The Law Society of New South Wales

ACN 000 000 699

Annual financial report for the year ended 30 June 2023

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 2023.

Councillors

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

Lauren Diana Absalom
Jennifer Ruth Ball
Cassandra Denise Banks
Angelo Bilias
Danny Wayne Bricknell
Adriana Care
Jacqueline Mai Dawson
Sylvia Fernandez
Anthony Charles Gordon
Rebekah Victoria McEwin Hunter
Iona Wai Ting Luke
Hugh Ignatius Macken
Mary Josephine Esther Macken
Ronan MacSweeney
Stephen McAuley
Brett Patrick McGrath
Michelle Devenish Meares
Leah Irene Serafim
James Andrew Skelton
Jade Elizabeth Tyrrell
Joanne Patricia van der Plaat
Juliana Rose Warner
Danielle Lee Captain-Webb
Jennifer Jane Windsor
Jennifer Louise Lai Wah Wong
Ereboni Yazdani

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 (re-elected 27.10.22), Mr A Bilias (re-elected 27.10.22), Mr A Gordon (elected 27.10.22), Mr R MacSweeney (elected 27.10.22), Ms L Serafim (appointed 27.10.22), Ms J Tyrrell (re-elected 27.10.22), Ms E Yazdani (elected 27.10.22).

During the year, the following Councillors retired or resigned from Council: Mr D Bricknell (retired 25.04.23), Ms I Luke (retired 27.10.22), Mr S McAuley (retired 27.10.22), Ms M Meares (retired 16.03.23), Mr J Skelton (retired 27.10.22), Ms J Warner (retired 31.12.22).

The company secretaries of The Law Society of New South Wales are Ms M Lewis and Mr D Carew.

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 Lawcover Insurance, which provides 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 surplus of the company for the year was $8.3 million (2022: $3.7 million surplus). 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 surplus of $14.0 million (2022: $8.7 million loss). Further information on the operations of the group can be found in the published annual report.

Changes in state of affairs

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

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

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

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

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

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

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

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

On behalf of the Council

C Banks
Councillor

B McGrath
Councillor

Sydney, 21 September 2023

Auditor's Independence Declaration

As lead auditor for the audit of The Law Society of New South Wales for the year ended 30 June 2023, I declare that to the best of my knowledge and belief, there have been:

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

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

R Balding
Partner
PricewaterhouseCoopers

Sydney
21 September 2023

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Waterfront Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T +61 2 8266 0000, F +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO BOX 1155, Parramatta NSW 2124
T +61 2 9659 2476, F +61 2 8266 9999, www.pwc.com.au

		Consolidated		Company	
		2023	**2022**	**2023**	**2022**
	Note	**$'000**	**$'000**	**$'000**	**$'000**
Revenue	6	144,347	129,220	39,264	37,144
Investment revenue	7	16,313	(15,664)	5,457	(3,513)
Other income	8	12,325	11,844	12,325	11,844
Employee benefits expense	9	(38,987)	(33,690)	(28,591)	(24,534)
Depreciation and amortisation expense	9	(3,525)	(3,187)	(1,245)	(873)
Law Council capitation fees		(3,031)	(2,703)	(3,031)	(2,703)
Outwards reinsurance premium expense	25	(10,771)	(9,747)	-	-
Claims expense	25	(75,390)	(67,271)	-	-
Finance costs	17	(51)	(76)	-	-
Consulting and professional fees expense		(8,154)	(7,827)	(4,892)	(4,569)
Other expenses		(17,772)	(14,657)	(10,956)	(9,098)
Profit (loss) before income tax		15,304	(13,758)	8,331	3,698
Income tax (expense) benefit	10	(1,305)	5,090	-	-
Profit (loss) for the year		13,999	(8,668)	8,331	3,698
Other comprehensive income					
Items that will not be reclassifed to profit or loss					
Revaluation of land and buildings		-	22,198	-	22,198
Other comprehensive income for the year, net of tax		-	22,198	-	22,198
Total comprehensive income for the year		13,999	13,530	8,331	25,896
Profit (loss) is attributable to:					
Members of The Law Society of New South Wales		13,999	(8,668)	8,331	3,698
		13,999	(8,668)	8,331	3,698
Total comprehensive income for the year is attributable to:					
Members of The Law Society of New South Wales		13,999	13,530	8,331	25,896
		13,999	13,530	8,331	25,896

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

		Consolidated		Company	
		2023	**2022**	**2023**	**2022**
	Note	**$'000**	**$'000**	**$'000**	**$'000**
Assets					
Current assets					
Cash and cash equivalents		37,202	32,439	22,284	20,347
Trade and other receivables	11	20,210	15,585	854	638
Investments	12	213,535	191,632	79,574	70,485
Current tax assets		-	242	-	-
Other assets	13	1,745	1,692	1,182	1,126
Total current assets		272,692	241,590	103,894	92,596
Non-current assets					
Receivables	14	18,921	12,741	-	-
Investments	15	250,284	236,059	34,600	34,600
Property, plant and equipment	16	79,272	80,166	78,601	79,349
Right-of-use assets	17	925	1,665	-	-
Deferred tax assets	18	2,075	7,655	-	-
Intangible assets	19	4,629	5,707	-	-
Total non-current assets		356,106	343,993	113,201	113,949
Total assets		628,798	585,583	217,095	206,545
Liabilities					
Current liabilities					
Trade and other payables	20	11,107	7,629	1,944	1,988
Current tax liabilities		252	-	-	-
Lease liabilities	17	829	762	-	-
Provisions	21	87,543	81,981	3,616	3,372
Other liabilities	22	133,650	122,152	32,566	30,659
Total current liabilities		233,381	212,524	38,126	36,019
Non-current liabilities					
Lease liabilities	17	219	1,048	-	-
Provisions	23	99,031	89,843	1,199	1,087
Total non-current liabilities		99,250	90,891	1,199	1,087
Total liabilities		332,631	303,415	39,325	37,106
Net assets		296,167	282,168	177,770	169,439
Equity					
Reserves	24	65,540	65,540	65,540	65,540
Retained earnings	24	230,627	216,628	112,230	103,899
Total equity		296,167	282,168	177,770	169,439

