The Law Society of New South Wales

Annual financial report for the year ended 30 June 2014

Councillors' report

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

Councillors

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

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

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

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

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

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

Council meetings

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

Principal activities

The Law Society of New South Wales is the professional association for solicitors in NSW, and fulfils both a regulatory and representative function on behalf of the profession. The Law Society 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 $1.5 million (2013: $1.4 million). The surplus of funds for subsidiaries are as set out in their respective financial statements. The result of group operations for the year was a surplus of $16.2 million (2013: $11.6 million). Further information on the operations of the group can be found in the CEO reports of both the Law Society of New South Wales and the Lawcover group of companies.

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

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

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

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

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

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

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

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

On behalf of the Council

Ros Everett

R Everett
Councillor

P Wright
Councillor

Sydney, 4 September 2014

Auditor's Independence Declaration

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

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

J Gorton
Partner
PricewaterhouseCoopers

Sydney
4 September 2014

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DX 77 Sydney, Australia
T +61 2 8266 0000, F +61 2 8266 9999, www.pwc.com.au

		Consolidated		Company	
		2014	**2013**	**2014**	**2013**
	Note	**$'000**	**$'000**	**$'000**	**$'000**
Revenue	6	96,485	127,452	24,525	22,782
Investment revenue	7	14,301	14,456	1,428	1,332
Other income	8	8,038	8,873	8,038	8,873
Consumables used		(167)	(177)	(167)	(177)
Employee benefits expense	9	(22,710)	(21,650)	(16,097)	(15,816)
Depreciation and amortisation expense	9	(1,872)	(1,562)	(1,200)	(1,173)
Law Council capitation fees		(2,632)	(2,556)	(2,632)	(2,556)
Outwards reinsurance premium expense	27	(33,738)	(35,470)	-	-
Claims expense	27	(21,038)	(56,857)	-	-
Consulting and professional fees expense		(7,566)	(6,821)	(4,197)	(3,977)
Other expenses		(11,145)	(10,256)	(8,186)	(7,847)
Profit before income tax		17,956	15,432	1,512	1,441
Income tax expense	10	(1,724)	(3,817)	-	-
Profit for the year		16,232	11,615	1,512	1,441
Profit is attributable to:					
Members of The Law Society of New South Wales		16,232	11,615	1,512	1,441
		16,232	11,615	1,512	1,441

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

		Consolidated		Company	
		2014	2013	2014	2013
	Note	$'000	$'000	$'000	$'000
Profit for the year		16,232	11,615	1,512	1,441
Other comprehensive income					
Gain on revaluation of land and buildings *	26	878	-	878	-
Other comprehensive income for the year, net of tax		878	-	878	-
Total comprehensive income for the year		17,110	11,615	2,390	1,441

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

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

		Consolidated		Company	
		2014	**2013**	**2014**	**2013**
	Note	**$'000**	**$'000**	**$'000**	**$'000**
Assets					
Current assets					
Cash and cash equivalents		47,125	34,164	19,607	18,790
Trade and other receivables	11	30,962	27,257	728	448
Investments	13	103,631	114,114	17,379	16,329
Inventories	12	27	14	27	14
Deferred tax assets	18	8,132	1,008	-	-
Other assets	14	697	696	466	495
Total current assets		190,574	177,253	38,207	36,076
Non-current assets					
Receivables	15	43,197	62,319	-	-
Investments	16	246,022	225,776	6,000	6,000
Property, plant and equipment	17	28,952	27,177	27,371	26,871
Deferred tax assets	18	1,469	1,470	-	-
Intangible assets	19	3,990	2,083	3,359	1,166
Total non-current assets		323,630	318,825	36,730	34,037
Total assets		514,204	496,078	74,937	70,113
Liabilities					
Current liabilities					
Trade and other payables	20	11,463	9,519	2,103	1,146
Current tax liabilities		5,849	1,101	-	-
Deferred tax liabilities	23	431	133	-	-
Provisions	21	90,046	64,502	2,170	1,891
Other liabilities	22	91,278	89,833	18,105	16,935
Total current liabilities		199,067	165,088	22,378	19,972
Non-current liabilities					
Provisions	24	111,165	144,023	494	466
Other liabilities	25	70	175	-	-
Total non-current liabilities		111,235	144,198	494	466
Total liabilities		310,302	309,286	22,872	20,438
Net assets		203,902	186,792	52,065	49,675
Equity					
Reserves	26	17,691	16,813	17,691	16,813
Retained earnings	26	186,211	169,979	34,374	32,862
Total equity		203,902	186,792	52,065	49,675

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 2012	16,813	158,364	175,177
Profit after income tax	-	11,615	11,615
Other comprehensive income	-	-	-
Total comprehensive income	-	11,615	11,615
Balance at 30 June 2013	16,813	169,979	186,792
Profit after income tax	-	16,232	16,232
Other comprehensive income	878	-	878
Total comprehensive income	878	16,232	17,110
Balance at 30 June 2014	17,691	186,211	203,902

Company	**Reserves**	**Retained earnings**	**Total**
	$'000	**$'000**	**$'000**
Balance at 1 July 2012	16,813	31,421	48,234
Profit after income tax	-	1,441	1,441
Other comprehensive income	-	-	-
Total comprehensive income	-	1,441	1,441
Balance at 30 June 2013	16,813	32,862	49,675
Profit after income tax	-	1,512	1,512
Other comprehensive income	878	-	878
Total comprehensive income	878	1,512	2,390
Balance at 30 June 2014	17,691	34,374	52,065

