,869) | (8,818) | (4,424) | (4,888) |
| Other expenses | | (13,942) | (14,037) | (10,293) | (10,544) |
| (Loss) profit before income tax and payment made pursuant to <i>Justice Legislation Amendment Act (No 3) 2018</i> | | (3,247) | 22,714 | (462) | 10,480 |
| Income tax expense | 10 | 579 | (5,999) | - | - |
| (Loss) profit after income tax and before payment made pursuant to <i>Justice Legislation Amendment Act (No 3) 2018</i> | | (2,668) | 16,715 | (462) | 10,480 |
| Payment (made) received pursuant to <i>Justice Legislation Amendment Act (No 3) 2018</i> | | - | (44,600) | - | 44,600 |
| (Loss) profit for the year | | (2,668) | (27,885) | (462) | 55,080 |
| Other comprehensive income | | | | | |
| <i>Items that will not be reclassified to profit or loss</i> | | | | | |
| Revaluation of land and buildings | | 5,801 | - | 5,801 | - |
| Other comprehensive income for the year, net of tax | | 5,801 | - | 5,801 | - |
| Total comprehensive income (loss) for the year | | 3,133 | (27,885) | 5,339 | 55,080 |
| (Loss) profit is attributable to: | | | | | |
| Members of The Law Society of New South Wales | | (2,668) | (27,885) | (462) | 55,080 |
| | | (2,668) | (27,885) | (462) | 55,080 |
| Total comprehensive income (loss) for the year is attributable to: | | | | | |
| Members of The Law Society of New South Wales | | 3,133 | (27,885) | 5,339 | 55,080 |
| | | 3,133 | (27,885) | 5,339 | 55,080 |

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

| | Note | Consolidated | | Company | |
|--------------------------------------|------|----------------|----------------|----------------|----------------|
| | | 2020 | 2019 | 2020 | 2019 |
| | | \$'000 | \$'000 | \$'000 | \$'000 |
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | | 21,977 | 25,530 | 14,633 | 20,202 |
| Trade and other receivables | 11 | 11,772 | 9,389 | 530 | 537 |
| Investments | 12 | 165,689 | 175,259 | 57,720 | 52,171 |
| Current tax assets | | 2,027 | - | - | - |
| Other assets | 13 | 2,506 | 2,116 | 1,393 | 1,637 |
| Total current assets | | 203,971 | 212,294 | 74,276 | 74,547 |
| Non-current assets | | | | | |
| Receivables | 14 | 4,835 | 6,865 | - | - |
| Investments | 15 | 237,154 | 244,149 | 34,600 | 44,600 |
| Property, plant and equipment | 16 | 59,189 | 53,789 | 58,495 | 52,940 |
| Right-of-use assets | 17 | 2,651 | - | - | - |
| Deferred tax assets | 18 | 2,721 | 2,142 | - | - |
| Intangible assets | 19 | 1,405 | 1,219 | 297 | 643 |
| Total non-current assets | | 307,955 | 308,164 | 93,392 | 98,183 |
| Total assets | | 511,926 | 520,458 | 167,668 | 172,730 |
| Liabilities | | | | | |
| Current liabilities | | | | | |
| Trade and other payables | 20 | 9,002 | 8,410 | 1,903 | 2,768 |
| Current tax liabilities | | - | 5,909 | - | - |
| Lease liabilities | 17 | 546 | - | - | - |
| Provisions | 21 | 83,256 | 66,880 | 3,128 | 3,014 |
| Other liabilities | 22 | 82,688 | 91,987 | 15,321 | 25,075 |
| Total current liabilities | | 175,492 | 173,186 | 20,352 | 30,857 |
| Non-current liabilities | | | | | |
| Deferred tax liabilities | 23 | - | - | - | - |
| Lease liabilities | 17 | 2,133 | - | - | - |
| Provisions | 24 | 63,258 | 79,362 | 860 | 756 |
| Total non-current liabilities | | 65,391 | 79,362 | 860 | 756 |
| Total liabilities | | 240,883 | 252,548 | 21,212 | 31,613 |
| Net assets | | 271,043 | 267,910 | 146,456 | 141,117 |
| Equity | | | | | |
| Reserves | 25 | 43,342 | 37,541 | 43,342 | 37,541 |
| Retained earnings | 25 | 227,701 | 230,369 | 103,114 | 103,576 |
| Total equity | | 271,043 | 267,910 | 146,456 | 141,117 |

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

THE LAW SOCIETY OF NEW SOUTH WALES
Statements of changes in equity
For the year ended 30 June 2020

| Consolidated | Reserves | Retained earnings | Total |
|--------------------------------|-----------------|--------------------------|---------------|
| | \$'000 | \$'000 | \$'000 |
| Balance at 1 July 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 |
| Loss after income tax | - | (2,668) | (2,668) |
| Other comprehensive income | 5,801 | - | 5,801 |
| Total comprehensive income | 5,801 | (2,668) | 3,133 |
| Balance at 30 June 2020 | 43,342 | 227,701 | 271,043 |

| Company | Reserves | Retained earnings | Total |
|--------------------------------|-----------------|--------------------------|---------------|
| | \$'000 | \$'000 | \$'000 |
| Balance at 1 July 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 |
| Loss after income tax | - | (462) | (462) |
| Other comprehensive income | 5,801 | - | 5,801 |
| Total comprehensive income | 5,801 | (462) | 5,339 |
| Balance at 30 June 2020 | 43,342 | 103,114 | 146,456 |

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

THE LAW SOCIETY OF NEW SOUTH WALES
Statements of cash flows
For the year ended 30 June 2020

