The Law Society of New South Wales

ACN 000 000 699

Annual financial report for the year ended 30 June 2022

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 2022.

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
Simon Jeremy Ashley Bruck
Adriana Care
Jacqueline Mai Dawson
Sylvia Fernandez
Richard John Harvey
Rebekah Victoria McEwin Hunter
Catherine Joy James
Zora Kekeff
Iona Wai Ting Luke
Hugh Ignatius Macken
Mary Josephine Esther Macken
Ronan MacSweeney
Stephen McAuley
Brett Patrick McGrath
Michelle Devenish Meares
James Andrew Skelton
Jade Elizabeth Tyrrell
Joanne Patricia van der Plaat
Juliana Rose Warner
Mark Stephen Warton
Danielle Lee Captain-Webb
Jennifer Jane Windsor
Jennifer Louise Lai Wah Wong

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

During the year, the following Councillors were elected, re-elected or appointed to Council: Ms C Banks (re-elected 28.10.21), Ms J Dawson (elected 28.10.21), Ms D Captain-Webb (elected 28.10.21), Ms S Fernandez (elected 28.10.21), Ms R Hunter (elected 28.10.21), Ms M Macken (elected 28.10.21), Mr B McGrath (re-elected 28.10.21), Mr J Skelton (appointed 28.10.21).

During the year, the following Councillors retired or resigned from Council: Mr S Bruck (retired 28.10.21), Ms C James (retired 28.10.21), Mr R Harvey (retired 31.12.21), Ms Z Kekeff (retired 28.10.21), Mr R MacSweeney (retired 28.10.21), Mr M Warton (retired 28.10.21).

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 the Lawcover group of companies, which provide professional indemnity insurance to legal firms. During the course of the year there was no significant change in the nature of these activities.

Dividends

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

Review of operations

The surplus of the company for the year was $3.7 million (2021: $2.9 million loss). The profit or loss of subsidiaries are as set out in their respective financial statements. The result of group operations for the year was a loss of $8.7 million (2021: $2.4 million loss). Further information on the operations of the group can be found in the published annual report.

Changes in state of affairs

Following the onset and declaration of the COVID-19 pandemic in March 2020, the Council resolved to set membership fees at $10 (plus GST) for the 2020-21 practising year. This represented a significant reduction from the solicitor membership fee of $400 (plus GST) approved by Council for the 2019-20 practising year.

This one-off measure resulted in an estimated membership fee income decrease of $11 million during the 2020-21 practising year relative to the 2019-20 practising year. The solicitor membership fee reverted back to $400 (plus GST) for the 2021-22 practising year.

During the financial year the liquidation of SMIF Management Pty Ltd was completed, with surplus funds of $36,460 being returned to the company. There was no further significant change in the state of affairs of the group other than that referred to in the financial statements or notes thereto.

Subsequent events

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

Future developments

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

Indemnification of officers and auditors

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

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

Auditor's independence declaration

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

J van der Plaat
Councillor

Jennifer Ball.

J Ball
Councillor

Sydney, 26 September 2022

Auditor's Independence Declaration

As lead auditor for the audit of The Law Society of New South Wales for the year ended 30 June 2022, 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
26 September 2022

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		Consolidated		Company	
		2022	**2021**	**2022**	**2021**
	Note	**$'000**	**$'000**	**$'000**	**$'000**
Revenue	6	129,220	121,249	37,144	21,985
Investment revenue	7	(15,664)	14,331	(3,513)	4,356
Other income	8	11,844	10,238	11,844	10,238
Employee benefits expense	9	(33,690)	(32,219)	(24,534)	(23,540)
Depreciation and amortisation expense	9	(3,187)	(2,783)	(873)	(1,241)
Law Council capitation fees		(2,703)	(1,898)	(2,703)	(1,898)
Outwards reinsurance premium expense	25	(9,747)	(8,877)	-	-
Claims expense	25	(67,271)	(81,486)	-	-
Finance costs	17	(76)	(94)	-	-
Consulting and professional fees expense		(7,827)	(6,550)	(4,569)	(3,471)
Other expenses		(14,657)	(13,512)	(9,098)	(9,342)
(Loss) profit before income tax		(13,758)	(1,601)	3,698	(2,913)
Income tax expense	10	5,090	(804)	-	-
(Loss) profit for the year		(8,668)	(2,405)	3,698	(2,913)
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 (loss) for the year		13,530	(2,405)	25,896	(2,913)
(Loss) profit is attributable to:					
Members of The Law Society of New South Wales		(8,668)	(2,405)	3,698	(2,913)
		(8,668)	(2,405)	3,698	(2,913)
Total comprehensive income (loss) for the year is attributable to:					
Members of The Law Society of New South Wales		13,530	(2,405)	25,896	(2,913)
		13,530	(2,405)	25,896	(2,913)