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

		Consolidated		Company	
		2014	**2013**	**2014**	**2013**
	Note	**$'000**	**$'000**	**$'000**	**$'000**
Cash flows from operating activities					
Receipts from customers		32,718	32,559	33,453	32,977
Payments to suppliers and employees		(43,219)	(40,423)	(29,999)	(30,993)
Premiums received		83,559	78,709	-	-
Outwards reinsurance premiums paid		(33,769)	(35,491)	-	-
Claims paid		(51,557)	(49,598)	-	-
Reinsurance and other recoveries received		29,168	23,696	-	-
Income taxes paid		(3,801)	(3,280)	-	-
Net cash inflow from operating activities	36	13,099	6,172	3,454	1,984
Cash flows from investing activities					
Payments for purchase of investments		(183,117)	(436,762)	-	-
Proceeds on sale of investments		187,202	441,744	-	-
Interest received		453	502	378	384
Payments for property, plant and equipment		(2,049)	(1,368)	(388)	(541)
Payments for intangible assets		(2,627)	(630)	(2,627)	(630)
Net cash (outflow) inflow from investing activities		(138)	3,486	(2,637)	(787)
Net increase in cash and cash equivalents		12,961	9,658	817	1,197
Cash and cash equivalents at the beginning of the year		34,164	24,506	18,790	17,593
Cash and cash equivalents at the end of the year		47,125	34,164	19,607	18,790

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

Notes to the financial statements

1. Reporting entity

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

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

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

The financial statements were authorised for issue by the Councillors on 4 September 2014. The Councillors have the power to amend and reissue the financial statements.

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. 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) New and amended standards adopted by the group

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

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

(iii) Early adoption of standards

The group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2013.

(iv) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through profit or loss, and certain classes of property, plant and equipment.

2. Summary of significant accounting policies (continued)

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

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

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

(b) Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of The Law Society of New South Wales ('company' or 'parent entity') as at 30 June 2014 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 (including special purpose entities) over which the group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

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

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

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

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

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

(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 and the Solicitors' Mutual Indemnity Fund as they are exempt from the payment of income tax. Lawcover Pty Ltd and Lawcover Insurance Pty Ltd are both income tax paying entities.

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

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

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

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

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

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

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

(e) Leases
Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases (note 31). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease (note 9).

2. Summary of significant accounting policies (continued)

(f) Cash and cash equivalents

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

(g) Trade receivables

Trade receivables are recognised at fair value less a provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

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

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

(h) Investments

The group's investments are classified as fair value through profit or loss upon initial recognition. They are initially recorded at fair value (being the cost of acquisition excluding transaction costs) and are subsequently remeasured to fair value at each reporting date. Changes in the fair value are taken immediately to the income statement. 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.

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

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(j) 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)

(k) 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(j)).

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.

(l) 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

(m) 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)

(n) 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).

(o) Employee benefits

(i) Short-term obligations

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

(ii) Other long-term employee benefit obligations

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

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

(p) Goods and Services Tax (GST)

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

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

(q) Rounding of amounts

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

(r) Outwards reinsurance expense

Amounts paid to reinsurers under insurance contracts held by Lawcover Insurance Pty Ltd (Lawcover Insurance) are recorded as an outwards reinsurance expense and are recognised in the income statement 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.

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received.

2. Summary of significant accounting policies (continued)

(s) 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 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.

(t) Reinsurance recoveries receivable

Reinsurance recoveries receivable on paid claims, reported claims not yet paid 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.

(u) Assets backing insurance liabilities

As part of its investment strategy, Lawcover Insurance actively manages its investment portfolio to ensure that investments mature in accordance with the expected pattern of future cash flows arising from insurance liabilities.

Financial assets

Financial assets are designated at fair value through profit or loss. Initial recognition is at cost in the balance sheet and subsequent measurement is at fair value with any resultant fair value gains or losses recognised in the income statement.

Details of fair value for the different types of financial assets are listed below:

- Cash and cash equivalent assets are carried at face value of the amounts deposited or drawn. The carrying amounts of cash and cash equivalent assets approximate to their fair value. For the purposes of the cash flow statement, cash includes cash and cash equivalents on hand and deposits held at call with banks.
- Fixed interest securities are recorded using a bid price using rates of interest equivalent to the yields obtainable on comparable investments at balance date.

All purchases and sales of financial assets that require delivery of the asset within the time frame established by regulation or market convention are recognised at trade date, being the date on which Lawcover Insurance commits to buy or sell the asset.

Premium receivable

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

3. Actuarial assumptions and methods – insurance activities

(a) Class of business

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

(b) Valuation methodology

Claims estimates in respect of the compulsory $2 million layer ($1.5 million prior to 1 July 2009) are derived from analysis of the results of several different actuarial models.

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

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

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

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

An allowance for large claims (over $1 million) is explicitly included in the estimates to the extent that they are believed to be under-represented in the actual claims development to date.

Projected payments are discounted to allow for the time value of money. These results are increased by 8% 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.

(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 we have adopted a BF approach with an initial loss rate of 20% of premium.

An 8% loading for claims handling, a 5% discount factor and an 18% risk margin are included in the provision.

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

(d) Actuarial assumptions and processes

The table below sets out the key assumptions underlying the valuation at 30 June 2014. A comparison to 30 June 2013 is not available due to a change in the actuarial valuation approach being adopted at this review.

Assumptions in respect of Underwriting Year 2013-14	Valuation as at 30 June 2014	Valuation as at 30 June 2013
IBNR%	63.0%	-
Frequency (per 1,000 solicitors)	31.5%	-
Average claim size ($)	149,100	232,885
Initial loss rate (loss per risk adjusted solicitor $)	1,270	-
Claims handling expense rate	8.0%	6.0%
Discount rate per annum	2.6%	3.1%
Inflation rate per annum	4.0%	3.4%
Superimposed inflation rate per annum	0.0%	0.0%

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

(i) *IBNR*

This refers to the proportion of the ultimate cost of claims that is assumed to be reported to Lawcover Insurance subsequent to the valuation date in respect of the 2013/14 underwriting year. This is estimated by analysing past incurred development.

(ii) *Frequency (per 1000 solicitors)*

This is applied to the number of solicitors insured by Lawcover Insurance to obtain an estimate of claim numbers. It is estimated by analysing past claim reporting patterns.