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

Consolidated	**Reserves**	**Retained earnings**	**Total**
	$'000	**$'000**	**$'000**
Balance at 1 July 2021	43,342	225,296	268,638
Loss after income tax	-	(8,668)	(8,668)
Other comprehensive income	22,198	-	22,198
Total comprehensive income	22,198	(8,668)	13,530
Balance at 30 June 2022	65,540	216,628	282,168
Profit after income tax	-	13,999	13,999
Other comprehensive income	-	-	-
Total comprehensive income	-	13,999	13,999
Balance at 30 June 2023	65,540	230,627	296,167

Company	**Reserves**	**Retained earnings**	**Total**
	$'000	**$'000**	**$'000**
Balance at 1 July 2021	43,342	100,201	143,543
Profit after income tax	-	3,698	3,698
Other comprehensive income	22,198	-	22,198
Total comprehensive income	22,198	3,698	25,896
Balance at 30 June 2022	65,540	103,899	169,439
Profit after income tax	-	8,331	8,331
Other comprehensive income	-	-	-
Total comprehensive income	-	8,331	8,331
Balance at 30 June 2023	65,540	112,230	177,770

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

		Consolidated		Company	
		2023	**2022**	**2023**	**2022**
	Note	**$'000**	**$'000**	**$'000**	**$'000**
Cash flows from operating activities					
Receipts from customers		53,238	52,397	53,280	50,506
Payments to suppliers and employees		(66,230)	(61,375)	(47,214)	(40,083)
Interest paid		(51)	(76)	-	-
Premiums received		103,747	96,630	-	-
Outwards reinsurance premiums paid		(12,535)	(11,467)	-	-
Claims paid		(58,893)	(74,783)	-	-
Reinsurance and other recoveries received		2,113	21,628	-	-
Income taxes received		4,769	2,074	-	-
Net cash inflow from operating activities	35	26,158	25,028	6,066	10,423
Cash flows from investing activities					
Payments for purchase of investments		(202,630)	(254,723)	(25,000)	(65,000)
Proceeds on sale of investments		181,232	236,054	20,000	62,737
Interest received		1,582	141	1,368	135
Dividends received		-	-	-	37
Payments for property, plant and equipment		(615)	(467)	(497)	(428)
Payments for intangible assets		(202)	(941)	-	-
Net cash outflow from investing activities		(20,633)	(19,936)	(4,129)	(2,519)
Cash flows from financing activities					
Payment of lease liabilities		(762)	(701)	-	-
Net cash outflow from financing activities		(762)	(701)	-	-
Net increase in cash and cash equivalents		4,763	4,391	1,937	7,904
Cash and cash equivalents at the beginning of the year		32,439	28,048	20,347	12,443
Cash and cash equivalents at the end of the year		37,202	32,439	22,284	20,347

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

Notes to the financial statements

1. Reporting entity

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

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

The company is a not-for-profit entity for the purpose of preparing the financial statements. These financial statements cover both the separate financial statements of The Law Society of New South Wales as an individual entity (the company) and the consolidated financial statements for the consolidated entity consisting of The Law Society of New South Wales and its subsidiaries (the group). These subsidiaries include Lawcover Insurance Pty Limited (Lawcover Insurance) and SMIF Management Pty Limited (SMIF Management). During the financial year ended 30 June 2022 the liquidation of SMIF Management Pty Limited was completed.

The financial statements are presented in the Australian currency. The financial statements were authorised for issue by the Councillors on 21 September 2023. 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 in the annual reporting period beginning on 1 July 2022:

- AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018-20 and Other Amendments [AASB 1, AASB 3, AASB 9, AASB 116, AASB 137 and AASB 141].*

  These amendments did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

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 on 1 July 2022, including:

- AASB 2021-2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates* (effective for annual periods beginning on or after 1 January 2023)
- AASB 2021-5 *Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction* (effective for annual periods beginning on or after 1 January 2023)
- AASB 17 *Insurance Contracts* (effective for annual reporting periods beginning on or after 1 January 2023)
- AASB 2022-1 *Amendments to Australian Accounting Standards – Initial Application of AASB 17 and AASB 9 – Comparative Information* (effective for annual reporting periods beginning on or after 1 January 2023)
- AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current* (effective for annual reporting periods beginning on or after 1 January 2024)
- AASB 2022-6 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Non-current Liabilities with Covenants* (effective for annual reporting periods beginning on or after 1 January 2024)

When these standards are adopted for the first time on the effective dates set out above, the group does not expect there will be any material impact on the transactions and balances recognised in the financial statements, except if indicated below.

AASB 17 *Insurance Contracts*
AASB 17 replaces AASB 4 *Insurance Contracts*, which currently permits a wide variety of practices. AASB 17 will fundamentally change the current accounting for insurance contracts, impacting both liability measurement and profit recognition. The general model under AASB 17 is based on a discounted cash flow model with a risk adjustment and deferral of up-front profits.

The alternative model permitted within the standard is the premium allocation approach, which is allowed for short duration contracts. This approach is used to measure the pre-claims liability, similar to current unearned premium accounting practices. Lawcover Insurance issues insurance contracts with coverage periods of one year or less, and as such the company meets the criteria for applying the premium allocation approach to its insurance contracts issued and reinsurance contracts held.

AASB 17 will result in changes to the presentation and disclosure of insurance line items in the financial statements, including new line items on the balance sheet and statement of profit or loss. When AASB 117 is adopted, and the premium allocation approach is implemented by Lawcover Insurance, there is not expected to be any material financial impact on the group.