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

		Consolidated		Company	
		2022	**2021**	**2022**	**2021**
	Note	**$'000**	**$'000**	**$'000**	**$'000**
Assets					
Current assets					
Cash and cash equivalents		32,439	28,048	20,347	12,443
Trade and other receivables	11	15,585	24,209	638	559
Investments	12	191,632	178,122	70,485	71,907
Current tax assets		242	2,294	-	-
Other assets	13	1,692	1,681	1,126	1,109
Total current assets		241,590	234,354	92,596	86,018
Non-current assets					
Receivables	14	12,741	22,296	-	-
Investments	15	236,059	246,705	34,600	34,600
Property, plant and equipment	16	80,166	58,631	79,349	57,596
Right-of-use assets	17	1,665	2,408	-	-
Deferred tax assets	18	7,655	2,588	-	-
Intangible assets	19	5,707	6,086	-	-
Total non-current assets		343,993	338,714	113,949	92,196
Total assets		585,583	573,068	206,545	178,214
Liabilities					
Current liabilities					
Trade and other payables	20	7,629	12,957	1,988	2,053
Lease liabilities	17	762	702	-	-
Provisions	21	81,981	77,784	3,372	2,526
Other liabilities	22	122,152	110,607	30,659	29,062
Total current liabilities		212,524	202,050	36,019	33,641
Non-current liabilities					
Lease liabilities	17	1,048	1,814	-	-
Provisions	23	89,843	100,566	1,087	1,030
Total non-current liabilities		90,891	102,380	1,087	1,030
Total liabilities		303,415	304,430	37,106	34,671
Net assets		282,168	268,638	169,439	143,543
Equity					
Reserves	24	65,540	43,342	65,540	43,342
Retained earnings	24	216,628	225,296	103,899	100,201
Total equity		282,168	268,638	169,439	143,543

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 2020	43,342	227,701	271,043
Loss after income tax	-	(2,405)	(2,405)
Other comprehensive income	-	-	-
Total comprehensive loss	-	(2,405)	(2,405)
Balance at 30 June 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 (loss)	22,198	(8,668)	13,530
Balance at 30 June 2022	65,540	216,628	282,168

Company	**Reserves**	**Retained earnings**	**Total**
	$'000	**$'000**	**$'000**
Balance at 1 July 2020	43,342	103,114	146,456
Loss after income tax	-	(2,913)	(2,913)
Other comprehensive income	-	-	-
Total comprehensive loss	-	(2,913)	(2,913)
Balance at 30 June 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

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

		Consolidated		Company	
		2022	**2021**	**2022**	**2021**
	Note	**$'000**	**$'000**	**$'000**	**$'000**
Cash flows from operating activities					
Receipts from customers		52,397	45,882	50,506	45,935
Payments to suppliers and employees		(61,375)	(51,737)	(40,083)	(38,249)
Interest paid		(76)	(94)	-	-
Premiums received		96,630	83,867	-	-
Outwards reinsurance premiums paid		(11,467)	(10,339)	-	-
Claims paid		(74,783)	(49,171)	-	-
Reinsurance and other recoveries received		21,628	3,079	-	-
Income taxes received (paid)		2,074	(937)	-	-
Net cash inflow from operating activities	35	25,028	20,550	10,423	7,686
Cash flows from investing activities					
Payments for purchase of investments		(254,723)	(181,611)	(65,000)	(25,000)
Proceeds on sale of investments		236,054	173,788	62,737	15,000
Interest received		141	170	135	169
Dividends received		-	-	37	-
Payments for property, plant and equipment		(467)	(597)	(428)	(45)
Payments for intangible assets		(941)	(5,619)	-	-
Net cash outflow from investing activities		(19,936)	(13,869)	(2,519)	(9,876)
Cash flows from financing activities					
Payment of lease liabilities		(701)	(610)	-	-
Net cash outflow from financing activities		(701)	(610)	-	-
Net increase (decrease) in cash and cash equivalents		4,391	6,071	7,904	(2,190)
Cash and cash equivalents at the beginning of the year		28,048	21,977	12,443	14,633
Cash and cash equivalents at the end of the year		32,439	28,048	20,347	12,443

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 the liquidation of SMIF Management Pty Ltd was completed.

The financial statements are presented in the Australian currency. The financial statements were authorised for issue by the Councillors on 26 September 2022. 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 not been required to apply any new or amended standards for the annual reporting period commencing on 1 July 2021.

(iv) New standards and interpretations not yet adopted

The group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2021, including:

- AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as current or Non-current* (effective for annual periods beginning on or after 1 January 2022)
- 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 17 *Insurance Contracts* (effective for annual periods beginning on or after 1 January 2023)
- AASB 2020-5 *Amendments to Australian Accounting Standards – Insurance Contracts* (effective for annual reporting periods beginning on or after 1 January 2023)

2. Summary of significant accounting policies (continued)

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

- AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as current or Non-current* makes amendments to AASB 101 *Presentation of Financial Statements* to clarify requirements for the presentation of liabilities in the balance sheets as current or non-current.