(iii) *Average claim size*

The average claim size is estimated by analysing historical average sizes by finalisation year.

(iv) *Initial loss rate (loss per risk adjusted solicitor)*

The initial loss rate is estimated by analysing historical average loss rates, obtained by dividing our ultimate claims costs from the ICD and frequency/size approach, by the number of solicitors insured. A risk weighting is applied to the solicitor count to account for the differences in risk profile of individual insured firms.

(v) *Claims handling expense rate*

Claims handling expenses were estimated by reference to the historical claims handling expenses and the 2014/15 budgeted claim handling costs as a percentage of past and expected claim payments.

(vi) *Discount rate*

Discount rates have been derived from yields on Commonwealth Government securities as at 30 June 2014.

(vii) *Inflation*

Inflation assumptions are used as part of the establishment of the initial loss rate used in the BF method. The view of future inflation has been set with reference to the historical increase in average claim sizes.

(viii) *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 table below indicates the change in value in the total primary layer gross discounted central estimate of outstanding claims excluding claims handling expenses for the ten underwriting years 2004/05 through 2013/14 due to changing the valuation basis by each of the items indicated under "Scenario". It also shows the change expressed as a percentage of the total gross discounted central estimate of outstanding claims including Top-Up cover.

Scenario – 2014	Discounted gross central estimate (excl CHE)		
	Before change	After change	% Change
	$'000	$'000	%
Increase discount rate by 0.5%	134,478	133,215	(0.9%)
Increase initial loss rate by 20%	134,478	144,045	7.1%
Increase IBNR by 25%	134,478	145,988	8.6%
Increase inflation by 1%	134,478	135,936	1.1%

Scenario - 2013	Discounted gross central estimate (excl CHE)		
	Before change	After change	% Change
	$'000	$'000	%
Increase discount rate by 0.5%	164,480	162,545	(1.2%)
Increase average PPCF by 10%	164,480	177,281	7.8%
Increase finalisation rate by 25%	164,480	159,830	(2.8%)
Increase non-zero claim notification rate by 25%	164,480	166,584	1.3%

Scenario – 2014	Discounted net central estimate (excl CHE)		
	Before change	After change	% Change
	$'000	$'000	%
Increase discount rate by 0.5%	76,895	76,165	(0.9%)
Increase initial loss rate by 20%	76,895	82,635	7.5%
Increase IBNR by 25%	76,895	83,801	9.0%
Increase inflation by 1%	76,895	77,769	1.1%

Scenario - 2013	Discounted net central estimate (excl CHE)		
	Before change	After change	% Change
	$'000	$'000	%
Increase discount rate by 0.5%	89,319	88,353	(1.1%)
Increase average PPCF by 10%	89,319	96,920	8.5%
Increase finalisation rate by 25%	89,319	86,345	(3.3%)
Increase non-zero claim notification rate by 25%	89,319	90,583	1.4%

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

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

(i) *Higher discount rates*
The scenario assumes that the discount rate used to derive the present value of the future gross 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 costs be reported to Lawcover in the future.

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

For the Top-Up liabilities, a proportional change to the claims ratio would result in a similar proportionate change in the estimated liability. For example, if the claim ratio is increased by 20% from 20% to 24%, the liability would increase by 19%.

4. Insurance contracts – risk management policies and procedures

(a) Objectives in managing risks arising from insurance contracts and policies for mitigating those risks
Lawcover Insurance has an objective to control insurance risk thus reducing the volatility of operating profits. In accordance with Prudential Standards GPS 220 *Risk Management* and GPS 230 *Reinsurance Management* issued by the Australian Prudential Regulation Authority (APRA), the Board and senior management of Lawcover Insurance have developed, implemented and maintain a sound and prudent Risk Management Strategy (RMS) and a Reinsurance Management Strategy (REMS).

The RMS and REMS identify Lawcover Insurance's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by Lawcover Insurance. Annually, the Board certifies to APRA that adequate strategies have been put in place to monitor those risks, that Lawcover Insurance has systems in place for the purpose of ensuring compliance with legislative and prudential requirements and that the Board has satisfied itself as to the compliance with the RMS and REMS.

4. Insurance contracts – risk management policies and procedures (continued)

The RMS and REMS have been approved by the Board. Key aspects of the processes established in the RMS to mitigate risks include:

- The maintenance and use of management information systems, which provide up to date, reliable data on the risks to which the business is exposed at any point in time.
- Actuarial models, using information from the management information systems, are used to calculate premiums and monitor claims patterns. Past experience and statistical methods are used as part of the process.
- Documented procedures are followed for underwriting and accepting insurance risks.
- Reinsurance is used to limit Lawcover Insurance's loss exposure. In order to assess this Lawcover Insurance use rating information from the public domain or gathered through internal investigations.
- In order to limit concentrations of credit risk, in purchasing reinsurance Lawcover Insurance has regard to existing reinsurance assets and seeks to limit excess exposure to any single reinsurer or group of related reinsurers.
- The mix of assets in which Lawcover Insurance invests is driven by the nature and term of the insurance liabilities. The management of assets and liabilities is closely monitored to attempt to match the maturity dates of assets with the expected pattern of claim payments.

(b) Interest rate risk

None of the financial assets or liabilities arising from insurance or reinsurance contracts entered into by Lawcover Insurance is directly exposed to interest rate risk. Insurance and reinsurance contracts are entered into annually.

(c) Credit risk

Financial assets and liabilities arising from insurance and reinsurance contracts are stated in the balance sheet at the amount that best represents the maximum credit risk exposure at balance date. The majority of reinsurers have a minimum Standard & Poor's rating of A- Stable.

(d) Insurance risks

The financial condition and operation of Lawcover Insurance are affected by a number of key risks including insurance risk, interest rate risk, credit risk, market risk, liquidity risk, financial risk, compliance risk, fiscal risk and operational risk. Notes on the policies and procedures in respect of managing these risks are set out in this note.