| | Note | Consolidated | | Company | |
|---|------|----------------|----------------|----------------|----------------|
| | | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Cash flows from operating activities | | | | | |
| Receipts from customers | | 33,948 | 42,467 | 32,684 | 42,326 |
| Payments to suppliers and employees | | (56,259) | (54,857) | (41,936) | (40,553) |
| Interest paid | | (78) | - | - | - |
| Premiums received | | 72,870 | 72,547 | - | - |
| Outwards reinsurance premiums paid | | (9,575) | (8,809) | - | - |
| Claims paid | | (60,191) | (51,617) | - | - |
| Reinsurance and other recoveries received | | 2,903 | 5,230 | - | - |
| Income taxes (paid) refunded | | (7,936) | 2,421 | - | - |
| Net cash (outflow) inflow from operating activities | 36 | (24,318) | 7,382 | (9,252) | 1,773 |
| Cash flows from investing activities | | | | | |
| Payments for purchase of investments | | (210,751) | (258,264) | (27,000) | (20,000) |
| Proceeds on sale of investments | | 233,200 | 291,342 | 21,000 | 10,000 |
| Interest received | | 401 | 1,723 | 389 | 427 |
| Dividends received | | - | - | - | 10,000 |
| Payments for property, plant and equipment | | (774) | (1,144) | (706) | (324) |
| Payments for intangible assets | | (930) | - | - | - |
| Payment made pursuant to <i>Justice Legislation Amendment Act (No 3) 2018</i> | | - | (44,600) | - | - |
| Net cash inflow (outflow) from investing activities | | 21,146 | (10,943) | (6,317) | 103 |
| Cash flows from financing activities | | | | | |
| Proceeds from shares bought back | | - | - | 10,000 | 6,000 |
| Payment of lease liabilities | | (381) | - | - | - |
| Net cash (outflow) inflow from financing activities | | (381) | - | 10,000 | 6,000 |
| Net (decrease) increase in cash and cash equivalents | | | | | |
| | | (3,553) | (3,561) | (5,569) | 7,876 |
| Cash and cash equivalents at the beginning of the year | | 25,530 | 29,091 | 20,202 | 12,326 |
| Cash and cash equivalents at the end of the year | | 21,977 | 25,530 | 14,633 | 20,202 |

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

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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 17 September 2020. 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 group has applied the following standard for the first time for their annual reporting period commencing on 1 July 2019:

- AASB 16 *Leases*

The group has adopted AASB 16 *Leases* retrospectively from 1 July 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance on 1 July 2019. The new accounting policies are disclosed in note 17.

On adoption of AASB 16, the group recognised lease liabilities in relation to the current lease of Lawcover Insurance's office premises which commenced on 1 October 2019. Previous leases had previously been classified as 'operating leases' under the principles of AASB 117 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 October 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 October 2019 was 3.6%.

In applying AASB 16 for the first time, the group has used the practical expedients permitted by the standard, by accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases.

2. Summary of significant accounting policies (continued)

(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 2019, including:

- AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material* (effective for annual reporting periods beginning on or after 1 January 2020)
- AASB 2016-6 *Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts* (effective for annual reporting periods beginning on or after 1 January 2023)
- AASB 17 *Insurance Contracts* (effective for annual periods beginning on or after 1 January 2023)

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 2018-7 *Amendments to Australian Accounting Standards – Definition of Material* principally amends AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendments refine the definition of material in AASB 101. The amendments clarify the definition of material and its application by improving the wording and aligning the definition across the Australian Accounting Standards and other publications. The amendment also includes some supporting requirements in AASB 101 in the definition to give it more prominence and clarifies the explanation accompanying the definition of material. Based on the group's assessment, when these amendments are first adopted for the year ended 30 June 2021 there will be no material impact on the financial statements.
- 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), which permitted eligible insurers to continue to apply AASB 139 *Financial Instruments: Recognition and Measurement* until they are required to apply AASB 9 *Financial Instruments* alongside AASB 17 *Insurance Contracts*. In July 2020 the AASB made further amendments (AASB 2020-5) deferring the effective date of AASB 17 to annual reporting periods beginning on or after 1 January 2023.

This applies to Lawcover Insurance. From 1 January 2023, 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.

- AASB 17 *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. Lawcover Insurance is yet to undertake a detailed assessment of the impact of AASB 17, however this will be performed prior to first time adoption of the Standard.

(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*, and note 16 (a) – *Valuation of land and buildings*.

2. Summary of significant accounting policies (continued)

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk.

In the process of determining a provision or contingent liability, significant judgement is applied in determining the probability of outflow, or the best estimate of the provision based on all available information, facts and circumstances. The nature of provisions and contingent liabilities are such, that as further information comes to light, the ultimate outcome could be significantly different to the number provided.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. While the critical accounting judgements and estimates have not materially changed, the impact of COVID-19 resulted in the application of further judgement. Given the evolving and uncertain impact of COVID-19 there may be changes in market conditions in the future, and the impact of these changes will be accounted for in future reporting periods as they arise and/or are able to be reasonably predicted.

(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 2020 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 as it is 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

Lease liabilities are initially measured at present value of future lease payments and right-of-use lease assets are initially measured as lease liabilities plus lease acquisition costs incurred. Depreciation of the right-of-use lease assets and interest on lease liabilities are recognised in the statement of profit or loss, and the statement of cash flows separate the total amount of cash paid into a principal portion and interest. The lease of Lawcover Insurance's premises is the group's only material lease and the current lease commenced on 1 October 2019. The previous lease which expired on 30 September 2019 was accounted for as a short term lease as permitted under the practical expedients in the standard.

(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.

Trade and other receivables represents amounts receivable for services that have been delivered. These amounts are initially recognised at fair value. An analysis is performed at each balance date to measure any expected credit loss. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the group expects to receive, discounted at an approximation of the original effective interest rate.

(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.

(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.

2. Summary of significant accounting policies (continued)

(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.

(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.

2. Summary of significant accounting policies (continued)

(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.

(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.

2. Summary of significant accounting policies (continued)

(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 on the balance sheet 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.

(u) Premiums received in advance

Premiums received in advance represents cash premium receipts for policies that incept in future periods of reporting date. This is recognised in the balance sheet as part of other liabilities and brought to the income statement in future periods as it is earned.

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, the Australian Capital Territory and the Northern Territory. 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 (\$1.5 million prior to 1 July 2009) are derived from analysis of the results of several different actuarial models.

For older underwriting years, the 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.

For the 30 June 2020 balance date Lawcover Insurance has changed its approach to be based on Gross Fee Income (GFI) where previously it was based on the number of solicitors. Under the new approach, the IBNR estimate is calculated as:

- the GFI in the underwriting quarter, multiplied by
- an assumed loss rate per \$1 million of GFI 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. The incurred cost of claims capped under \$1 million and the incurred cost of 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 5.0% 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% probability of adequacy.

Reinsurance recoveries are allowed for where the liability estimate exceeds the stop loss retention.

(c) Top-Up cover above the compulsory layer

Prior to 30 June 2008, "Top-Up" cover above the compulsory 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. 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 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 closer align to historical experience of more mature years.

A 5.0% loading for claims handling, a 0.3% discount factor and an 18% risk margin are included in the provision.