  When this Standard is adopted for the year ending 30 June 2023, there will be no material impact on the transactions and balances recognised in the financial statements.

- AASB 2021-2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates* amends a number of accounting standards to improve accounting policy disclosures and clarify the distinction between accounting policies and accounting estimates. The Standard also makes amendments to AASB Practice Statement 2 *Making Materiality Judgements*.

  When this Standard is adopted for the year ending 30 June 2023, there will be no material impact on the transactions and balances recognised in the financial statements.

- AASB 17 *Insurance Contracts* was issued in July 2017 and will replace 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 has performed an assessment and it is expected that it will be eligible to apply the premium allocation approach to its insurance contracts issued and reinsurance contracts held.

- AASB 2020-5 *Amendments to Australian Accounting Standards – Insurance Contracts*, makes amendments to AASB 4 *Insurance Contracts* and AASB 17 *Insurance Contracts*. This standard amends AASB 17 to:
  (a) reduce the costs of applying AASB 17 by simplifying some of its requirements;
  (b) make an entity's financial performance relating to insurance contracts easier to explain; and
  (c) ease the transition to AASB 17 by deferring its effective date to annual periods beginning on or after 1 January 2023 instead of 1 January 2021.

  The amendments to AASB 4 also permit eligible insurers to continue to apply AASB 139 *Financial Instruments: Recognition and Measurement* until they are required to apply AASB 9 *Financial Instruments* alongside AASB 17.

  This applies to Lawcover Insurance. From 1 January 2023, Lawcover Insurance must apply AASB 9 *Financial Instruments* together with AASB 17 *Insurance Contracts* and reflect the changes in the Lawcover Insurance standalone financial statements. Lawcover Insurance is yet to undertake a detailed assessment of the impact of AASB 9, however this will be performed prior to first time adoption of the Standard.

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

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

2. Summary of significant accounting policies (continued)

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 2022 and the results of all subsidiaries for the year then ended. The Law Society of New South Wales and its subsidiaries together are referred to in this financial report as the group or the consolidated entity.

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

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

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

(c) Revenue recognition

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

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

(i) Membership and practising certificate fees

Membership and practising certificate fees are received in advance and disclosed in the balance sheets as deferred revenue. Revenue is recognised during the financial year to which the received income is attributable.

(ii) Premium income

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

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

2. Summary of significant accounting policies (continued)

(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 and SMIF Management are both income tax paying entities.

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

The current income tax charge is calculated on the basis of 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.

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.

2. Summary of significant accounting policies (continued)

(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.

(i) Impairment of assets

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

2. Summary of significant accounting policies (continued)

(j) Property, plant and equipment

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

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

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

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

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

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

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

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

(k) Intangible assets

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

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

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

(l) Trade and other payables

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

2. Summary of significant accounting policies (continued)

(m) Provisions

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

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

(n) Employee benefits

(i) Short-term obligations

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

(ii) Other long-term employee benefit obligations

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

The obligations are presented as current liabilities in the balance 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.

(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.

2. Summary of significant accounting policies (continued)

(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. A risk margin is applied to the outstanding claims liability, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate of the outstanding claims liability.

(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

(i) 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

(ii) Premium receivable

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

(t) Premiums received in advance

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

(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 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 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.

(c) Top-Up cover above the compulsory layer

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

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

A 6.5% loading for claims handling, a 3.0% discount factor and an 9.0% risk margin are included in the provision.

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

(d) Actuarial assumptions and processes

The table below sets out the key assumptions underlying the valuation at 30 June 2022 compared to the assumptions at 30 June 2021.

Assumptions in respect of Underwriting Year 2021-22	**Valuation as at 30 June 2022**	**Valuation as at 30 June 2021**
IBNR%	54.0%	35.0%
Initial loss rate (loss per $1 million GFI) ($)	2,262	2,307
Claims handling expense rate	6.5%	6.5%
Discount rate per annum	3.0%	0.3%
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 2021-22 underwriting year. This is estimated by analysing past incurred development.

(ii) Initial loss rate
The initial loss rate is estimated by analysing historical average loss rates, obtained by dividing ultimate claims costs from the ICD, by the Gross Fee Income per underwriting quarter and multiplied by $1 million to derive a loss per $1 million GFI.

(iii) Claims handling expense rate
Claims handling expenses were estimated by reference to the historical claims handling expenses and the 2021-22 budgeted claim handling costs as a percentage of past and expected claim payments.

(iv) Discount rate
Discount rates have been derived from yields on Commonwealth Government securities as at 30 June 2022.