AASB 2022-1 *Amendments to Australian Accounting Standards – Initial Application of AASB 17 and AASB 9 – Comparative Information*
AASB 2022-1 amends AASB 17 to add a transition option relating to comparative information about financial assets presented on the initial application of AASB 17 and AASB 9 *Financial Instruments* at the same time. The amendments relate to financial assets for which comparative information presented on the initial application of AASB 17 and AASB 9 has not been restated for AASB 9.

Applying the transition option permits an entity to present comparative information about such a financial asset as if the classification and measurement requirements of AASB 9 has been applied to that financial asset. When AASB 9 is adopted by Lawcover Insurance, there is not expected to be any change in how the fair value of financial assets are currently being classified, measured and reported.

2. Summary of significant accounting policies (continued)

(v) Changes to comparatives

Where necessary, comparatives have been restated to conform to changes in presentation in the current year.

(vi) 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*.

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.

(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 2023 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.

2. Summary of significant accounting policies (continued)

(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 sheets as deferred revenue. Revenue is recognised during the financial year to which the received income is attributable.

(ii) Premium revenue

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 over the life of the policy, 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 Insurance is an income tax paying entity.

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 tax laws enacted or substantively enacted at the end of the reporting period. 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 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.

2. Summary of significant accounting policies (continued)

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.

(e) Leases

(i) Group as a lessee

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 statements of profit or loss, and the statements of cash flows separate the total amount of cash paid into a principal portion and interest. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

(ii) Group as a lessor

Leases in which the group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

(f) Cash and cash equivalents

For the purpose of presentation in the balance sheets and the statements 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 statements of profit or loss. Purchases and sales of investments are recognised on a trade date basis, being the date on which a commitment is made to purchase or sell the asset.

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

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

2. Summary of significant accounting policies (continued)

(i) Impairment of assets

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

(j) Property, plant and equipment

Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

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

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

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

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

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

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

2. Summary of significant accounting policies (continued)

(k) Intangible assets

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

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

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

(l) Trade and other payables

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

(m) Provisions

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

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

(n) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave, and long service 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. 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 sheets 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 sheets.

2. Summary of significant accounting policies (continued)

(p) 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 statements 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.

(q) 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.

(r) 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.

(s) Assets backing insurance liabilities

Financial assets

Lawcover Insurance holds financial assets to back general insurance liabilities under AASB 1023 *General Insurance Contracts* and as such these have been valued at fair value through profit or loss. Initial recognition is reported at cost on the balance sheets 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.

(t) Premiums received in advance

Premiums received in advance represents cash premium receipts for policies that incept in future periods of reporting date.

2. Summary of significant accounting policies (continued)

(u) 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.

3. Actuarial assumptions and methods – insurance activities

(a) Class of business

Lawcover Insurance writes 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 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. The IBNR estimate is calculated as:

- the Gross Fee Income (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 6.5% to allow for claims handling expenses.

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

Reinsurance recoveries are allowed for where the liability estimate exceeds the stop loss retention, or when there are quota share arrangements in place.

(c) Top-Up cover above the compulsory layer

Lawcover Insurance offers Top-Up insurance of up to $20 million above the $2 million compulsory layer. Lawcover Insurance retains a small proportion of this exposure with the remainder reinsured through a quota share arrangement. Top-Up cover is not taken up by all firms underwritten for the compulsory layer.

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

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.

(d) Actuarial assumptions and processes

The table below sets out the key assumptions underlying the valuation at 30 June 2023 compared to the assumptions at 30 June 2022.

Assumptions in respect of Underwriting Year 2022-23	**Valuation as at 30 June 2023**	**Valuation as at 30 June 2022**
IBNR%	53.0%	54.0%
Initial loss rate (loss per $1 million GFI) ($)	2,266	2,262
Claims handling expense rate	6.5%	6.5%
Discount rate per annum	4.1%	3.0%
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

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 2022-23 and 2021-22 underwriting years. 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.

(iii) Claims handling expense rate

Claims handling expenses were estimated by reference to the historical claims handling expenses.

(iv) Discount rate

Discount rates have been derived from yields on Commonwealth Government securities as at 30 June 2023.

(v) Inflation

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

(vi) Superimposed inflation

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

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

(e) Sensitivity analysis

The tables below indicate the change in value in the total gross and net discounted central estimate of outstanding claims excluding 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 – 2023	Discounted gross central estimate (excl risk margin)		
	Before change	After change	% Change
	$'000	$'000	%
Increase discount rate by 0.5%	150,582	149,377	(0.8%)
Increase initial loss rate by 20%	150,582	161,876	7.5%
Increase IBNR by 25%	150,582	159,466	5.9%
Increase inflation by 1%	150,582	152,540	1.3%
Speed up in incurred development	150,582	145,312	(3.5%)

Scenario – 2022	Discounted gross central estimate (excl risk margin)		
	Before change	After change	% Change
	$'000	$'000	%
Increase discount rate by 0.5%	138,988	137,876	(0.8%)
Increase initial loss rate by 20%	138,988	146,076	5.1%
Increase IBNR by 25%	138,988	147,466	6.1%
Increase inflation by 1%	138,988	140,656	1.2%
Speed up in incurred development	138,988	133,428	(4.0%)

Scenario – 2023	Discounted net central estimate (excl risk margin)		
	Before change	After change	% Change
	$'000	$'000	%
Increase discount rate by 0.5%	135,115	134,034	(0.8%)
Increase initial loss rate by 20%	135,115	139,168	3.0%
Increase IBNR by 25%	135,115	138,358	2.4%
Increase inflation by 1%	135,115	135,791	0.5%
Speed up in incurred development	135,115	132,278	(2.1%)

Scenario – 2022	Discounted net central estimate (excl risk margin)		
	Before change	After change	% Change
	$'000	$'000	%
Increase discount rate by 0.5%	129,575	128,538	(0.8%)
Increase initial loss rate by 20%	129,575	131,130	1.2%
Increase IBNR by 25%	129,575	131,389	1.4%
Increase inflation by 1%	129,575	130,352	0.6%
Speed up in incurred development	129,575	125,429	(3.2%)

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

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) *Speed up in the cost development*
This scenario assumes that there is a speed up in the cost development for the 2021-22 and 2022-23 pool years by two quarters. 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.