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 2020 compared to the assumptions at 30 June 2019.

| Assumptions in respect of Underwriting Year 2019-20 | Valuation as at 30 June 2020 | Valuation as at 30 June 2019 |
|--|-------------------------------|-------------------------------|
| IBNR% | 50.0% | 47.0% |
| Initial loss rate (loss per \$1 million GFI) (\$) ^{1,2} | 2,403 | - |
| Initial loss rate (loss per risk adjusted solicitor) (\$) | - | 645 |
| Claims handling expense rate | 5.0% | 6.5% |
| Discount rate per annum | 0.3% | 1.0% |
| Inflation rate per annum | Implicit in valuation methods | Implicit in valuation methods |
| Superimposed inflation rate per annum | Implicit in valuation methods | Implicit in valuation methods |

¹ From June 2020 balance date onwards, a loss per \$1 million GFI approach has been adopted.

² Reflects explicit COVID-19 IBNR Adjustment (discussed below).

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 emerge subsequent to the valuation date in respect of the 2019-20 underwriting year. This is estimated by analysing past incurred development.

(ii) *Initial loss rate*

The initial loss rate is estimated by analysing historical average loss rates, obtained by dividing ultimate claims costs from the ICD, by the Gross Fee Income per underwriting quarter and multiplied by \$1 million to derive a loss per \$1 million GFI. This approach was adopted from 30 June 2020 balance date onwards.

(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 2020.

(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.

(e) Actuarial assumptions and methods (COVID-19 Allowance)

A description of the COVID-19 specific adjustments made at the 30 June 2020 valuation is provided below.

(i) *Central estimate*

The impact of the COVID-19 shutdown has resulted in an economic downturn which is expected to continue for some time. Professional indemnity portfolios typically experience an increase in claims activity in times of economic downturn. However, the nature of the current economic environment is unprecedented and results in a higher level of uncertainty in the liability estimates.

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

Lawcover Insurance have made an adjustment to the valuation for the impact of COVID-19 by considering the impact of the 1990's recession and the GFC. Typically it is observed that the majority of the impact of claims cost arise in the year of the economic crisis, with a small impact on past claim years. Given the economic downturn only impacted the last quarter leading up to the balance date the impact on outstanding claims is expected to be small. Lawcover Insurance have assumed a \$1.5m allowance (1% of outstanding claims).

(ii) *Risk margins*

Lawcover Insurance have made an explicit increase to the outstanding claims risk margin of 0.30% at the 85% PoS to allow for the increased uncertainty around the claims impact arising from the COVID-19 event.

(f) **Sensitivity analysis**

The tables below indicate the change in value in the total gross and net discounted central estimate of outstanding claims excluding risk margin due to changing the valuation basis by each of the items indicated under "Scenario". They also show the change expressed as a percentage of the total gross discounted central estimate of outstanding claims.

| Scenario – 2020 | Discounted gross central estimate (excl risk margin) | | |
|--------------------------------------|--|--------------|----------|
| | Before change | After change | % Change |
| | \$'000 | \$'000 | % |
| Increase discount rate by 0.5% | 117,582 | 116,877 | (0.6%) |
| Increase initial loss rate by 20% | 117,582 | 125,930 | 7.1% |
| Increase IBNR by 25% | 117,582 | 127,106 | 8.1% |
| Increase inflation by 1% | 117,582 | 119,228 | 1.4% |
| High COVID-19 scenario (second wave) | 117,582 | 123,931 | 5.4% |
| Speed up in incurred development | 117,582 | 114,055 | (3.0%) |

| 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 – 2020 | Discounted net central estimate (excl risk margin) | | |
|--------------------------------------|--|--------------|----------|
| | Before change | After change | % Change |
| | \$'000 | \$'000 | % |
| Increase discount rate by 0.5% | 106,178 | 105,541 | (0.6%) |
| Increase initial loss rate by 20% | 106,178 | 114,460 | 7.8% |
| Increase IBNR by 25% | 106,178 | 115,734 | 9.0% |
| Increase inflation by 1% | 106,178 | 107,771 | 1.5% |
| High COVID-19 scenario (second wave) | 106,178 | 112,230 | 5.7% |
| Speed up in incurred development | 106,178 | 102,674 | (3.3%) |

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

| 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% |

The scenarios listed 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.

(v) *Higher COVID-19 scenario (second wave)*

This scenario assumes that there is a second wave and a more severe economic downturn. Claims costs are estimated to increase by 7% compared with 1% in the central estimate.

(vi) *Speed up in the cost development*

This scenario assumes that there is a speed up in the cost development for the 2018-19 pool year by four quarters in total (the central estimate currently allows for a two quarter speed up). This reduces the IBNR.

4. Insurance risk management

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 mis-pricing 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 programme seeks 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, Risk & 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, Risk & 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 |
| 2020 | | | | | | |
| Cash & cash equivalents | - | 21,977 | - | - | - | 21,977 |
| Short term deposits | - | 2,912 | 23,500 | - | - | 26,412 |
| Interest bearing securities | 127,991 | 97,547 | 26,519 | 30,452 | - | 282,509 |
| Reinsurance recoveries | - | 6,399 | 9,804 | - | 3 | 16,206 |
| Managed funds | - | - | - | - | 93,922 | 93,922 |
| | 127,991 | 128,835 | 59,823 | 30,452 | 93,925 | 441,026 |
| 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 |

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:

| At 30 June 2020 | Average effective interest rate % | Variable interest rate \$'000 | Fixed maturity dates | | | Non interest bearing \$'000 | Total \$'000 |
|---------------------------|-----------------------------------|-------------------------------|-------------------------|------------------|-----------------|-----------------------------|--------------|
| | | | Less than 1 year \$'000 | 1-5 years \$'000 | 5+ years \$'000 | | |
| Financial assets | | | | | | | |
| Cash and cash equivalents | 0.6% | 21,977 | - | - | - | - | 21,977 |
| Short term deposits | 1.9% | 26,312 | 100 | - | - | - | 26,412 |
| NCD's and bank bills | 0.1% | - | 2,000 | - | - | - | 2,000 |
| Corporate securities | 0.7% | 4,059 | 43,355 | 182,602 | 50,493 | - | 280,509 |
| Managed funds | | - | - | - | - | 93,922 | 93,922 |
| | | 52,348 | 45,455 | 182,602 | 50,493 | 93,922 | 424,820 |

| At 30 June 2019 | Average effective interest rate % | Variable interest rate \$'000 | Fixed maturity dates | | | Non interest bearing \$'000 | Total \$'000 |
|---------------------------|-----------------------------------|-------------------------------|-------------------------|------------------|-----------------|-----------------------------|--------------|
| | | | Less than 1 year \$'000 | 1-5 years \$'000 | 5+ years \$'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 |

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.