(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 – 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 – 2021	Discounted gross central estimate (excl risk margin)		
	Before change	After change	% Change
	$'000	$'000	%
Increase discount rate by 0.5%	145,423	144,260	(0.8%)
Increase initial loss rate by 20%	145,423	153,130	5.3%
Increase IBNR by 25%	145,423	154,730	6.4%
Increase inflation by 1%	145,423	147,314	1.3%
Speed up in incurred development	145,423	142,515	(2.0%)

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%)

Scenario – 2021	Discounted net central estimate (excl risk margin)		
	Before change	After change	% Change
	$'000	$'000	%
Increase discount rate by 0.5%	120,928	119,961	(0.8%)
Increase initial loss rate by 20%	120,928	123,951	2.5%
Increase IBNR by 25%	120,928	124,314	2.8%
Increase inflation by 1%	120,928	122,137	1.0%
Speed up in incurred development	120,928	118,026	(2.4%)

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 pool year 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. Failure of a reinsurer to pay a valid claim is considered a credit risk which is detailed in note 5.

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

5. Financial risk management

(a) Overview

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

(b) Risk management framework

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

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

(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
2022						
Cash & cash equivalents	-	32,439	-	-	-	32,439
Short term deposits	-	31,698	15,000	-	-	46,698
Interest bearing 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
2021						
Cash & cash equivalents	-	28,048	-	-	-	28,048
Short term deposits	-	23,552	14,500	-	-	38,052
Interest bearing securities	97,188	106,812	55,920	22,508	319	282,747
Reinsurance recoveries	-	20,678	17,979	-	-	38,657
Managed funds	-	-	-	-	104,028	104,028
	97,188	179,090	88,399	22,508	104,347	491,532

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 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	0.1%	32,439	-	-	-	-	32,439
Short term deposits	0.5%	46,698	-	-	-	-	46,698
NCD's and bank bills	2.2%	-	7,941	-	-	-	7,941
Corporate securities	3.5%	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

At 30 June 2021	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	0.1%	28,048	-	-	-	-	28,048
Short term deposits	0.7%	38,052	-	-	-	-	38,052
NCD's and bank bills	0.1%	-	16,997	-	-	-	16,997
Corporate securities	0.6%	2,296	19,045	151,685	92,724	-	265,750
Managed funds		-	-	-	-	104,028	104,028
		68,396	36,042	151,685	92,724	104,028	452,875

(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 $1.07 million (2021: increase/decrease by $1.08 million) on a post-tax basis with income tax expense calculated at 30% (2021: 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 $9.99 million (2021: increase/decrease by $8.43 million) on a post-tax basis with income tax expense calculated at 30% (2021: 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 2022 and 30 June 2021:

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

At 30 June 2021	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets at fair value through profit or loss				
Interest bearing investments	38,371	282,429	-	320,800
Managed funds	-	104,027	-	104,027
	38,371	386,456	-	424,827

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	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000
Membership and practising certificate fees	30,210	15,667	30,210	15,667
Premium revenue	85,608	73,395	-	-
Reinsurance and other recoveries	6,490	24,069	-	-
Legal training revenue	1,622	1,259	1,622	1,259
Member services revenue	2,075	1,935	2,075	1,935
Product sale revenue	1,258	1,181	1,258	1,181
Property rental revenue	323	277	323	277
Other revenue	1,634	3,466	1,656	1,666
	129,220	121,249	37,144	21,985

7. Investment revenue

Interest income	141	170	135	169
Dividends	-	-	37	-
Fair value gains on financial assets at fair value through profit and loss *	(15,805)	14,161	(3,685)	4,187
	(15,664)	14,331	(3,513)	4,356

* Includes reinvested distributions and management fee rebates received.

8. Other income

	Consolidated		Company	
	2022	**2021**	**2022**	**2021**
	$'000	**$'000**	**$'000**	**$'000**
Public Purpose Fund receipts				
Received under s.53 of the LPUL App Act 2014	10,500	9,026	10,500	9,026
Received under s.55 of the LPUL App Act 2014	461	461	461	461
	10,961	9,487	10,961	9,487
Legal Practitioners Fidelity Fund receipts				
Received under s.118 of the LPUL App Act 2014	883	751	883	751
	11,844	10,238	11,844	10,238

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

9. Expenses

	Consolidated		Company	
	2022	**2021**	**2022**	**2021**
	$'000	**$'000**	**$'000**	**$'000**
Profit before income tax expenses includes the following specific expenses:				
Employee benefits expense				
Wages and salaries	28,951	28,732	20,923	21,063
Defined contribution superannuation expense	2,490	2,266	1,855	1,711
Other employee benefits expense	2,249	1,221	1,756	766
Total employee benefits expense	33,690	32,219	24,534	23,540
Depreciation and amortisation expense				
Depreciation				
Buildings	675	675	675	675
Plant and equipment	453	480	198	269
Right-of-use assets	739	690	-	-
Amortisation				
Software	1,320	938	-	297
Total depreciation and amortisation expense	3,187	2,783	873	1,241

10. Income tax expense

	Consolidated		Company	
	2022	**2021**	**2022**	**2021**
	$'000	**$'000**	**$'000**	**$'000**
Income tax expense				
Current tax	(5,479)	671	-	-
Deferred tax	412	(701)	-	-
Adjustments for current tax of prior periods	(23)	834	-	-
	(5,090)	804	-	-