Methods of assessing and monitoring insurance risk

Lawcover Insurance prepares monthly, quarterly and annual operating results, which include claims frequency, for a wide audience including internal management, its Board, the Audit, Risk and Compliance Committee, and external regulators.

Methods of limiting or transferring insurance risk

(i) *Reinsurance*

Lawcover Insurance has undertaken reinsurance with the intention of diverting some of its insurance risk. Reinsurance is taken out consistent with the risk profile of the insurance written.

(ii) *Underwriting*

Lawcover Insurance makes use of experienced underwriters, delegated authority limits and regular internal audit control process testing to ensure that an appropriate level of insurance risk is undertaken.

(iii) *Claims management*

Control procedures exist within the Claims Department of Lawcover Insurance to ensure appropriate assessments are made when determining claim payouts. These controls include, but are not limited to, the use of a panel of external legal advisers, peer review and delegated authority limits.

5. Financial risk management

(a) Overview

The company and group have exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- 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 is responsible for risk management within the group. The Council monitors the operational and financial aspects of the group's activities and, through the Audit Committee, considers the recommendations and advice of external auditors and other external advisers on the operational and financial risks that face the group.

The Council ensures that the recommendations made by the external auditors and other external advisers are investigated and, where considered necessary, appropriate action is taken to ensure that the companies in the group have internal controls to manage the key risks identified. Both directly and through its Audit Committee, the Council investigates ways of enhancing existing risk management strategies.

(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.

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
2014						
Cash & cash equivalents	-	47,125	-	-	-	47,125
Short term deposits & interest bearing securities	12,036	240,902	78,330	-	1,006	332,274
Reinsurance recoveries *	-	1,439	513	-	635	2,587
	12,036	289,466	78,843	-	1,641	381,986
2013						
Cash & cash equivalents	-	34,164	-	-	-	34,164
Short term deposits & interest bearing securities	21,873	245,840	55,339	-	508	323,560
Reinsurance recoveries *	-	1,309	505	-	281	2,095
	21,873	281,313	55,844	-	789	359,819

* Represents reinsurance recoveries receivable on paid claims only.

5. Financial risk management (continued)

(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.

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

			Fixed maturity dates				
At 30 June 2014	**Average effective interest rate %**	**Variable interest rate $'000**	**Less than 1 year $'000**	**1-5 years $'000**	**5+ years $'000**	**Non interest bearing $'000**	**Total $'000**
Financial assets							
Cash and cash equivalents	2.8%	47,125	-	-	-	-	47,125
Short term deposits	2.5%	2,228	-	-	-	-	2,228
NCD's and bank bills	2.7%	-	45,781	-	-	-	45,781
Corporate securities	2.5%	72,728	31,661	179,876	-	-	284,265
Managed funds		-	-	-	-	17,379	17,379
		122,081	77,442	179,876	-	17,379	396,778

			Fixed maturity dates				
At 30 June 2013	**Average effective interest rate %**	**Variable interest rate $'000**	**Less than 1 year $'000**	**1-5 years $'000**	**5+ years $'000**	**Non interest bearing $'000**	**Total $'000**
Financial assets							
Cash and cash equivalents	3.0%	34,164	-	-	-	-	34,164
Short term deposits	2.8%	8,238	38,616	-	-	-	46,854
NCD's and bank bills	3.1%	-	47,796	-	-	-	47,796
Corporate securities	3.4%	38,660	3,129	187,116	-	6	228,911
Managed funds		-	-	-	-	16,329	16,329
		81,062	89,541	187,116	-	16,335	374,054

5. Financial risk management (continued)

(f) Fair value measurements

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

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

The following table represents the group's financial assets measured and recognised at fair value at 30 June 2014 and 30 June 2013:

At 30 June 2014	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets at fair value through profit or loss				
Interest bearing securities	332,274			332,274
Managed funds	17,379			17,379
	349,653	-	-	349,653

At 30 June 2013	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets at fair value through profit or loss				
Interest bearing securities	323,561			323,561
Managed funds	16,329			16,329
	339,890	-	-	339,890

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 1.

6. Revenue

	Consolidated		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Membership and practising certificate fees	17,584	16,109	17,584	16,109
Premium revenue *	59,379	83,034	-	-
Reinsurance and other recoveries	12,451	21,519	-	-
Legal training revenue	1,091	669	1,091	669
Member services revenue	2,454	2,447	2,454	2,447
Product sale revenue	1,063	1,050	1,063	1,050
Property rental revenue	336	252	336	252
Other revenue	2,127	2,372	1,997	2,255
	96,485	127,452	24,525	22,782

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

7. Investment revenue

	Consolidated		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Interest income	453	512	378	384
Fair value gains on financial assets at fair value through profit and loss	13,848	13,944	1,050	948
	14,301	14,456	1,428	1,332

8. Other income

Public Purpose Fund receipts				
Received under s.290 of the LPA	6,862	7,552	6,862	7,552
Received under s.292 of the LPA	450	511	450	511
	7,312	8,063	7,312	8,063
Legal Practitioners Fidelity Fund receipts				
Received under s.425 of the LPA	645	703	645	703
Law Week Trust receipts	81	107	81	107
	8,038	8,873	8,038	8,873

LPA refers to the *Legal Profession Act 2004*.