5. Financial risk management (continued)

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 \$1.20 million (2019: decrease/increase by \$1.29 million) on a post-tax basis with income tax expense calculated at 30% (2019: 30%).

(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 2020 and 30 June 2019:

| At 30 June 2020 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|---|-------------------|-------------------|-------------------|-----------------|
| Financial assets at fair value through profit or loss | | | | |
| Interest bearing investments | 26,390 | 282,531 | - | 308,921 |
| Managed funds | - | 93,922 | - | 93,922 |
| | 26,390 | 376,453 | - | 402,843 |

| 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 |

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 | |
|--|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Membership and practising certificate fees | 25,970 | 24,489 | 25,970 | 24,489 |
| Premium revenue | 72,415 | 76,035 | - | - |
| Reinsurance and other recoveries | 2,040 | 3,641 | - | - |
| Legal training revenue | 1,363 | 1,331 | 1,363 | 1,331 |
| Member services revenue | 1,835 | 1,809 | 1,835 | 1,809 |
| Product sale revenue | 1,083 | 1,128 | 1,083 | 1,128 |
| Property rental revenue | 348 | 407 | 348 | 407 |
| Other revenue | 3,343 | 2,260 | 2,046 | 2,252 |
| | 108,397 | 111,100 | 32,645 | 31,416 |

7. Investment revenue

| | Consolidated | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Interest income | 401 | 1,241 | 389 | 427 |
| Dividends | - | - | - | 10,000 |
| Fair value gains on financial assets at fair value through profit and loss | 5,885 | 16,075 | (451) | 1,152 |
| | 6,286 | 17,316 | (62) | 11,579 |

8. Other income

| | | | | |
|---|-------|-------|-------|-------|
| <i>Public Purpose Fund receipts</i> | | | | |
| Received under s.53 of the LPUL App Act 2014 | 8,515 | 8,190 | 8,515 | 8,190 |
| Received under s.55 of the LPUL App Act 2014 | 461 | 450 | 461 | 450 |
| | 8,976 | 8,640 | 8,976 | 8,640 |
| <i>Legal Practitioners Fidelity Fund receipts</i> | | | | |
| Received under s.118 of the LPUL App Act 2014 | 810 | 839 | 810 | 839 |
| Law Week Trust receipts | - | 60 | - | 60 |
| | 9,786 | 9,539 | 9,786 | 9,539 |

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

9. Expenses

Profit before income tax expenses includes the following specific expenses:

Employee benefits expense

| | | | | |
|---|--------|--------|--------|--------|
| Wages and salaries | 27,021 | 25,518 | 19,906 | 19,021 |
| Defined contribution superannuation expense | 2,262 | 2,037 | 1,755 | 1,569 |
| Other employee benefits expense | 2,312 | 1,807 | 1,766 | 1,269 |
| Total employee benefits expense | 31,595 | 29,362 | 23,427 | 21,859 |

Depreciation and amortisation expense

Depreciation

| | | | | |
|---------------------|-----|-----|-----|-----|
| Buildings | 675 | 675 | 675 | 675 |
| Plant and equipment | 500 | 557 | 277 | 288 |
| Right-of-use assets | 468 | - | - | - |

Amortisation

| | | | | |
|---|-------|-------|-------|-------|
| Software | 744 | 894 | 346 | 535 |
| Total depreciation and amortisation expense | 2,387 | 2,126 | 1,298 | 1,498 |

10. Income tax expense

| | Consolidated | | Company | |
|---------------------------|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Income tax expense | | | | |
| Current tax | - | 6,059 | - | - |
| Deferred tax | (579) | (60) | - | - |
| | (579) | 5,999 | - | - |

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

| | | | | |
|---|---------|---------|-------|----------|
| Profit from operations before exceptional item and income tax expense | (3,247) | 22,714 | (462) | 10,480 |
| Less profit from tax-exempt operations | 462 | (1,110) | 462 | (10,480) |
| | (2,785) | 21,604 | - | - |
| Tax at the Australian tax rate of 30% (2019 - 30%) | (836) | 6,481 | - | - |
| Non-deductible expenses | 414 | (218) | - | - |
| Tax-exempt income | (156) | - | - | - |
| Adjustments for current tax of prior periods | (7) | (267) | - | - |
| Change in unrecognised deferred tax assets | 6 | 3 | - | - |
| Income tax expense | (579) | 5,999 | - | - |

The tax rate used for the 2020 and 2019 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 as it is 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 | |
|---|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Trade receivables | 101 | 5 | 230 | 94 |
| Provision for impairment of receivables | (6) | - | (6) | - |
| | 95 | 5 | 224 | 94 |
| Goods and services tax recoverable | 122 | 1 | 122 | - |
| <i>Other receivables</i> | | | | |
| Receivable from Legal Practitioners Fidelity Fund | 49 | 68 | 49 | 68 |
| Reinsurance recoveries receivable * | 11,371 | 8,940 | - | - |
| Interest receivable | 34 | 69 | 34 | 69 |
| Other | 101 | 306 | 101 | 306 |
| | 11,772 | 9,389 | 530 | 537 |

* Refer to note 14 for the non-current portions of these receivables, and note 26(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 2020 current trade receivables of the group with a nominal value of \$6,000 (2019: \$Nil) were impaired.