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

	Consolidated		Company	
	2022	**2021**	**2022**	**2021**
	$'000	**$'000**	**$'000**	**$'000**
Profit from operations before exceptional item and income tax expense	(13,758)	(1,601)	3,698	(2,913)
Less profit from tax-exempt operations	(3,661)	2,913	(3,698)	2,913
	(17,419)	1,312	-	-
Tax at the Australian tax rate of 30% (2021 - 30%)	(5,226)	394	-	-
Non-deductible expenses	159	404	-	-
Adjustments for current tax of prior periods	(23)	-	-	-
Change in unrecognised deferred tax assets	-	6	-	-
Income tax expense	(5,090)	804	-	-

The tax rate used for the 2022 and 2021 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 and SMIF Management are both income tax paying entities.

11. Current assets – Trade and other receivables

	Consolidated		Company	
	2022	**2021**	**2022**	**2021**
	$'000	**$'000**	**$'000**	**$'000**
Trade receivables	99	3,770	99	186
Provision for impairment of receivables	(5)	(2)	(5)	(2)
	94	3,768	94	184
Goods and services tax recoverable	-	-	-	-
Other receivables				
Receivable from Legal Practitioners Fidelity Fund	93	60	93	60
Reinsurance recoveries receivable *	12,499	16,361	-	-
Premiums receivable	2,631	3,705	-	-
Interest receivable	68	18	68	18
Other	200	297	383	297
	15,585	24,209	638	559

* 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 2022 current trade receivables of the group with a nominal value of $5,000 (2021: $2,000) were impaired.

(b) Past due but not impaired

As at 30 June 2022, trade receivables of $18,753 (2021: $8,307) 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	
	2022	**2021**	**2022**	**2021**
	$'000	**$'000**	**$'000**	**$'000**
(b) Past due but not impaired				
1 to 3 months	12	7	12	7
3 to 6 months	7	1	7	1
Over 6 months	-	-	-	-
	19	8	19	8

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	
	2022	**2021**	**2022**	**2021**
	$'000	**$'000**	**$'000**	**$'000**
Financial assets at fair value through profit or loss				
Deposits	46,698	38,052	35,000	33,500
Negotiable certificates of deposit	7,941	16,997	-	-
Corporate and government securities	9,512	19,045	-	-
Managed funds	127,481	104,028	35,485	38,407
	191,632	178,122	70,485	71,907

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	
	2022	**2021**	**2022**	**2021**
	$'000	**$'000**	**$'000**	**$'000**
Prepayments	1,692	1,681	1,126	1,109
	1,692	1,681	1,126	1,109

14. Non-current assets – Receivables

Reinsurance recoveries receivable *	12,741	22,296	-	-
	12,741	22,296	-	-

* 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	
	2022	**2021**	**2022**	**2021**
	$'000	**$'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 **	236,059	246,705	-	-
	236,059	246,705	-	-
	236,059	246,705	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
At 1 July 2020			
Cost or fair value	58,000	4,375	62,375
Accumulated depreciation	-	(3,186)	(3,186)
Net book amount	58,000	1,189	59,189
Year ended 30 June 2021			
Opening net book amount	58,000	1,189	59,189
Additions	-	597	597
Depreciation	(675)	(480)	(1,155)
Closing net book amount	57,325	1,306	58,631
At 1 July 2021			
Cost or fair value	58,000	4,971	62,971
Accumulated depreciation	(675)	(3,665)	(4,340)
Net book amount	57,325	1,306	58,631
Year ended 30 June 2022			
Opening net book amount	57,325	1,306	58,631
Revaluation increment	22,198	-	22,198
Additions	152	315	467
Disposals	-	(2)	(2)
Depreciation	(675)	(453)	(1,128)
Closing net book amount	79,000	1,166	80,166
At 30 June 2022			
Cost or fair value	79,000	4,996	83,996
Accumulated depreciation	-	(3,830)	(3,830)
Net book amount	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**
At 1 July 2020			
Cost or fair value	58,000	2,192	60,192
Accumulated depreciation	-	(1,697)	(1,697)
Net book amount	58,000	495	58,495
Year ended 30 June 2021			
Opening net book amount	58,000	495	58,495
Additions	-	45	45
Depreciation	(675)	(269)	(944)
Closing net book amount	57,325	271	57,596
At 1 July 2021			
Cost or fair value	58,000	2,236	60,236
Accumulated depreciation	(675)	(1,965)	(2,640)
Net book amount	57,325	271	57,596
Year ended 30 June 2022			
Opening net book amount	57,325	271	57,596
Revaluation increment	22,198	-	22,198
Additions	152	276	428
Depreciation	(675)	(198)	(873)
Closing net book amount	79,000	349	79,349
At 30 June 2022			
Cost or fair value	79,000	2,224	81,224
Accumulated depreciation	-	(1,875)	(1,875)
Net book amount	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	
	2022	**2021**	**2022**	**2021**
	$'000	**$'000**	**$'000**	**$'000**
Right-of-use assets				
Current	-	-	-	-
Non-current	1,665	2,408	-	-
	1,665	2,408	-	-
Lease liabilities				
Current	762	702	-	-
Non-current	1,048	1,814	-	-
	1,810	2,516	-	-

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 2022 were $Nil (2021: $446,952).