(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.

4. Insurance risk management (continued)

(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.

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.

(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.

5. Financial risk management (continued)

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
2023						
Cash & cash equivalents	-	37,202	-	-	-	37,202
Short term deposits	-	43,878	15,000	-	-	58,878
Debt securities	134,376	103,664	12,506	12,991	-	263,537
Reinsurance recoveries	-	21,058	14,995	-	-	36,053
Managed funds	-	-	-	-	141,404	141,404
	134,376	205,802	42,501	12,991	141,404	537,074
2022						
Cash & cash equivalents	-	32,439	-	-	-	32,439
Short term deposits	-	31,698	15,000	-	-	46,698
Debt securities	130,301	103,799	8,965	10,447	-	253,512
Reinsurance recoveries	-	12,537	12,703	-	-	25,240
Managed funds	-	-	-	-	127,481	127,481
	130,301	180,473	36,668	10,447	127,481	485,370

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.

(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.

(i) 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.

5. Financial risk management (continued)

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 2023	Average effective interest rate %	Variable interest rate $'000	Fixed maturity dates: Less than 1 year $'000	Fixed maturity dates: 1-5 years $'000	Fixed maturity dates: 5+ years $'000	Non interest bearing $'000	Total $'000
Financial assets							
Cash and cash equivalents	3.4%	37,202	-	-	-	-	37,202
Short term deposits	3.7%	58,878	-	-	-	-	58,878
Debt securities	4.6%	689	13,069	216,546	33,050	183	263,537
Managed funds		-	-	-	-	141,404	141,404
		96,769	13,069	216,546	33,050	141,587	501,021

At 30 June 2022	Average effective interest rate %	Variable interest rate $'000	Fixed maturity dates: Less than 1 year $'000	Fixed maturity dates: 1-5 years $'000	Fixed maturity dates: 5+ years $'000	Non interest bearing $'000	Total $'000
Financial assets							
Cash and cash equivalents	0.4%	32,439	-	-	-	-	32,439
Short term deposits	0.8%	46,698	-	-	-	-	46,698
NCD's and bank bills	2.2%	-	7,941	-	-	-	7,941
Debt securities	2.9%	1,835	8,911	195,747	39,078	-	245,571
Managed funds		-	-	-	-	127,481	127,481
		80,972	16,852	195,747	39,078	127,481	460,130

(ii) Interest rate risk sensitivity analysis

Interest rate risk sensitivity analyses has been determined based on the exposure to interest rates for interest bearing financial instruments at the end of the reporting period. 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 $1.18 million (2022: increase/decrease by $1.07 million) on a post-tax basis with income tax expense calculated at 30% (2022: 30%).

(iii) Price risk sensitivity analysis

Price risk sensitivity analysis has been determined based on the exposure to investments in managed funds at the end of the reporting period. If the unit prices of these managed funds had been 10% higher/lower and all other variables were held constant, the group's investment income would increase/decrease by $11.24 million (2022: increase/decrease by $9.99 million) on a post-tax basis with income tax expense calculated at 30% (2022: 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).

5. Financial risk management (continued)

The following table represents the group's financial assets measured and recognised at fair value at 30 June 2023 and 30 June 2022:

At 30 June 2023	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets at fair value through profit or loss				
Interest bearing investments	59,061	263,354	-	322,415
Managed funds	-	141,404	-	141,404
	59,061	404,758	-	463,819

At 30 June 2022	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets at fair value through profit or loss				
Interest bearing investments	46,665	253,545	-	300,210
Managed funds	-	127,481	-	127,481
	46,665	381,026	-	427,691

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	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Membership and practising certificate fees	31,883	30,210	31,883	30,210
Premium revenue	93,961	85,608	-	-
Reinsurance and other recoveries	11,163	6,490	-	-
Legal training revenue	1,567	1,622	1,567	1,622
Member services revenue	2,092	2,075	2,092	2,075
Product sale revenue	1,356	1,258	1,356	1,258
Property rental revenue	457	323	457	323
Other revenue	1,868	1,634	1,909	1,656
	144,347	129,220	39,264	37,144

7. Investment revenue

Interest income	1,582	141	1,368	135
Dividends	-	-	-	37
Fair value gains (losses) on financial assets at fair value through profit and loss *	14,731	(15,805)	4,089	(3,685)
	16,313	(15,664)	5,457	(3,513)

* Includes reinvested distributions and management fee rebates received.

8. Other income

	Consolidated		Company	
	2023	**2022**	**2023**	**2022**
	$'000	**$'000**	**$'000**	**$'000**
Public Purpose Fund receipts				
Received under s.53 of the LPUL App Act 2014	11,078	10,500	11,078	10,500
Received under s.55 of the LPUL App Act 2014	462	461	462	461
	11,540	10,961	11,540	10,961
Legal Practitioners Fidelity Fund receipts				
Received under s.118 of the LPUL App Act 2014	785	883	785	883
	12,325	11,844	12,325	11,844

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

9. Expenses

	Consolidated		Company	
	2023	**2022**	**2023**	**2022**
	$'000	**$'000**	**$'000**	**$'000**
Profit before income tax expenses includes the following specific expenses:				
Employee benefits expense				
Wages and salaries	33,977	28,951	24,922	20,923
Defined contribution superannuation expense	2,959	2,490	2,243	1,855
Other employee benefits expense	2,051	2,249	1,426	1,756
Total employee benefits expense	38,987	33,690	28,591	24,534
Depreciation and amortisation expense				
Depreciation				
Buildings	1,037	675	1,037	675
Plant and equipment	468	453	208	198
Right-of-use assets	740	739	-	-
Amortisation				
Software	1,280	1,320	-	-
Total depreciation and amortisation expense	3,525	3,187	1,245	873