(b) Past due but not impaired

As at 30 June 2020, trade receivables of \$69,509 (2019: \$17,408) 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 | |
|--------------------------------------|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| (b) Past due but not impaired | | | | |
| 1 to 3 months | 62 | 13 | 62 | 13 |
| 3 to 6 months | 7 | 4 | 7 | 4 |
| Over 6 months | - | - | - | - |
| | 69 | 17 | 69 | 17 |

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 | |
|--|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| <i>Financial assets at fair value through profit or loss</i> | | | | |
| Deposits | 26,412 | 27,987 | 23,500 | 25,000 |
| Negotiable certificates of deposit | 2,000 | 14,969 | - | - |
| Corporate and government securities | 43,355 | 46,007 | - | - |
| Managed funds | 93,922 | 86,296 | 34,220 | 27,171 |
| | 165,689 | 175,259 | 57,720 | 52,171 |

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 | |
|-------------|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Prepayments | 2,420 | 2,030 | 1,393 | 1,609 |
| Other | 86 | 86 | - | 28 |
| | 2,506 | 2,116 | 1,393 | 1,637 |

14. Non-current assets – Receivables

| | | | | |
|-------------------------------------|-------|-------|---|---|
| Reinsurance recoveries receivable * | 4,835 | 6,865 | - | - |
| | 4,835 | 6,865 | - | - |

* Refer to note 11 for the current portions of these receivables, and note 26(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 | |
|--|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| <i>Investments carried at cost</i> | | | | |
| Shares in subsidiaries * | - | - | 34,600 | 44,600 |
| | - | - | 34,600 | 44,600 |
| <i>Financial assets at fair value through profit or loss</i> | | | | |
| Corporate and government securities ** | 237,154 | 244,149 | - | - |
| | 237,154 | 244,149 | - | - |
| | 237,154 | 244,149 | 34,600 | 44,600 |

* Refer to note 33 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 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 1 July 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 |
| Year ended 30 June 2020 | | | |
| Opening net book amount | 52,440 | 1,349 | 53,789 |
| Revaluation increment | 5,801 | - | 5,801 |
| Additions | 434 | 340 | 774 |
| Depreciation | (675) | (500) | (1,175) |
| Closing net book amount | 58,000 | 1,189 | 59,189 |
| At 30 June 2020 | | | |
| Cost or fair value | 58,000 | 4,375 | 62,375 |
| Accumulated depreciation | - | (3,186) | (3,186) |
| Net book amount | 58,000 | 1,189 | 59,189 |

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 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 1 July 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 |
| Year ended 30 June 2020 | | | |
| Opening net book amount | 52,440 | 500 | 52,940 |
| Revaluation increment | 5,801 | - | 5,801 |
| Additions | 434 | 272 | 706 |
| Depreciation | (675) | (277) | (952) |
| Closing net book amount | 58,000 | 495 | 58,495 |
| At 30 June 2020 | | | |
| Cost or fair value | 58,000 | 2,192 | 60,192 |
| Accumulated depreciation | - | (1,697) | (1,697) |
| Net book amount | 58,000 | 495 | 58,495 |

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

(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 at 30 June 2020.

The valuation has been undertaken in accordance with Australian Accounting Standards AASB 13 *Fair Value Measurement* with consideration given to the input ratings per the fair value hierarchy.

Colliers have utilised inputs across all levels of rating however the key drivers are rated level 3 which include:

- the adoption of seven year lease Notional Lease Term to the Law Society of New South Wales;
- alteration of provided building outgoings; and
- capital expenditure allowances for building maintenance and refurbishment.

In addition to the data inputs, the following key judgements and assumptions were also considered in Colliers' valuation.

Key judgements and assumptions

Given the impact of the Novel Coronavirus (COVID-19) on global financial markets across many sectors, Colliers' independent valuation of the company's land and building is reported on the basis of 'material valuation uncertainty' thus a higher degree of judgement is attached to the valuation than historical years. However, on a real estate and sector specific basis, Colliers consider office markets to be less affected than other sectors such as accommodation, health and aged care.

The following assumptions were considered in Colliers' valuation as a result of the above:

- re-forecast of face rental growth, resulting in a lower compound annual growth rate;
- application of an incentive for pending office accommodation vacancies until 2024, whilst also incorporating incentive probability throughout the first five years of the cashflow;
- application of an incentive for space occupied by the company; and
- additional provision for imminent expiries.

Noting the uncertainty, the Company considers that the assumptions used in the valuation is appropriate for the purpose of determining the fair value of the land and building at 30 June 2020.

The valuation, which conformed to Australian Valuation Standards, was performed on the basis of capitalising the estimated net income at 5.125% with a discount rate applied of 6.375%.

(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 | |
|--------------------------|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'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 | 25,456 | 25,022 | 25,456 | 25,022 |
| Accumulated depreciation | (8,811) | (8,294) | (8,811) | (8,294) |
| Net book amount | 16,645 | 16,728 | 16,645 | 16,728 |

17. Leases

(a) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to the leasehold of Lawcover Insurance's premises:

| | Consolidated | | Company | |
|----------------------------|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Right-of-use assets | | | | |
| Current | - | - | - | - |
| Non-current | 2,651 | - | - | - |
| | 2,651 | - | - | - |
| Lease liabilities | | | | |
| Current | 546 | - | - | - |
| Non-current | 2,133 | - | - | - |
| | 2,679 | - | - | - |

Lawcover Insurance's new office lease commenced on 1 October 2019.

(b) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to the leasehold of Lawcover Insurance's premises:

| | Consolidated | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Depreciation charge right-of-use assets | 468 | - | - | - |
| Interest expense (included in other expenses) | 78 | - | - | - |
| | 546 | - | - | - |

18. Deferred tax assets

The balance comprises temporary differences attributable to:

| | | | | |
|--|-------|-------|---|---|
| Tax losses | 579 | - | - | - |
| Insurance provisions | 1,176 | 1,510 | - | - |
| Other items | 966 | 632 | - | - |
| Total deferred tax assets | 2,721 | 2,142 | - | - |
| Deferred tax assets expected to be recovered within 12 months | 1,268 | 1,140 | - | - |
| Deferred tax assets expected to be recovered after more than 12 months | 1,453 | 1,002 | - | - |
| | 2,721 | 2,142 | - | - |

19. Non-current assets – Intangible assets

| Consolidated | Software and systems \$'000 | Total \$'000 |
|---|--|-------------------------|
| 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 1 July 2019 | | |
| Cost | 9,489 | 9,489 |
| Accumulated amortisation and impairment | (8,270) | (8,270) |
| Net book amount | 1,219 | 1,219 |
| Year ended 30 June 2020 | | |
| Opening net book amount | 1,219 | 1,219 |
| Additions | 930 | 930 |
| Amortisation charge * | (744) | (744) |
| Closing net book amount | 1,405 | 1,405 |
| At 30 June 2020 | | |
| Cost | 10,294 | 10,294 |
| Accumulated amortisation and impairment | (8,889) | (8,889) |
| Net book amount | 1,405 | 1,405 |