(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	
	2022	**2021**	**2022**	**2021**
	$'000	**$'000**	**$'000**	**$'000**
Depreciation charge right-of-use assets	739	690	-	-
Interest expense	76	94	-	-
	815	784	-	-

(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	
	2022	**2021**	**2022**	**2021**
	$'000	**$'000**	**$'000**	**$'000**
Within one year	248	-	248	-
Later than one year but not later than five years	608	-	608	-
Later than five years	291	-	291	-
	1,147	-	1,147	-

18. Deferred tax assets

The balance comprises temporary differences attributable to:

	Consolidated		Company	
	2022	**2021**	**2022**	**2021**
	$'000	**$'000**	**$'000**	**$'000**
Tax losses	5,480	-	-	-
Insurance provisions	1,781	1,864	-	-
Other items	394	724	-	-
Total deferred tax assets	7,655	2,588	-	-

	Consolidated 2022 $'000	Consolidated 2021 $'000	Company 2022 $'000	Company 2021 $'000
Deferred tax assets expected to be recovered within 12 months	6,563	1,419	-	-
Deferred tax assets expected to be recovered after more than 12 months	1,092	1,169	-	-
	7,655	2,588	-	-

19. Non-current assets – Intangible assets

Consolidated	**Software and systems $'000**	**Total $'000**
At 1 July 2020		
Cost	10,294	10,294
Accumulated amortisation and impairment	(8,889)	(8,889)
Net book amount	1,405	1,405
Year ended 30 June 2021		
Opening net book amount	1,405	1,405
Additions	5,619	5,619
Amortisation charge *	(938)	(938)
Closing net book amount	6,086	6,086
At 1 July 2021		
Cost	15,913	15,913
Accumulated amortisation and impairment	(9,827)	(9,827)
Net book amount	6,086	6,086
Year ended 30 June 2022		
Opening net book amount	6,086	6,086
Additions	941	941
Amortisation charge *	(1,320)	(1,320)
Closing net book amount	5,707	5,707
At 30 June 2022		
Cost	16,666	16,666
Accumulated amortisation and impairment	(10,959)	(10,959)
Net book amount	5,707	5,707

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

Company	**Software and systems $'000**	**Total $'000**
At 1 July 2020		
Cost	6,068	6,068
Accumulated amortisation and impairment	(5,771)	(5,771)
Net book amount	297	297
Year ended 30 June 2021		
Opening net book amount	297	297
Amortisation charge *	(297)	(297)
Closing net book amount	-	-
At 1 July 2021		
Cost	6,068	6,068
Accumulated amortisation and impairment	(6,068)	(6,068)
Net book amount	-	-
Year ended 30 June 2022		
Opening net book amount	-	-
Amortisation charge *	-	-
Closing net book amount	-	-
At 30 June 2022		
Cost	5,881	5,881
Accumulated amortisation and impairment	(5,881)	(5,881)
Net book amount	-	-

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

20. Current liabilities – Trade and other payables

	Consolidated		**Company**	
	2022 $'000	**2021 $'000**	**2022 $'000**	**2021 $'000**
Trade payables	2,150	3,950	747	597
Goods and services tax payable	2,285	4,084	66	165
Other payables				
Payable to Legal Practitioners Fidelity Fund	433	465	433	465
Accrued expenses	2,592	4,156	629	573
Other taxes payable	169	302	113	253
	7,629	12,957	1,988	2,053

21. Current liabilities – Provisions

	Consolidated		Company	
	2022	**2021**	**2022**	**2021**
	$'000	**$'000**	**$'000**	**$'000**
Employee benefits	4,282	3,380	3,372	2,526
Outstanding claims liability *	77,699	74,404	-	-
	81,981	77,784	3,372	2,526

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	
	2022	**2021**	**2022**	**2021**
	$'000	**$'000**	**$'000**	**$'000**
Deferred revenue				
Membership and practising certificate fees	29,365	27,883	29,365	27,883
Premiums received in advance	91,493	81,545	-	-
Other	1,294	1,179	1,294	1,179
	122,152	110,607	30,659	29,062

23. Non-current liabilities – Provisions

Employee benefits - long service leave	1,261	1,177	1,087	1,030
Outstanding claims liability *	88,582	99,389	-	-
	89,843	100,566	1,087	1,030

* 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	
	2022	**2021**	**2022**	**2021**
	$'000	**$'000**	**$'000**	**$'000**
Asset revaluation	65,540	43,342	65,540	43,342
	65,540	43,342	65,540	43,342
Movements:				
Asset revaluation reserve				
Balance 1 July	43,342	43,342	43,342	43,342
Revaluation	22,198	-	22,198	-
Balance 30 June	65,540	43,342	65,540	43,342