10. Income tax expense

	Consolidated		Company	
	2023	**2022**	**2023**	**2022**
	$'000	**$'000**	**$'000**	**$'000**
Income tax expense				
Current tax expense				
Current tax expense (benefit)	960	(23)	-	-
Total current tax expense (benefit)	960	(23)	-	-
Deferred tax	-	-	-	-
Origination and reversal of temporary differences	5,580	(5,067)	-	-
Tax refund received for prior year tax losses	(5,235)	-	-	-
Total deferred tax expense (benefit)	345	(5,067)	-	-
Income tax expense (benefit)	1,305	(5,090)	-	-

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

	Consolidated 2023 $'000	Consolidated 2022 $'000	Company 2023 $'000	Company 2022 $'000
Profit from operations before exceptional item and income tax expense	15,304	(13,758)	8,331	3,698
Less profit from tax-exempt operations	(8,331)	(3,661)	(8,331)	(3,698)
	6,973	(17,419)	-	-
Tax at the Australian tax rate of 30% (2022 - 30%)	2,092	(5,226)	-	-
Adjustments for:				
Tax-exempt income and non-deductible expenses	(808)	159	-	-
Current tax of prior periods	21	(23)	-	-
Income tax expense (benefit)	1,305	(5,090)	-	-

The tax rate used for the 2023 and 2022 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 Insurance is an income tax paying entity.

11. Current assets – Trade and other receivables

	Consolidated		Company	
	2023	**2022**	**2023**	**2022**
	$'000	**$'000**	**$'000**	**$'000**
Trade receivables	126	99	124	99
Provision for impairment of receivables	(12)	(5)	(12)	(5)
	114	94	112	94
Goods and services tax recoverable	5	-	5	-
Other receivables				
Receivable from Legal Practitioners Fidelity Fund	82	93	82	93
Reinsurance recoveries receivable *	17,132	12,499	-	-
Premiums receivable	2,435	2,631	-	-
Interest receivable	215	68	215	68
Other	227	200	440	383
	20,210	15,585	854	638

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

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

(a) Impaired trade receivables

As at 30 June 2023 current trade receivables of the group with a nominal value of $12,000 (2022: $5,000) were impaired.

(b) Past due but not impaired

As at 30 June 2023, trade receivables of $51,722 (2022: $18,753) 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	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
(b) Past due but not impaired				
1 to 3 months	38	12	38	12
3 to 6 months	14	7	14	7
Over 6 months	-	-	-	-
	52	19	52	19

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	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Financial assets at fair value through profit or loss				
Deposits	58,878	46,698	35,000	35,000
Negotiable certificates of deposit	-	7,941	-	-
Corporate and government securities	13,253	9,512	-	-
Managed funds	141,404	127,481	44,574	35,485
	213,535	191,632	79,574	70,485

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	
	2023	2022	2023	2022
	$'000	$'000	$'000	$'000
Prepayments	1,745	1,692	1,182	1,126
	1,745	1,692	1,182	1,126

14. Non-current assets – Receivables

Reinsurance recoveries receivable *	18,921	12,741	-	-
	18,921	12,741	-	-

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

(a) Impaired receivables and receivables past due

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

(b) Credit risk

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

15. Non-current assets – Investments

	Consolidated		Company	
	2023	2022	2023	2022
	$'000	$'000	$'000	$'000
Investments carried at cost				
Shares in subsidiaries *	-	-	34,600	34,600
	-	-	34,600	34,600
Financial assets at fair value through profit or loss				
Corporate and government securities **	250,284	236,059	-	-
	250,284	236,059	-	-
	250,284	236,059	34,600	34,600

* Refer to note 32 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**
Cost or valuation			
At 1 July 2021	58,000	4,971	62,971
Additions	152	315	467
Disposals	-	(290)	(290)
Revaluation increase	20,848	-	20,848
At 30 June 2022	79,000	4,996	83,996
Additions	194	421	615
Disposals	-	(76)	(76)
At 30 June 2023	79,194	5,341	84,535
Depreciation and impairment			
At 1 July 2021	675	3,665	4,340
Depreciation charge	675	453	1,128
Eliminated on disposals	-	(288)	(288)
Eliminated on revaluation	(1,350)	-	(1,350)
At 30 June 2022	-	3,830	3,830
Depreciation charge	1,037	468	1,505
Eliminated on disposals	-	(72)	(72)
At 30 June 2023	1,037	4,226	5,263
Carrying amount			
At 30 June 2023	78,157	1,115	79,272
At 30 June 2022	79,000	1,166	80,166

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
Cost or valuation			
At 1 July 2021	58,000	2,236	60,236
Additions	152	276	428
Disposals	-	(288)	(288)
Revaluation increase	20,848	-	20,848
At 30 June 2022	79,000	2,224	81,224
Additions	194	303	497
Disposals	-	(24)	(24)
At 30 June 2023	79,194	2,503	81,697
Depreciation and impairment			
At 1 July 2021	675	1,965	2,640
Depreciation charge	675	198	873
Eliminated on disposals	-	(288)	(288)
Eliminated on revaluation	(1,350)	-	(1,350)
At 30 June 2022	-	1,875	1,875
Depreciation charge	1,037	208	1,245
Eliminated on disposals	-	(24)	(24)
At 30 June 2023	1,037	2,059	3,096
Carrying amount			
At 30 June 2023	78,157	444	78,601
At 30 June 2022	79,000	349	79,349

(a) Valuation of land and buildings

The company's land and building are recognised at fair value based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. A revaluation surplus is credited to reserves in equity (note 24(a)).