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

| Company | Software and systems \$'000 | Total \$'000 |
|---|--|-------------------------|
| 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 1 July 2019 | | |
| Cost | 6,068 | 6,068 |
| Accumulated amortisation and impairment | (5,425) | (5,425) |
| Net book amount | 643 | 643 |
| Year ended 30 June 2020 | | |
| Opening net book amount | 643 | 643 |
| Amortisation charge * | (346) | (346) |
| Closing net book amount | 297 | 297 |
| At 30 June 2020 | | |
| Cost | 6,068 | 6,068 |
| Accumulated amortisation and impairment | (5,771) | (5,771) |
| Net book amount | 297 | 297 |

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

20. Current liabilities – Trade and other payables

| | Consolidated | | Company | |
|--|---------------------|---------------|----------------|---------------|
| | 2020 | 2019 | 2020 | 2019 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Trade payables | 4,349 | 3,259 | 642 | 941 |
| Goods and services tax payable | 1,618 | 2,680 | - | 894 |
| Other payables | | | | |
| Payable to Legal Practitioners Fidelity Fund | 523 | 236 | 523 | 236 |
| Accrued expenses | 2,126 | 1,885 | 403 | 395 |
| Other taxes payable | 386 | 350 | 335 | 302 |
| | 9,002 | 8,410 | 1,903 | 2,768 |

21. Current liabilities – Provisions

| | Consolidated | | Company | |
|--------------------------------|---------------------|---------------|----------------|---------------|
| | 2020 | 2019 | 2020 | 2019 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Employee benefits | 3,990 | 3,750 | 3,128 | 3,014 |
| Lease incentive liability | - | 70 | - | - |
| Outstanding claims liability * | 79,266 | 63,060 | - | - |
| | 83,256 | 66,880 | 3,128 | 3,014 |

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 26(d) for further information relating to the group's outstanding claims liability.

22. Current liabilities – Other liabilities

| | Consolidated | | Company | |
|--|---------------------|---------------|----------------|---------------|
| | 2020 | 2019 | 2020 | 2019 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| <i>Deferred revenue</i> | | | | |
| Membership and practising certificate fees | 14,403 | 23,831 | 14,403 | 23,831 |
| Premiums received in advance | 67,367 | 66,912 | - | - |
| Other | 918 | 1,244 | 918 | 1,244 |
| | 82,688 | 91,987 | 15,321 | 25,075 |

23. Deferred tax liabilities

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

24. Non-current liabilities – Provisions

| | Consolidated | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Employee benefits - long service leave | 1,046 | 976 | 860 | 756 |
| Outstanding claims liability * | 62,212 | 78,386 | - | - |
| | 63,258 | 79,362 | 860 | 756 |

* Refer to note 26(d) for further information relating to the group's outstanding claims liability.

25. Reserves and retained earnings

(a) Reserves

| | Consolidated | | Company | |
|-------------------|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Asset revaluation | 43,342 | 37,541 | 43,342 | 37,541 |
| Special projects | - | - | - | - |
| | 43,342 | 37,541 | 43,342 | 37,541 |

Movements:

Asset revaluation reserve

| | | | | |
|-----------------|--------|--------|--------|--------|
| Balance 1 July | 37,541 | 37,541 | 37,541 | 37,541 |
| Revaluation | 5,801 | - | 5,801 | - |
| Balance 30 June | 43,342 | 37,541 | 43,342 | 37,541 |

Special projects reserve

| | | | | |
|-------------------------------|---|---------|---|---------|
| Balance 1 July | - | 7,023 | - | 7,023 |
| Transfer to retained earnings | - | (7,023) | - | (7,023) |
| Balance 30 June | - | - | - | - |

(b) Retained earnings

Movements in retained earnings were as follows:

| | | | | |
|--|---------|----------|---------|---------|
| Balance 1 July | 230,369 | 251,231 | 103,576 | 41,473 |
| Net (loss) profit for the year | (2,668) | (27,885) | (462) | 55,080 |
| Transfer from special projects reserve | - | 7,023 | - | 7,023 |
| Balance 30 June | 227,701 | 230,369 | 103,114 | 103,576 |

(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 was transferred to retained earnings during the year ended 30 June 2019.

26. Insurance disclosures

(a) Contribution to profit from insurance activities

| | Consolidated | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Gross earned premium | 72,415 | 76,035 | - | - |
| Outwards reinsurance premium expense | (8,311) | (7,804) | - | - |
| Net earned premium | 64,104 | 68,231 | - | - |
| Gross claims expense | (60,223) | (49,829) | - | - |
| Reinsurance and other recoveries revenue | 2,040 | 3,641 | - | - |
| Net claims expense | (58,183) | (46,188) | - | - |
| Underwriting expenses | (16,307) | (15,468) | - | - |
| Underwriting result | (10,386) | 6,575 | - | - |

(b) Net claims incurred from insurance activities

| | Consolidated | | | Consolidated | | |
|---|---------------------------|---------------------------------|-----------------|---------------------------|---------------------------------|-----------------|
| | Current year \$'000 | 2020 Prior year \$'000 | Total \$'000 | Current year \$'000 | 2019 Prior year \$'000 | Total \$'000 |
| Gross claims expense | | | | | | |
| Undiscounted | 64,867 | (6,454) | 58,413 | 63,666 | (17,526) | 46,140 |
| Discount movement | (216) | 2,026 | 1,810 | (1,017) | 4,706 | 3,689 |
| | 64,651 | (4,428) | 60,223 | 62,649 | (12,820) | 49,829 |
| Reinsurance and other recoveries | | | | | | |
| Undiscounted | (2,283) | 403 | (1,880) | (1,505) | (1,791) | (3,296) |
| Discount movement | 9 | (169) | (160) | 28 | (373) | (345) |
| | (2,274) | 234 | (2,040) | (1,477) | (2,164) | (3,641) |
| Net claims incurred | 62,377 | (4,194) | 58,183 | 61,172 | (14,984) | 46,188 |

(c) Reinsurance recoveries receivable from insurance activities

| | Consolidated | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Expected future reinsurance recoveries undiscounted | | | | |
| on claims paid | 161 | 398 | - | - |
| on outstanding claims | 16,077 | 15,599 | - | - |
| | 16,238 | 15,997 | - | - |
| Discount to present value | (32) | (192) | - | - |
| Reinsurance recoveries receivable | 16,206 | 15,805 | - | - |
| Current | 11,371 | 8,940 | - | - |
| Non-current | 4,835 | 6,865 | - | - |
| | 16,206 | 15,805 | - | - |