24. Reserves and retained earnings (continued)

(b) Retained earnings

Movements in retained earnings were as follows:

	Consolidated		Company	
	2022	**2021**	**2022**	**2021**
	$'000	**$'000**	**$'000**	**$'000**
Balance 1 July	225,296	227,701	100,201	103,114
Net loss for the year	(8,668)	(2,405)	3,698	(2,913)
Balance 30 June	216,628	225,296	103,899	100,201

(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	
	2022	**2021**	**2022**	**2021**
	$'000	**$'000**	**$'000**	**$'000**
Gross earned premium	85,608	73,395	-	-
Outwards reinsurance premium expense	(9,747)	(8,877)	-	-
Net earned premium	75,861	64,518	-	-
Gross claims expense	(67,271)	(81,486)	-	-
Reinsurance and other recoveries revenue	6,490	24,069	-	-
Net claims expense	(60,781)	(57,417)	-	-
Underwriting expenses	(20,280)	(17,467)	-	-
Underwriting result	(5,200)	(10,366)	-	-

(b) Net claims incurred from insurance activities

	Consolidated			Consolidated		
		2022			**2021**	
	Current year	**Prior year**	**Total**	**Current year**	**Prior year**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Gross claims expense						
Undiscounted	78,634	(4,447)	74,187	95,767	(13,831)	81,936
Discount movement	(3,721)	(3,195)	(6,916)	(603)	153	(450)
	74,913	(7,642)	67,271	95,164	(13,678)	81,486
Reinsurance and other recoveries						
Undiscounted	(11,852)	4,433	(7,419)	(31,359)	7,095	(24,264)
Discount movement	639	290	929	215	(20)	195
	(11,213)	4,723	(6,490)	(31,144)	7,075	(24,069)
Net claims incurred	63,700	(2,919)	60,781	64,020	(6,603)	57,417

25. Insurance disclosures (continued)

(c) Reinsurance recoveries receivable from insurance activities

	Consolidated		Company	
	2022	**2021**	**2022**	**2021**
	$'000	**$'000**	**$'000**	**$'000**
Expected future reinsurance recoveries undiscounted				
on claims paid	45	103	-	-
on outstanding claims	26,351	38,781	-	-
	26,396	38,884	-	-
Discount to present value	(1,156)	(227)	-	-
Reinsurance recoveries receivable	25,240	38,657	-	-
Current	12,499	16,361	-	-
Non-current	12,741	22,296	-	-
	25,240	38,657	-	-

(d) Outstanding claims liability

Outstanding claims liability

	Consolidated		Company	
	2022	**2021**	**2022**	**2021**
	$'000	**$'000**	**$'000**	**$'000**
Central estimate	136,854	137,275	-	-
Discount to present value	(6,349)	(728)	-	-
	130,505	136,547	-	-
Claims handling costs	8,483	8,876	-	-
	138,988	145,423	-	-
Risk margin	27,293	28,370	-	-
Gross outstanding claims liability	166,281	173,793	-	-
Current	77,699	74,404	-	-
Non-current	88,582	99,389	-	-
	166,281	173,793	-	-

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% (2021: 85%) probability of adequacy.

	Consolidated	
	2022	**2021**
	%	**%**
Risk margins applied (Lawcover Insurance)	8.9%	11.8%

25. Insurance disclosures (continued)

Reconciliation of movement in discounted outstanding claims liability

	Consolidated		
	Gross $'000	Reinsurance $'000	Net $'000
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
Claims payments	(74,783)	19,849	(54,934)
Carried forward	166,281	(25,195)	141,086
Year ended 30 June 2021			
Brought forward	141,478	(16,045)	125,433
Incurred claims recognised in the income statement	81,486	(24,069)	57,417
Claim payments	(49,171)	1,560	(47,611)
Carried forward	173,793	(38,554)	135,239

Claims development table

	Underwriting year						
Claim year	**Prior $'000**	**2018 $'000**	**2019 $'000**	**2020 $'000**	**2021 $'000**	**2022 $'000**	**Total $'000**
Estimate of gross ultimate claims cost:							
at end of claim year		50,641	53,106	55,460	79,622	66,188	305,017
one year later		44,472	57,893	53,393	78,398		234,156
two years later		41,012	57,905	55,256			154,173
three years later		42,956	62,230				105,186
four years later		42,973					42,973
five years later	597,863						597,863
Cumulative payments made to date	(587,086)	(36,192)	(49,572)	(36,575)	(47,006)	(9,623)	(766,054)
Gross undiscounted outstanding claims	10,777	6,781	12,658	18,681	31,392	56,565	136,854
Reconciliation							
Reinsurance recoveries	(3,450)	(198)	(4,272)	(935)	(5,128)	(11,212)	(25,195)
Discount to present value	(153)	(202)	(454)	(819)	(1,671)	(3,050)	(6,349)
Claims handling costs	691	428	793	1,161	1,932	3,478	8,483
Risk margin	8,027	1,767	2,260	2,687	4,257	8,295	27,293
Net outstanding claims liability	15,892	8,576	10,985	20,775	30,782	54,076	141,086

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 2022.