The valuers use capitalised income projections based on estimated net market income and a capitalisation rate derived from an analysis of market evidence. Key inputs used in the valuations are the discount rate, terminal yield, capitalisation rate, and rental growth rates. The inputs are adjusted, if necessary, for any changes in economic circumstances between the measurement date and the reporting date. Changes in fair value are recognised in other comprehensive income.

17. Leases

Notes 17(a) and 17(b) provide information for leases where the group is a lessee. For leases where the group is a lessor, see note 17(c).

(a) Amounts recognised in the balance sheets

The balance sheets show the following amounts relating to the leasehold of Lawcover Insurance's premises:

	Consolidated		Company	
	2023	2022	2023	2022
	$'000	$'000	$'000	$'000
Right-of-use assets				
Current	-	-	-	-
Non-current	925	1,665	-	-
	925	1,665	-	-
Lease liabilities				
Current	829	762	-	-
Non-current	219	1,048	-	-
	1,048	1,810	-	-

Lawcover Insurance's new office lease commenced from 7 December 2020 with a term of 3.81 years to 30 September 2024. Lawcover Insurance recognises lease liabilities measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 7 December 2020. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 7 December 2020 was 2.70%. Additions to right-of-use assets during the year ended 30 June 2023 were $Nil (2022: $Nil).

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

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

	Consolidated		Company	
	2023	2022	2023	2022
	$'000	$'000	$'000	$'000
Depreciation charge right-of-use assets	740	739	-	-
Interest expense	51	76	-	-
	791	815	-	-

(c) Leasing arrangements

Lease income from operating leases where the group is a lessor is recognised in income on a straight-line basis over the lease term. Minimum lease payments receivable on leases of commercial spaces owned by the company are as follows:

	Consolidated		Company	
	2023	2022	2023	2022
	$'000	$'000	$'000	$'000
Within one year	449	248	449	248
Later than one year but not later than five years	1,761	608	1,761	608
Later than five years	126	291	126	291
	2,336	1,147	2,336	1,147

18. Deferred tax assets

The balance comprises temporary differences attributable to:

	Consolidated		Company	
	2023	**2022**	**2023**	**2022**
	$'000	**$'000**	**$'000**	**$'000**
Tax losses	-	5,480	-	-
Insurance provisions	1,930	1,781	-	-
Other items	145	394	-	-
Total deferred tax assets	2,075	7,655	-	-
Deferred tax assets expected to be recovered within 12 months	929	6,563	-	-
Deferred tax assets expected to be recovered after more than 12 months	1,146	1,092	-	-
	2,075	7,655	-	-

19. Non-current assets – Intangible assets

Consolidated	**Software and systems $'000**	**Total $'000**
Cost		
At 1 July 2021	15,913	15,913
Additions	941	941
Disposals	(187)	(187)
At 30 June 2022	16,667	16,667
Additions	202	202
At 30 June 2023	16,869	16,869
Amortisation and impairment		
At 1 July 2021	9,827	9,827
Amortisation charge *	1,320	1,320
Eliminated on disposals	(187)	(187)
At 30 June 2022	10,960 -	10,960
Amortisation charge *	1,280	1,280
At 30 June 2023	12,240	12,240
Carrying amount		
At 30 June 2023	4,629	4,629
At 30 June 2022	5,707	5,707

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

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

Company	**Software and systems $'000**	**Total $'000**
Cost		
At 1 July 2021	6,068	6,068
Disposals	(187)	(187)
At 30 June 2022	5,881	5,881
At 30 June 2023	5,881	5,881
Amortisation and impairment		
At 1 July 2021	6,068	6,068
Eliminated on disposals	(187)	(187)
At 30 June 2022	5,881	5,881
At 30 June 2023	5,881	5,881
Carrying amount		
At 30 June 2023	-	-
At 30 June 2022	-	-

20. Current liabilities – Trade and other payables

	Consolidated		**Company**	
	2023 $'000	**2022 $'000**	**2023 $'000**	**2022 $'000**
Trade payables	4,257	2,150	702	747
Goods and services tax payable	2,392	2,285	-	66
Other payables				
Payable to Legal Practitioners Fidelity Fund	292	433	292	433
Accrued expenses	3,873	2,592	728	629
Other taxes payable	293	169	222	113
	11,107	7,629	1,944	1,988

21. Current liabilities – Provisions

Employee benefits	4,521	4,282	3,616	3,372
Outstanding claims liability *	83,022	77,699	-	-
	87,543	81,981	3,616	3,372

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

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

22. Current liabilities – Other liabilities

	Consolidated		Company	
	2023	2022	2023	2022
	$'000	$'000	$'000	$'000
Deferred revenue				
Membership and practising certificate fees	31,177	29,365	31,177	29,365
Premiums received in advance	101,084	91,493	-	-
Other	1,389	1,294	1,389	1,294
	133,650	122,152	32,566	30,659

23. Non-current liabilities – Provisions

Employee benefits - long service leave	1,343	1,261	1,199	1,087
Outstanding claims liability *	97,688	88,582	-	-
	99,031	89,843	1,199	1,087

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

24. Reserves and retained earnings

(a) Reserves

	Consolidated		Company	
	2023	2022	2023	2022
	$'000	$'000	$'000	$'000
Asset revaluation	65,540	65,540	65,540	65,540
	65,540	65,540	65,540	65,540
Movements:				
Asset revaluation reserve				
Balance 1 July	65,540	43,342	65,540	43,342
Revaluation	-	22,198	-	22,198
Balance 30 June	65,540	65,540	65,540	65,540

(b) Retained earnings

Movements in retained earnings were as follows:

Balance 1 July	216,628	225,296	103,899	100,201
Net profit (loss) for the year	13,999	(8,668)	8,331	3,698
Balance 30 June	230,627	216,628	112,230	103,899

(c) Nature and purpose of reserves

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.