9. Expenses

Profit before income tax expenses includes the following specific expenses:

Employee benefits expense				
Wages and salaries	20,012	19,311	14,236	14,156
Defined contribution superannuation expense	1,586	1,505	1,127	1,137
Other employee benefits expense	1,112	834	734	523
Total employee benefits expense	22,710	21,650	16,097	15,816
Depreciation and amortisation expense				
Depreciation				
Buildings	491	491	491	491
Plant and equipment	442	383	275	312
Amortisation				
Software	939	688	434	370
Total depreciation and amortisation expense	1,872	1,562	1,200	1,173
Rental expense relating to operating leases				
Minimum lease payments	919	588	-	-
Total rental expense relating to operating leases	919	588	-	-

10. Income tax expense

	Consolidated		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Income tax expense				
Current tax	8,549	4,184	-	-
Deferred tax	(6,825)	(830)	-	-
Adjustments for current tax of prior periods	-	463	-	-
	1,724	3,817	-	-

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

	Consolidated		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Profit from operations before exceptional item and income tax expense	17,956	15,432	1,512	1,441
Less profit from tax-exempt operations	(12,218)	(4,258)	(1,512)	(1,441)
	5,738	11,174	-	-
Tax at the Australian tax rate of 30% (2013 - 30%)	1,721	3,352	-	-
Non-deductible expenses	3	2	-	-
Adjustments for current tax of prior periods	-	463	-	-
Income tax expense	1,724	3,817	-	-

The tax rate used for the 2014 and 2013 reconciliation above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian Law.

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

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

11. Current assets – Trade and other receivables

	Consolidated		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Trade receivables	1,261	252	226	338
Provision for impairment of receivables	-	-	-	-
	1,261	252	226	338
Goods and services tax recoverable	404	267	96	28
Other receivables				
Receivable from Legal Practitioners Fidelity Fund	396	66	396	66
Reinsurance recoveries receivable *	28,891	26,656	-	-
Other	10	16	10	16
	30,962	27,257	728	448

* Refer to note 15 for the non-current portions of these receivables, and note 27(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 2014 current trade receivables of the group with a nominal value of $Nil (2013 - $Nil) were impaired. There were no impaired trade receivables for the parent in 2014 or 2013.

(b) Past due but not impaired

As at 30 June 2014, trade receivables of $27,548 (2013 - $20,017) 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	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
1 to 3 months	28	20	28	20
3 to 6 months	-	-	-	-
Over 6 months	-	-	-	-
	28	20	28	20

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 – Inventories

	Consolidated		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Stock on hand at cost	27	14	27	14
	27	14	27	14

13. Current assets – Investments

Financial assets at fair value through profit or loss				
Deposits	2,228	46,854	-	-
NCD's and bank bills	45,781	47,796	-	-
Corporate and government securities	38,243	3,135	-	-
Managed funds	17,379	16,329	17,379	16,329
	103,631	114,114	17,379	16,329

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.

14. Current assets – Other assets

	Consolidated		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Prepayments	669	670	449	480
Security deposit	11	11	-	-
Other	17	15	17	15
	697	696	466	495

15. Non-current assets – Receivables

Reinsurance recoveries receivable *	43,197	62,319	-	-
	43,197	62,319	-	-

* Refer to note 11 for the current portions of these receivables, and note 27(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.

16. Non-current assets – Investments

	Consolidated		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Investments carried at cost				
Shares in subsidiaries *	-	-	6,000	6,000
	-	-	6,000	6,000
Financial assets at fair value through profit or loss				
Corporate and government securities **	246,022	225,776	-	-
	246,022	225,776	-	-
	246,022	225,776	6,000	6,000

* Refer to note 33 for further information relating the company’s investment in subsidiaries.

** Refer to note 13 for the current portions of these financial assets.

17. 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 2012			
Cost or fair value	26,700	2,444	29,144
Accumulated depreciation	-	(1,718)	(1,718)
Net book amount	26,700	726	27,426
Year ended 30 June 2013			
Opening net book amount	26,700	726	27,426
Additions	-	625	625
Depreciation	(491)	(383)	(874)
Closing net book amount	26,209	968	27,177
At 1 July 2013			
Cost or fair value	26,700	3,069	29,769
Accumulated depreciation	(491)	(2,101)	(2,592)
Net book amount	26,209	968	27,177
Year ended 30 June 2014			
Opening net book amount	26,209	968	27,177
Revaluation increment	878	-	878
Additions	182	1,709	1,891
Reclassification	222	(222)	-
Disposals	-	(61)	(61)
Depreciation	(491)	(442)	(933)
Closing net book amount	27,000	1,952	28,952
At 30 June 2014			
Cost or fair value	27,000	4,038	31,038
Accumulated depreciation	-	(2,086)	(2,086)
Net book amount	27,000	1,952	28,952

17. 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 2012			
Cost or fair value	26,700	1,722	28,422
Accumulated depreciation	-	(1,289)	(1,289)
Net book amount	26,700	433	27,133
Year ended 30 June 2013			
Opening net book amount	26,700	433	27,133
Additions	-	541	541
Depreciation	(491)	(312)	(803)
Closing net book amount	26,209	662	26,871
At 1 July 2013			
Cost or fair value	26,700	2,263	28,963
Accumulated depreciation	(491)	(1,601)	(2,092)
Net book amount	26,209	662	26,871
Year ended 30 June 2014			
Opening net book amount	26,209	662	26,871
Revaluation increment	878	-	878
Additions	182	206	388
Reclassification	222	(222)	-
Depreciation	(491)	(275)	(766)
Closing net book amount	27,000	371	27,371
At 30 June 2014			
Cost or fair value	27,000	1,790	28,790
Accumulated depreciation	-	(1,419)	(1,419)
Net book amount	27,000	371	27,371

(a) Valuations of land and buildings

An independent valuation of the company’s land and building has been performed by Colliers to determine the fair value. The valuation, which conformed to Australian Valuation Standards, was performed on the basis of capitalising the estimated net income at 7.0%. The effective date of the valuation was 30 June 2014.