It should be noted that the retained earnings as at 30 June 2022 of $110.3 million (2021: $123.4 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 $112.7 million (2021: $125.0 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 2022 in excess of the minimum required by APRA. The following table shows the capital adequacy calculated in accordance with the APRA prudential framework. The 2022 position reflects the June 2022 quarter APRA returns (unaudited) with the 2021 comparative being reflective of the 2021 annual return.

	2022 $'000	2021 $'000
Lawcover Insurance Tier 1 capital base		
Ordinary shares	34,600	34,600
Retained earnings as at 30 June (adjusted)	110,279	123,439
LawCover Insurance capital base and adjusted net assets	144,879	158,039
Prudential capital requirement	47,188	48,020
Prescribed capital amount coverage	3.07	3.29

(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. Lawcover Insurance management actively manages capital in order to achieve a minimum capital adequacy ratio of 2.25 times. At 30 June 2022 the prescribed capital adequacy is 3.07 (unaudited), which is a decrease from 3.29 in 2021. This decrease is primarily due to a change in asset allocations with the intention to diversify its investment portfolio.
- 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	
	2022	2021	2022	2021
	$	$	$	$
Short-term employee benefits	4,371,178	4,689,751	1,683,939	1,704,278
Post-employment benefits	295,110	264,152	108,125	105,097
	4,666,288	4,953,903	1,792,064	1,809,375

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 2022.

Directors' remuneration

Directors' fees are paid to the Directors of Lawcover Insurance and SMIF Management.

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	
	2022	2021	2022	2021
	$	$	$	$
PwC Australia				
Audit and review of financial statements	310,226	302,702	158,006	150,482
Other services				
Audit of regulatory returns	39,248	39,225	2,404	2,381
Tax compliance services	38,827	31,327	7,500	-
Other services	69,138	132,891	-	63,753
Total remuneration of PwC Australia	457,439	506,145	167,910	216,616

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 2022, 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 (2021: $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	
	2022	2021	2022	2021
	$'000	$'000	$'000	$'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 $183,324 (2021: $147,464) 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 $76,830 (2021: $61,467) for management and administration services.
(iii) SMIF Management, a controlled entity, paid The Law Society of New South Wales $1,170 (2021: $6,751) 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
During the financial year ended 30 June 2022 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 (2021: $60,000)
(ii) Legal Practitioners Fidelity Fund $882,964 (2021: $751,132)

As at 30 June 2022, the following balances were receivable from or payable to other related parties:
(i) Receivable from Legal Practitioners Fidelity Fund $92,727 (2021: $59,834)
(ii) Payable to Legal Practitioners Fidelity Fund $432,900 (2021: $465,155)
(iii) Receivable from Public Purpose Fund $Nil (2021: $Nil)
(iv) Payable to Public Purpose Fund $Nil (2021: $1,818,749)

(d) Intercompany balances eliminated from balance sheets
As at 30 June 2022, the following intercompany balances between group entities were eliminated from the consolidated accounts:
(i) $183,324 payable to The Law Society of New South Wales by Lawcover Insurance (2021: $147,464)
(ii) $Nil payable to Lawcover Insurance by SMIF Management (2021: $249)

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		Investment $	
		2022	2021	2022	2021
SMIF Management Pty Limited (i)	Australia	-	100	-	2
Lawcover Insurance Pty Limited (ii)	Australia	100	100	34,599,942	34,599,942
				34,599,942	34,599,944

(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	
	2022	**2021**	**2022**	**2021**
	$'000	**$'000**	**$'000**	**$'000**
(Loss) profit for the year	(8,668)	(2,405)	3,698	(2,913)
Depreciation and amortisation	3,187	2,783	873	1,241
Net loss on disposal of non-current assets	1	-	-	-
Interest and dividends received	(141)	(170)	(172)	(169)
Fair value losses (gains) on financial assets at fair value through profit and loss *	15,805	(14,161)	3,685	(4,187)
Change in operating assets and liabilities:				
Decrease (increase) in trade and other receivables	18,179	(29,898)	(79)	(29)
(Increase) decrease in other assets	(11)	825	(17)	284
Decrease (increase) in current tax assets	2,052	(267)	-	-
(Increase) decrease in deferred tax assets	(5,067)	133	-	-
(Decrease) increase in trade and other payables	(5,328)	3,955	(65)	150
(Decrease) increase increase in provisions	(6,526)	31,836	903	(432)
Increase in other liabilities	11,545	27,919	1,597	13,741
Net cash inflow from operating activities	25,028	20,550	10,423	7,686

* 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 2022 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

J van der Plaat
Councillor

J Ball
Councillor

Sydney, 26 September 2022

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 2022 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 2022
- 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.

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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 2022, 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
26 September 2022