25. Insurance disclosures

(a) Contribution to profit from insurance activities

	Consolidated		Company	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Gross earned premium	93,961	85,608	-	-
Policyholder rebates	-	-	-	-
Outwards reinsurance premium expense	(10,771)	(9,747)	-	-
Net earned premium	83,190	75,861	-	-
Gross claims expense	(75,390)	(67,271)	-	-
Reinsurance and other recoveries revenue	11,163	6,490	-	-
Net claims expense	(64,227)	(60,781)	-	-
Underwriting expenses	(22,795)	(20,280)	-	-
Underwriting result	(3,832)	(5,200)	-	-

(b) Net claims incurred from insurance activities

	Consolidated 2023			Consolidated 2022		
	Current year $'000	Prior year $'000	Total $'000	Current year $'000	Prior year $'000	Total $'000
Gross claims expense						
Undiscounted	86,276	(6,766)	79,510	78,634	(4,447)	74,187
Discount movement	(5,512)	1,392	(4,120)	(3,721)	(3,195)	(6,916)
	80,764	(5,374)	75,390	74,913	(7,642)	67,271
Reinsurance and other recoveries						
Undiscounted	(15,997)	3,656	(12,341)	(11,852)	4,433	(7,419)
Discount movement	1,151	27	1,178	639	290	929
	(14,846)	3,683	(11,163)	(11,213)	4,723	(6,490)
Net claims incurred	65,918	(1,691)	64,227	63,700	(2,919)	60,781

25. Insurance disclosures (continued)

(c) Reinsurance recoveries receivable from insurance activities

	Consolidated		Company	
	2023	2022	2023	2022
	$'000	$'000	$'000	$'000
Expected future reinsurance recoveries undiscounted				
on claims paid	34	45	-	-
on outstanding claims	16,494	9,810	-	-
	16,528	9,855	-	-
Risk margin	20,552	15,783	-	-
Discount to present value	(1,027)	(398)	-	-
Reinsurance recoveries receivable	36,053	25,240	-	-
Current	17,132	12,499	-	-
Non-current	18,921	12,741	-	-
	36,053	25,240	-	-

(d) Outstanding claims liability

Outstanding claims liability

	Consolidated		Company	
	2023	2022	2023	2022
	$'000	$'000	$'000	$'000
Gross central estimate - undiscounted	150,994	136,854	-	-
Claim handling costs	9,191	8,483	-	-
Risk margin	30,127	27,293	-	-
	190,312	172,630	-	-
Discount to present value	(9,602)	(6,349)	-	-
Gross outstanding claims liability - discounted	180,710	166,281	-	-
Current	83,022	77,699	-	-
Non-current	97,688	88,582	-	-
	180,710	166,281	-	-

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% (2022: 85%) probability of adequacy.

	Consolidated	
	2023	2022
	%	%
Risk margin applied to the net discounted central estimate	7.1%	8.9%

25. Insurance disclosures (continued)

Reconciliation of movement in discounted outstanding claims liability

	Consolidated		
	Gross	**Reinsurance**	**Net**
	$'000	**$'000**	**$'000**
Year ended 30 June 2023			
Brought forward	166,281	(25,195)	141,086
Incurred claims recognised in the income statement	75,390	(11,163)	64,227
Claims payments	(60,961)	339	(60,622)
Carried forward	180,710	(36,019)	144,691
Year ended 30 June 2022			
Brought forward	173,793	(38,554)	135,239
Incurred claims recognised in the income statement	67,271	(6,490)	60,781
Claim payments	(74,783)	19,849	(54,934)
Carried forward	166,281	(25,195)	141,086

Claims development table

	Underwriting year						
Claim year	**Prior**	**2019**	**2020**	**2021**	**2022**	**2023**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Estimate of gross ultimate claims cost:							
at end of claim year		53,106	55,460	79,622	66,188	72,113	326,489
one year later		57,893	53,393	78,398	63,745		253,429
two years later		57,905	55,256	81,021			194,182
three years later		62,230	57,597				119,827
four years later		62,347					62,347
five years later	588,935						588,935
Cumulative payments made to date	(577,206)	(55,646)	(43,089)	(60,586)	(28,525)	(9,712)	(774,764)
Gross undiscounted outstanding claims	11,729	6,701	14,508	20,435	35,220	62,401	150,994
Reconciliation							
Reinsurance recoveries	(629)	(2,347)	(530)	(3,816)	(2,663)	(6,509)	(16,494)
Discount to present value	(350)	(200)	(749)	(1,026)	(2,226)	(4,024)	(8,575)
Claims handling costs	740	415	893	1,246	2,133	3,764	9,191
Net risk margin	5,842	109	2,565	184	301	574	9,575
Net outstanding claims liability	17,332	4,678	16,687	17,023	32,765	56,206	144,691

25. Insurance disclosures (continued)

(e) Capital adequacy – Lawcover Insurance

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 2023.

It should be noted that the retained earnings as at 30 June 2023 of $123.2 million (2022: $110.3 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 $118.4 million (2022: $112.7 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 2023 in excess of the minimum required by APRA. The following table shows the capital adequacy calculated in accordance with the APRA prudential framework. The 2023 position reflects the June 2023 quarter APRA returns (unaudited) with the 2022 comparative being reflective of the 2022 annual return.

	2023 $'000	2022 $'000
Lawcover Insurance Tier 1 capital base		
Ordinary shares	34,600	34,600
Retained earnings as at 30 June (adjusted)	123,203	110,279
LawCover Insurance capital base and adjusted net assets	157,803	144,879
Prudential capital requirement	49,207	47,188
Prescribed capital amount coverage	3.21	3.07

(f) Capital management – Lawcover Insurance

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. The company actively manages capital in order to maintain a capital adequacy within a ratio range of 2.50 to 3.00 times. At 30 June 2023, the prescribed capital adequacy is 3.21 (unaudited), which is an increase from 3.07 in 2022. This increase is primarily due to the realisation of the 2022 deferred tax asset balance.
- 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.