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

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

	Consolidated		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Freehold land				
Cost	1,000	1,000	1,000	1,000
Net book amount	1,000	1,000	1,000	1,000
Buildings				
Cost	23,786	23,382	23,786	23,382
Accumulated depreciation	(5,769)	(5,293)	(5,769)	(5,293)
Net book amount	18,017	18,089	18,017	18,089

18. Deferred tax assets

	Consolidated		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
The balance comprises temporary differences attributable to:				
Policyholder rebate provision	6,900	-	-	-
Insurance provisions	2,259	2,072	-	-
Other items	442	406	-	-
Total deferred tax assets	9,601	2,478	-	-
Deferred tax assets expected to be recovered within 12 months	8,132	1,008	-	-
Deferred tax assets expected to be recovered after more than 12 months	1,469	1,470	-	-
	9,601	2,478	-	-

19. Non-current assets – Intangible assets

Consolidated	Software and systems $'000	Total $'000
At 1 July 2012		
Cost	2,931	2,931
Accumulated amortisation and impairment	(1,533)	(1,533)
Net book amount	1,398	1,398
Year ended 30 June 2013		
Opening net book amount	1,398	1,398
Additions	1,373	1,373
Amortisation charge *	(688)	(688)
Closing net book amount	2,083	2,083
At 1 July 2013		
Cost	4,305	4,305
Accumulated amortisation and impairment	(2,222)	(2,222)
Net book amount	2,083	2,083
Year ended 30 June 2014		
Opening net book amount	2,083	2,083
Additions	2,846	2,846
Amortisation charge *	(939)	(939)
Closing net book amount	3,990	3,990
At 30 June 2014		
Cost	6,922	6,922
Accumulated amortisation and impairment	(2,932)	(2,932)
Net book amount	3,990	3,990

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

Company	Software and systems $'000	Total $'000
At 1 July 2012		
Cost	2,166	2,166
Accumulated amortisation and impairment	(1,260)	(1,260)
Net book amount	906	906
Year ended 30 June 2013		
Opening net book amount	906	906
Additions	630	630
Amortisation charge *	(370)	(370)
Closing net book amount	1,166	1,166
At 1 July 2013		
Cost	2,797	2,797
Accumulated amortisation and impairment	(1,631)	(1,631)
Net book amount	1,166	1,166
Year ended 30 June 2014		
Opening net book amount	1,166	1,166
Additions	2,627	2,627
Amortisation charge *	(434)	(434)
Closing net book amount	3,359	3,359
At 30 June 2014		
Cost	5,195	5,195
Accumulated amortisation and impairment	(1,836)	(1,836)
Net book amount	3,359	3,359

* 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	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Trade payables	8,589	5,727	1,481	547
Other payables				
Payable to Legal Practitioners Fidelity Fund	182	86	182	86
Accrued expenses	2,506	3,530	422	497
Other taxes payable	186	176	18	16
	11,463	9,519	2,103	1,146

21. Current liabilities – Provisions

	Consolidated		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Employee benefits	2,841	2,531	2,170	1,891
Policyholder rebate	23,000	-	-	-
Lease incentive liability	199	-	-	-
Outstanding claims liability *	64,006	61,971	-	-
	90,046	64,502	2,170	1,891

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.

A policyholder rebate provision has been established at 30 June 2014 to pay eligible law practices a rebate on premiums paid. This rebate has arisen as a result of better than originally anticipated claim trends that emerged during the reporting year in respect of the current and prior claim years.

* Refer to note 27(d) for further information relating to the group's outstanding claims liability.

22. Current liabilities – Other liabilities

	Consolidated		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Deferred revenue				
Membership and practising certificate fees	17,459	16,071	17,459	16,071
Premiums received in advance	73,103	72,884	-	-
Claims handling revenue	70	14	-	-
Other	646	864	646	864
	91,278	89,833	18,105	16,935

23. Deferred tax liabilities

The balance comprises temporary differences attributable to:

	Consolidated 2014	Consolidated 2013	Company 2014	Company 2013
Financial assets at fair value through profit or loss	426	125	-	-
Other items	5	8	-	-
Total deferred tax liabilities	431	133	-	-
Deferred tax liabilities expected to be recovered within 12 months	431	133	-	-
Deferred tax liabilities expected to be recovered after more than 12 months	-	-	-	-
	431	133	-	-

24. Non-current liabilities – Provisions

	Consolidated		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Employee benefits - long service leave	583	532	494	466
Lease incentive liability	846	-	-	-
Outstanding claims liability *	109,736	143,491	-	-
	111,165	144,023	494	466

* Refer to note 27(d) for further information relating to the group's outstanding claims liability.

25. Non-current liabilities – Other liabilities

	Consolidated		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Deferred revenue				
Claims handling revenue	70	175	-	-
	70	175	-	-

26. Reserves and retained earnings

(a) Reserves

Asset revaluation	10,667	9,789	10,667	9,789
Special projects	7,024	7,024	7,024	7,024
	17,691	16,813	17,691	16,813
Movements:				
Asset revaluation reserve				
Balance 1 July	9,789	9,789	9,789	9,789
Revaluation	878	-	878	-
Balance 30 June	10,667	9,789	10,667	9,789
Special projects reserve				
Balance 1 July	7,024	7,024	7,024	7,024
Balance 30 June	7,024	7,024	7,024	7,024

(b) Retained earnings

Movements in retained earnings were as follows:

Balance 1 July	169,979	158,364	32,862	31,421
Net profit for the year	16,232	11,615	1,512	1,441
Balance 30 June	186,211	169,979	34,374	32,862

(c) Nature and purpose of reserves

(i) Asset revaluation reserve

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

(ii) Special projects reserve

At a meeting on 11 April 2001, the Council of The Law Society of New South Wales resolved that the balance of premium commission received from HIH Casualty & General Insurance Ltd (HIH) held in the Special Projects Reserve be so retained in case funds are needed to meet liabilities of the Solicitors' Mutual Indemnity Fund arising from the collapse of HIH.