26. Insurance disclosures (continued)

(d) Outstanding claims liability

Outstanding claims liability

| | Consolidated | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Gross central estimate - undiscounted | 112,350 | 112,390 | - | - |
| Claim handling costs | 5,599 | 7,188 | - | - |
| Risk margin | 23,896 | 23,665 | - | - |
| | 141,845 | 143,243 | - | - |
| Discount to present value | (367) | (1,797) | - | - |
| Gross outstanding claims liability - discounted | 141,478 | 141,446 | - | - |
| Current | 79,266 | 63,060 | - | - |
| Non-current | 62,212 | 78,386 | - | - |
| | 141,478 | 141,446 | - | - |

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% (2019: 85%) probability of adequacy.

| | Consolidated | |
|---|--------------|-----------|
| | 2020 % | 2019 % |
| Risk margins applied (Lawcover Insurance) | 18.1% | 19.0% |

Reconciliation of movement in discounted outstanding claims liability

| | Consolidated | | |
|--|-----------------|-----------------------|---------------|
| | Gross \$'000 | Reinsurance \$'000 | Net \$'000 |
| Year ended 30 June 2020 | | | |
| Brought forward | 141,446 | (15,407) | 126,039 |
| Incurred claims recognised in the income statement | 60,223 | (2,040) | 58,183 |
| Claims payments | (60,191) | 1,402 | (58,789) |
| Carried forward | 141,478 | (16,045) | 125,433 |
| 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 |
| Claim payments | (51,617) | 4,002 | (47,615) |
| Carried forward | 141,446 | (15,407) | 126,039 |

26. Insurance disclosures (continued)

Claims development table

| Claim year | Underwriting year | | | | | | Total \$'000 |
|--|-------------------|----------------|----------------|----------------|----------------|----------------|-----------------|
| | Prior \$'000 | 2016 \$'000 | 2017 \$'000 | 2018 \$'000 | 2019 \$'000 | 2020 \$'000 | |
| Estimate of gross ultimate claims cost: | | | | | | | |
| at end of claim year | | 49,248 | 49,361 | 50,641 | 53,106 | 55,460 | 257,816 |
| one year later | | 45,429 | 51,101 | 44,472 | 57,893 | | 198,895 |
| two years later | | 43,939 | 48,551 | 41,012 | | | 133,502 |
| three years later | | 44,325 | 51,212 | | | | 95,537 |
| four years later | | 45,233 | | | | | 45,233 |
| five years later | 548,470 | | | | | | 548,470 |
| Cumulative payments made to date | (539,809) | (31,468) | (43,738) | (27,887) | (32,689) | (11,339) | (686,930) |
| Gross undiscounted outstanding claims | 8,661 | 13,765 | 7,474 | 13,125 | 25,204 | 44,121 | 112,350 |
| Reconciliation | | | | | | | |
| Reinsurance recoveries | (5,114) | (6,014) | (484) | (792) | (1,359) | (2,282) | (16,045) |
| Discount to present value | (4) | (27) | (19) | (41) | (97) | (179) | (367) |
| Claims handling costs | 433 | 687 | 373 | 654 | 1,255 | 2,197 | 5,599 |
| Risk margin | 6,692 | 3,158 | 1,298 | 2,008 | 3,621 | 7,119 | 23,896 |
| Net outstanding claims liability | 10,668 | 11,569 | 8,642 | 14,954 | 28,624 | 50,976 | 125,433 |

(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 2020.

It should be noted that the retained earnings as at 30 June 2020 of \$122.9 million (2019: \$127.9 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 \$124.5 million (2019: \$126.7 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 2020 in excess of the minimum required by APRA. The following table shows the capital adequacy calculated in accordance with the APRA prudential framework. The 2020 position reflects the June 2020 quarter APRA returns (unaudited) with the 2019 comparative being reflective of the 2019 annual return.

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Lawcover Insurance Pty Ltd Tier 1 capital base | | |
| Ordinary shares | 34,600 | 44,600 |
| Retained earnings as at 30 June (adjusted) | 122,894 | 127,882 |
| LawCover Insurance Pty Ltd capital base and adjusted net assets | 157,494 | 172,482 |
| Prudential capital requirement | 41,881 | 42,268 |
| Prescribed capital amount coverage | 3.76 | 4.08 |

26. 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, and in compliance with, 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 a minimum capital adequacy ratio of 2.25 times. At 30 June 2020 the prescribed capital adequacy is 3.76 (unaudited), which is a decrease from 4.08 in 2019. This decrease is due to a decrease in the asset base of Lawcover Insurance.
- Lawcover Insurance is subject to local prudential standards requiring that a minimum level of capital is maintained to meet obligations to policyholders. It is 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.

27. Key management personnel disclosures

| | Consolidated | | Company | |
|------------------------------|--------------|-----------|-----------|-----------|
| | 2020 | 2019 | 2020 | 2019 |
| | \$ | \$ | \$ | \$ |
| Short-term employee benefits | 4,693,825 | 4,186,699 | 1,691,141 | 1,618,132 |
| Post-employment benefits | 309,934 | 319,414 | 130,869 | 142,486 |
| | 5,003,759 | 4,506,113 | 1,822,010 | 1,760,618 |

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 to 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 2020.

Directors' remuneration

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

28. Remuneration of auditors

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

| | Consolidated | | Company | |
|--|--------------|---------|---------|---------|
| | 2020 | 2019 | 2020 | 2019 |
| | \$ | \$ | \$ | \$ |
| PwC Australia | | | | |
| Audit and review of financial statements | 292,573 | 287,809 | 148,258 | 143,940 |
| <i>Other services</i> | | | | |
| Audit of regulatory returns | 39,155 | 39,088 | 2,311 | 2,244 |
| Tax compliance services | 22,452 | 24,284 | - | - |
| Other services | 126,620 | 95,443 | 65,127 | 61,259 |
| Total remuneration of PwC Australia | 480,800 | 446,624 | 215,696 | 207,443 |

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.

29. Contingencies

During the year, an action was raised against Lawcover Insurance Pty Limited by a third party service provider. The damages sought by the claim are unspecified and Lawcover Insurance Pty Limited is defending the proceedings. Lawcover Insurance Pty Limited has also provided an indemnity to Lawcover Pty Limited against any costs arising from this action, should Lawcover Pty Limited be joined in the matter. No provision has been recognised in relation to this matter. Other than the above, as at 30 June 2020, and at the date of this report, there are no further known contingent liabilities or contingent assets which are likely to affect the group's financial position (2019: \$Nil).