26. Key management personnel disclosures

	Consolidated		Company	
	2023	**2022**	**2023**	**2022**
	$	**$**	**$**	**$**
Short-term employee benefits	5,078,535	4,371,178	1,864,601	1,683,939
Post-employment benefits	334,278	295,110	114,705	108,125
	5,412,813	4,666,288	1,979,306	1,792,064

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 2023.

Directors' remuneration
Directors' fees are paid to the Directors of Lawcover Insurance.

27. Remuneration of auditors

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

	Consolidated		Company	
	2023	**2022**	**2023**	**2022**
	$	**$**	**$**	**$**
PwC Australia				
Audit and review of financial statements	397,849	301,419	179,750	158,006
Other services				
Audit of regulatory returns	41,123	41,090	-	2,404
Tax compliance services	26,606	31,666	5,100	7,500
Other services	9,975	13,164	-	-
Total remuneration of PwC Australia	475,553	387,339	184,850	167,910

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

28. Contingencies

The group leases office premises for Lawcover Insurance under property lease. This lease includes a bank guarantee of $570,000 that exists with the Westpac Banking Corporation.

Other than the above, as at 30 June 2023, 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 (2022: $Nil).

29. Commitments

Capital commitments
Significant capital expenditure contracted for at the end of the reporting period but not recognised as a liability is as follows:

	Consolidated		Company	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Property, plant and equipment	-	250	-	250
Intangible assets	-	-	-	-

30. Related party transactions

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

(b) Transactions with subsidiaries
During the financial year transactions were undertaken between The Law Society of New South Wales and its subsidiaries. These transactions are listed below:
(i) Lawcover Insurance, a controlled entity, paid the Law Society of New South Wales $213,011 (2022: $183,324) for access to data used in the distribution of its insurance products.
(ii) Lawcover Insurance, a controlled entity, paid The Law Society of New South Wales $78,000 (2022: $76,830) for management and administration services.
(iii) SMIF Management, a previously controlled entity, paid The Law Society of New South Wales $Nil (2022: $1,170) 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.

(c) Transactions with other related parties
In addition to the amounts disclosed in Note 8, during the financial year ended 30 June 2023 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 (2022: $60,000)
(ii) Legal Practitioners Fidelity Fund $785,208 (2022: $882,964)

As at 30 June 2023, the following balances were receivable from or payable to other related parties:
(i) Receivable from Legal Practitioners Fidelity Fund $82,401 (2022: $92,727)
(ii) Payable to Legal Practitioners Fidelity Fund $292,058 (2022: $432,900)
(iii) Receivable from Public Purpose Fund $Nil (2022: $Nil)
(iv) Payable to Public Purpose Fund $Nil (2022: $Nil)

(d) Intercompany balances eliminated from balance sheets
As at 30 June 2023 there was $213,011 payable to The Law Society of New South Wales by Lawcover Insurance (2022: $183,324) which was eliminated from the consolidated accounts.

31. HIH recoveries

At the HIH Casualty & General Insurance creditors meeting held on 4 May 2021, a final scheme payment of 3.25% was proposed and accepted. On 13 August 2021 a payment of $3.64 million 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 $1.82 million was paid to the Public Purpose Fund. This was the final scheme payment.

32. 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 2023	% Equity interest 2022	Investment $ 2023	Investment $ 2022
SMIF Management Pty Limited (i)	Australia	-	-	-	-
Lawcover Insurance Pty Limited (ii)	Australia	100	100	34,599,942	34,599,942
				34,599,942	34,599,942

(i) **SMIF Management Pty Limited**. Incorporated in New South Wales on 19 June 1987. Contributed equity of 2 ordinary shares fully paid. The company was liquidated and wound up during the period ended 30 June 2022.

(ii) **Lawcover Insurance Pty Limited**. 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.

33. 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.

34. 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.

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

	Consolidated		Company	
	2023	2022	2023	2022
	$'000	$'000	$'000	$'000
Profit (loss) for the year	13,999	(8,668)	8,331	3,698
Depreciation and amortisation	3,525	3,187	1,245	873
Net loss on disposal of non-current assets	5	1	-	-
Interest and dividends received	(1,582)	(141)	(1,368)	(172)
Fair value (gains) losses on financial assets at fair value through profit and loss *	(14,731)	15,805	(4,089)	3,685
Change in operating assets and liabilities:				
(Increase) decrease in trade and other receivables	(10,805)	18,179	(216)	(79)
Increase in other assets	(53)	(11)	(56)	(17)
Decrease in current tax assets	242	2,052	-	-
Decrease (increase) in deferred tax assets	5,580	(5,067)	-	-
Increase (decrease) in trade and other payables	3,478	(5,328)	(44)	(65)
Increase (decrease) increase in provisions	14,750	(6,526)	356	903
Increase in other liabilities	11,498	11,545	1,907	1,597
Increase in current tax liability	252	-	-	-
Net cash inflow from operating activities	26,158	25,028	6,066	10,423

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

In the Councillors' opinion:

(a) the financial statements and notes set out on pages 4 to 42 are in accordance with the *Corporations Act 2001*, including:
   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
   (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2023 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

C Banks
Councillor

B McGrath
Councillor

Sydney, 21 September 2023

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 2023 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 2023
- 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 Consolidated and Company statements of profit or loss and other comprehensive income for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information
- 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
One International Towers Sydney, Waterfront Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T +61 2 8266 0000, F +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO BOX 1155, Parramatta NSW 2124
T +61 2 9659 2476, F +61 2 8266 9999, www.pwc.com.au

Other information

The Councillors are responsible for the other information. The other information comprises the information included in the annual financial report for the year ended 30 June 2023, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Councillors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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

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

This description forms part of our auditor's report.

PricewaterhouseCoopers

R Balding
Partner

Sydney
21 September 2023