27. Insurance disclosures

(a) Contribution to profit from insurance activities

	Consolidated		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Premium revenue	82,379	83,034	-	-
Policy rebate	(23,000)	-	-	-
Outwards reinsurance premium expense	(33,738)	(35,470)	-	-
Net premium revenue	25,641	47,564	-	-
Claims expense	(21,038)	(56,857)	-	-
Reinsurance and other recoveries revenue	12,451	21,519	-	-
Net claims incurred	(8,587)	(35,338)	-	-
Underwriting expenses	(1,709)	(1,320)	-	-
Underwriting result	15,345	10,906	-	-

(b) Net claims incurred from insurance activities

	Consolidated			Consolidated		
		2014			2013	
	Current year	Prior year	Total	Current year	Prior year	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Gross claims expense						
Undiscounted	64,793	(51,729)	13,064	83,699	(23,131)	60,568
Discount movement	(3,516)	11,490	7,974	(6,374)	2,663	(3,711)
	61,277	(40,239)	21,038	77,325	(20,468)	56,857
Reinsurance and other recoveries						
Undiscounted	(24,306)	16,569	(7,737)	(34,638)	11,538	(23,100)
Discount movement	1,325	(6,039)	(4,714)	3,258	(1,677)	1,581
	(22,981)	10,530	(12,451)	(31,380)	9,861	(21,519)
Net claims incurred	38,296	(29,709)	8,587	45,945	(10,607)	35,338

(c) Reinsurance recoveries receivable from insurance activities

	Consolidated		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Expected future reinsurance recoveries undiscounted				
on claims paid	2,587	2,095	-	-
on outstanding claims	72,959	95,053	-	-
	75,546	97,148	-	-
Discount to present value	(3,458)	(8,173)	-	-
Reinsurance recoveries receivable	72,088	88,975	-	-
Current	28,891	26,656	-	-
Non-current	43,197	62,319	-	-
	72,088	88,975	-	-

27. Insurance disclosures (continued)

(d) Outstanding claims liability

Outstanding claims liability

	Consolidated		Company	
	2014	**2013**	**2014**	**2013**
	$'000	**$'000**	**$'000**	**$'000**
Central estimate	141,407	181,109	-	-
Discount to present value	(6,930)	(13,827)	-	-
	134,477	167,282	-	-
Claims handling costs	10,758	10,461	-	-
	145,235	177,743	-	-
Risk margin	28,507	27,719	-	-
Gross outstanding claims liability	173,742	205,462	-	-
Current	64,006	61,971	-	-
Non-current	109,736	143,491	-	-
	173,742	205,462	-	-

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% (2013: 75%) probability of adequacy. If the probability of adequacy had remained at 75%, the $28.2 million risk margin would have been $18.4 million and the net profit after tax would have been $3.9 million higher, net of reinsurance recoveries.

	Consolidated	
	2014	**2013**
	%	**%**
Risk margins applied (LawCover Insurance)	18.4%	15.0%

Reconciliation of movement in discounted outstanding claims liability

	Consolidated		
	Gross	**Reinsurance**	**Net**
	$'000	**$'000**	**$'000**
Year ended 30 June 2014			
Brought forward	205,462	86,880	118,582
Incurred claims recognised in the income statement	21,038	7,686	13,352
Claims payments	(52,758)	(25,064)	(27,694)
Carried forward	173,742	69,502	104,240
Year ended 30 June 2013			
Brought forward	198,726	87,361	111,365
Incurred claims recognised in the income statement	56,857	21,412	35,445
Claim payments	(50,121)	(21,893)	(28,228)
Carried forward	205,462	86,880	118,582

27. Insurance disclosures (continued)

Claims development table

	Underwriting year						
	Prior	**2010**	**2011**	**2012**	**2013**	**2014**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Estimate of ultimate claims cost:							
at end of policy year		62,705	68,181	69,044	69,204	52,153	
one year later		64,931	60,452	64,738	52,542		
two years later		62,985	55,473	51,609			
three years later		59,447	54,815				
four years later		56,523					
Current estimate of cumulative claims cost		56,523	54,815	51,609	52,542	52,153	
Cumulative payments		(47,723)	(39,781)	(28,888)	(15,406)	(3,519)	
Central estimate	9,082	8,800	15,034	22,721	37,136	48,634	141,407
Discount to present value							(6,930)
Claims handling costs							10,758
Risk margin							28,507
Outstanding claims liability							173,742

(e) Capital adequacy – Lawcover Insurance Pty Ltd

The APRA Prudential Standard GPS 110 “Capital Adequacy for General Insurers” requires additional disclosures in the financial statements to improve policyholders and market understanding of an insurer’s capital adequacy position. Disclosed below is the capital base, minimum capital requirement and capital adequacy multiple as at 30 June 2014.

It should be noted that the retained profit as at 30 June 2014 of $84.2 million (2013: $74.1 million) disclosed below will not reconcile to the 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 $87.0 million (2013: $83.0 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 2014 in excess of the minimum required by APRA. The following table shows the capital adequacy calculated in accordance with the APRA prudential framework. The 2014 position reflects the June 2014 quarter APRA returns (unaudited).

	2014	**2013**
	$'000	**$'000**
LawCover Insurance Pty Ltd Tier 1 capital base		
Ordinary shares	6,000	6,000
Retained profit as at 30 June	84,186	74,078
LawCover Insurance Pty Ltd total capital base	90,186	80,078
Prudential capital requirement	36,259	34,406
Prescribed capital amount coverage	2.49	2.32

27. Insurance disclosures (continued)

(f) Capital management – Lawcover Insurance Pty Ltd

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

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

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

- The company is subject to APRA prescribed capital requirements. Management actively manages capital in order to achieve an internal benchmark capital adequacy range of 2.0 to 2.5 times. At 30 June 2014 the prescribed capital adequacy is 2.49.
- The company is subject to local prudential standards requiring that a minimum level of capital is maintained to meet obligations to policyholders. It is the company'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, the company has dedicated staff responsible for understanding the regulatory capital requirements for the company's 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.