30. Commitments

(a) Capital commitments

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

| | Consolidated | | Company | |
|-------------------------------|--------------|--------|---------|--------|
| | 2020 | 2019 | 2020 | 2019 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Property, plant and equipment | - | - | - | - |
| Intangible assets | - | - | - | - |

(b) Non-cancellable operating leases

The group leases office premises for Lawcover Insurance under a non-cancellable operating lease. This lease includes \$994,499 of bank guarantees that exist with the Westpac Banking Corporation. Following the adoption of AASB 16 *Leases*, the group now recognises a lease liability to make lease payments and an asset representing the right to use the underlying during the lease term – see note 17 for further information.

| | Consolidated | | Company | |
|---|--------------|--------|---------|--------|
| | 2020 | 2019 | 2020 | 2019 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Within one year | - | 786 | - | - |
| Later than one year but not later than five years | - | 3,406 | - | - |
| Later than five years | - | - | - | - |
| | - | 4,192 | - | - |

31. Related party transactions

(c) 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.

(d) 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 \$10 million to buy back 10,000,000 ordinary shares (2019: \$6 million to buy back 6,000,000 ordinary shares).
- (ii) Lawcover Insurance Pty Ltd, a controlled entity, paid the Law Society of New South Wales \$135,961 (2019: \$116,157) for access to data used in the distribution of its insurance products.
- (iii) Lawcover Insurance Pty Ltd, a controlled entity, paid The Law Society of New South Wales \$76,830 (2019: \$73,125) for management and administration services.
- (iv) Lawcover Pty Ltd, a controlled entity, paid The Law Society of New South Wales \$1,170 (2019: \$875) for management and administration services.

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

(e) Transactions with other related parties

During the financial year ended 30 June 2020 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 (2019: \$60,000)
- (ii) Legal Practitioners Fidelity Fund \$810,006 (2019: \$839,959)

During the financial year ended 30 June 2020, a payment of \$1,350,613 (2019: \$Nil) was made by Lawcover Insurance Pty Ltd to the Public Purpose Fund for a 50% share of the HIH dividend that was received by Lawcover Insurance Pty Ltd – see note 32 for further information.

As at 30 June 2020, the following balances were receivable from or payable to other related parties:

- (i) Receivable from Legal Practitioners Fidelity Fund \$49,424 (2019: \$67,876)
- (ii) Payable to Legal Practitioners Fidelity Fund \$523,453 (2019: \$235,994)
- (iii) Receivable from Public Purpose Fund \$Nil (2019: \$Nil)
- (iv) Payable to Public Purpose Fund \$Nil (2019: \$Nil)

(f) Intercompany balances eliminated from balance sheet

As at 30 June 2020, the following intercompany balances between group entities were eliminated from the consolidated accounts:

- (i) \$135,961 payable to The Law Society of New South Wales by Lawcover Insurance Pty Ltd (2019: \$116,157)
- (ii) \$26,649 payable to Lawcover Insurance Pty Ltd by Lawcover Pty Ltd (2019: \$Nil)

32. HIH recoveries

At the HIH Casualty & General Insurance creditors meeting held on 28 October 2019, an interim scheme payment of 3% was proposed and accepted. Payment of \$2.7 million (2019: \$Nil) was received by Lawcover Insurance in accordance with schedule 7 of the *Legal Profession Uniform Law Application Act 2014 [NSW]* ("LPULAA"). Schedule 9 of the LPULAA requires that recoveries received by Lawcover Insurance pursuant to schedule 7 are to be shared equally with the Public Purpose Fund, and as such \$1.35 million (2019: \$Nil) was transferred to the Public Purpose Fund.

There is reason to believe that there will be a further HIH recovery in the future, however, this has not been recognised in the accounts due to the uncertainty of the amount and timing of this payment.

33. 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 \$ | |
|---------------------------------|--------------------------|-------------------|------|---------------|------------|
| | | 2020 | 2019 | 2020 | 2019 |
| Lawcover Pty Ltd (i) | Australia | 100 | 100 | 2 | 2 |
| Lawcover Insurance Pty Ltd (ii) | Australia | 100 | 100 | 34,599,942 | 44,599,942 |
| | | | | 34,599,944 | 44,599,944 |

- (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 34,599,942 ordinary shares fully paid. The company was established to underwrite compulsory professional indemnity insurance for solicitors. On 26 June 2020 Lawcover Insurance completed a share buy-back of \$10,000,000 from The Law Society of New South Wales.

34. 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.

35. 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.

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

| | Consolidated | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| (Loss) profit for the year | (2,668) | (27,885) | (462) | 55,080 |
| Depreciation and amortisation | 2,387 | 2,126 | 1,298 | 1,498 |
| Net loss on disposal of non-current assets | 1 | 49 | - | 48 |
| Interest and dividends received | (401) | (1,723) | (389) | (10,427) |
| Fair value gains on financial assets at fair value through profit and loss * | (5,885) | (16,075) | 451 | (1,152) |
| Payment made (received) pursuant to <i>Justice Legislation Amendment Act (No 3) 2018</i> | - | 44,600 | - | (44,600) |
| Change in operating assets and liabilities: | | | | |
| (Increase) decrease in trade and other receivables | (353) | 1,076 | 7 | 24 |
| (Increase) decrease in other assets | (449) | 255 | 244 | 98 |
| (Increase) decrease in current tax assets | (2,027) | 2,451 | - | - |
| (Increase) decrease in deferred tax assets | (579) | 88 | - | - |
| Increase (decrease) in trade and other payables | 592 | 495 | (865) | (316) |
| Increase (decrease) increase in provisions | 272 | (1,815) | 218 | 173 |
| (Decrease) increase in other liabilities | (9,299) | (2,141) | (9,754) | 1,347 |
| (Decrease) increase in current tax liability | (5,909) | 5,909 | - | - |
| Decrease in deferred tax liabilities | - | (28) | - | - |
| Net cash (outflow) inflow from operating activities | (24,318) | 7,382 | (9,252) | 1,773 |

* 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 5 to 45 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 2020 and of their performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the company and consolidated entity will be able to pay their 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



R Harvey
Councillor



C Banks
Councillor

Sydney, 17 September 2020



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 2020 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 2020
- 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.

PricewaterhouseCoopers, ABN 52 780 433 757

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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 2020, 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.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive, flowing script.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'R Balding' in a cursive, flowing script.

R Balding
Partner

Sydney
17 September 2020