28. Key management personnel disclosures

	Consolidated		Company	
	2014	2013	2014	2013
	$	$	$	$
Short-term employee benefits	3,502,355	3,410,248	1,368,905	1,298,049
Post-employment benefits	277,867	271,227	71,061	84,713
Termination benefits	246,773	142,634	-	-
	4,026,995	3,824,109	1,439,966	1,382,762

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. Each Presidency is for a calendar year whereas these accounts relate to the financial year ended 30 June 2013. The allowance provided to the Presidents during the financial period ended 30 June 2014 amounted to $365,280 (2013: $356,370).

Directors' remuneration

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

29. Remuneration of auditors

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

	Consolidated		Company	
	2014	2013	2014	2013
	$	$	$	$
PwC Australia				
Audit and review of financial statements	257,811	247,800	131,090	126,000
Other services				
Audit of regulatory returns	33,024	39,800	-	-
Tax compliance services	16,725	14,500	-	-
Other services	-	4,500	-	-
Total remuneration of PwC Australia	307,560	306,600	131,090	126,000

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.

30. Contingencies

As at 30 June 2014, and at the date of this report, there are no known contingent liabilities or contingent assets which are likely to affect the group's financial position. (2013 - $Nil)

31. Commitments

(a) Capital commitments

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

	Consolidated		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Property, plant and equipment	688	-	688	-
Intangible assets	1,812	2,302	1,812	2,302

(b) Lease commitments: group as lessee

Non-cancellable operating leases

The group leases offices under non-cancellable operating leases expiring within one to six years. These leases include $1,664,017 of bank guarantees that exist with Westpac Banking Corporation.

	Consolidated		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Within one year	692	641	-	-
Later than one year but not later than five years	2,886	162	-	-
Later than five years	193	-	-	-
	3,771	803	-	-

32. Related party transactions

(a) Transactions with Councillors

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

(b) Transactions with subsidiaries

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

(i) Lawcover Insurance Pty Ltd, a controlled entity, paid the Law Society of New South Wales $92,468 (2013: $123,923) for access to data used in the distribution of its insurance products.
(ii) Lawcover Insurance Pty Ltd, a controlled entity, paid The Law Society of New South Wales $119,466 (2013: $119,466) for management and administration services.
(iii) Lawcover Pty Ltd, a controlled entity, paid The Law Society of New South Wales $29,866 (2013: $29,866) 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 2014 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 (2013: $60,000)
(ii) Legal Practitioners Fidelity Fund $645,356 (2013: $702,613)

(d) Intercompany balances eliminated from balance sheet

As at 30 June 2014, the following intercompany balances between group entities were eliminated from the consolidated accounts:

(i) $77,956 payable to the Law Society of New South Wales by Lawcover Insurance Pty Ltd (2013: $107,625)
(ii) $481,516 payable to Lawcover Insurance Pty Ltd by Lawcover Pty Ltd (2013: $9,718)
(iii) $154,454 payable to the Solicitors’ Mutual Indemnity Fund by Lawcover Pty Ltd (2013: $ Nil)
(iv) $Nil payable to Lawcover Pty Ltd by the Solicitors’ Mutual Indemnity Fund (2013: $178,120).

33. Subsidiaries

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

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

(i) **Lawcover Pty Ltd**. Incorporated in New South Wales on 19 June 1987. Contributed equity of 2 ordinary shares fully paid.

(ii) **Lawcover Insurance Pty Ltd**. Incorporated in New South Wales on 17 January 2001 and commenced operations in April 2004. Contributed equity of 6,000,000 ordinary shares fully paid. The company was established to underwrite compulsory professional indemnity insurance for solicitors.

(iii) **Solicitors' Mutual Indemnity Fund**. The Solicitors' Mutual Indemnity Fund is set up under Division 3 of Part 3.3 of the *Legal Profession Act 2004* to provide indemnity cover to solicitors. The Law Society of New South Wales has no investment in the Fund and all assets of the Fund can only be used for the purposes of Division 3 of Part 3.3 of the *Legal Profession Act 2004*.

34. Members guarantee

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

35. Events occurring after the reporting period

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

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

	Consolidated		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Profit for the year	16,232	11,615	1,512	1,441
Depreciation and amortisation	1,872	1,562	1,200	1,173
Interest income received	(453)	(503)	(378)	(384)
Fair value gains on financial assets at fair value through profit or loss *	(13,848)	(13,944)	(1,050)	(948)
Change in operating assets and liabilities:				
Decrease (increase) in trade and other receivables	15,417	2,145	(280)	25
(Increase) decrease in inventories	(13)	2	(13)	2
(Increase) decrease in other assets	(1)	(294)	29	(336)
(increase) decrease in deferred tax assets	(7,123)	153	-	-
Increase in trade and other payables	1,944	2,078	957	19
(Decrease) increase in provisions	(7,314)	6,449	307	(305)
Increase (decrease) in other liabilities	1,340	(3,475)	1,170	1,297
Increase in current tax liability	4,748	903	-	-
Increase (decrease) in deferred tax liabilities	298	(519)	-	-
Net cash inflow from operating activities	13,099	6,172	3,454	1,984

* 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 2014 and of their performance for the financial year ended on that date, and

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

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

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

On behalf of the Council

Ros Everett

R Everett
Councillor

P Wright
Councillor

Sydney, 4 September 2014

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

Report on the financial report

We have audited the accompanying financial report of The Law Society of New South Wales (the company), which comprises the balance sheet as at 30 June 2014, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Councillors' declaration both for The Law Society of New South Wales and The Law Society of New South Wales Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Councillors' responsibility 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 is free from material misstatement, whether due to fraud or error. In Note 2(a), the Councillors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Councillors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of The Law Society of New South Wales is in accordance with the *Corporations Act 2001*, including:
  (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2014 and of their performance for the year ended on that date; and
  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 2(a).

PricewaterhouseCoopers

PricewaterhouseCoopers

JLGorton

J Gorton
Partner

Sydney
4 September 2014