FINANCES

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*All amounts are denoted in Australian currency.

QUEENSLAND LAW SOCIETY INCORPORATED

Statements of comprehensive income for the year ended 30 June 2017

		Consolidated		Parent Entity	
	NOTE	2017 Actual $'000	2016 Actual $'000	2017 Actual $'000	2016 Actual $'000
Revenue					
Fees and membership services	B1-1	16,056	15,643	16,069	15,643
Rent and administration revenue	B1-2	1,136	1,179	1,428	1,517
Grants and funding	B1-3	126	305	614	446
Insurance levies	B1-4	24,722	28,951	-	-
Investment income	B1-5	7,401	6,331	612	686
Realised gains/(losses) on investments	C6	1,088	719	-	-
Fair value gains/(losses) on investments	C6	2,742	(5,319)	-	-
Other income		219	156	209	156
Total revenue		**53,490**	**47,965**	**18,932**	**18,448**
Expenses					
Membership services and events	B2-1	3,135	2,954	3,135	2,954
Administration expenses	B2-2	8,025	7,482	5,093	4,856
Employee expenses		12,693	11,358	10,229	9,009
Depreciation and amortisation	C7	1,026	1,177	964	1,091
Insurance claims	B1-4	19,593	12,014	-	-
Unearned premium reserve	C10-1(b)	1,646	4,866	-	-
Reinsurance costs	B1-4	949	640	-	-
Stamp duty	B1-4	1,985	1,362	-	-
Brokerage fees		130	130	-	-
Total expenses		**49,182**	**41,984**	**19,421**	**17,910**
Operating surplus before income tax		**4,308**	**5,981**	**(489)**	**538**
Income tax expense	F1-1	376	1,295	-	-
Operating surplus after income tax		**3,932**	**4,685**	**(489)**	**538**
Other comprehensive income, net of tax					
Items that will not be reclassified subsequently to operating result					
Increase/(decrease) in asset revaluation surplus	C7-1	819	(2,275)	819	(2,275)
Total comprehensive income		**4,751**	**2,410**	**330**	**(1,737)**

The accompanying notes form part of these statements.

QUEENSLAND LAW SOCIETY INCORPORATED

Statements of financial position as at 30 June 2017

		Consolidated		Parent Entity	
		2017	2016	2017	2016
	NOTE	$'000	$'000	$'000	$'000
Current assets					
Cash and cash equivalents	C1	58,840	60,721	49,879	35,833
Receivables	C4	1,424	1,728	904	1,069
Income tax receivable	F1-2	1,603	-	-	-
Reinsurers share of unearned premiums	C10-1(b)	1,176	737	-	-
Insurance contract liabilities ceded	C10-1(a)	921	915	-	-
Total current assets		**63,964**	**64,101**	**50,783**	**36,902**
Non-current assets					
Investment in controlled entities	C5	-	-	19,000	19,000
Investments	C6	172,394	162,262	-	-
Property, plant and equipment	C7	21,104	20,968	20,967	20,917
Deferred tax assets	F1-3	3,048	2,707	-	-
Insurance contract liabilities ceded	C10-1(a)	1,427	2,692	-	-
Total non-current assets		**197,973**	**188,629**	**39,967**	**39,917**
TOTAL ASSETS		**261,937**	**252,730**	**90,750**	**76,819**
Current liabilities					
Payables	C8	37,874	39,568	35,936	22,444
Accrued employee benefits	C9	1,361	1,192	966	883
Unearned premium reserves	C10-1(b)	6,512	4,866	-	-
Income tax payable	F1 -2	-	3,810	-	-
Provision for outstanding claims	C10-1(a)	15,681	13,220	-	-
Total current liabilities		**61,428**	**62,656**	**36,902**	**23,327**
Non-current liabilities					
Accrued employee benefits	C9	176	204	156	130
Provision for outstanding claims	C10-1(a)	57,200	51,488	-	-
Total non-current liabilities		**57,376**	**51,692**	**156**	**130**
TOTAL LIABILITIES		**118,804**	**114,348**	**37,058**	**23,457**
NET ASSETS		**143,133**	**138,382**	**53,692**	**53,362**
EQUITY					
Accumulated surplus		128,248	124,316	38,807	39,296
Asset revaluation surplus		14,885	14,066	14,885	14,066
TOTAL EQUITY		**143,133**	**138,382**	**53,692**	**53,362**

The accompanying notes form part of these statements.

QUEENSLAND LAW SOCIETY INCORPORATED

Statements of changes in equity for the year ended 30 June 2017

Parent Entity

	NOTE	Asset Revaluation Surplus $'000	Accumulated Surplus $'000	TOTAL $'000
Balance as at 1 July 2015		**16,341**	**38,758**	**55,099**
Operating result				
Operating surplus after income tax		-	538	538
Other comprehensive income				
Increase/(decrease) in asset revaluation surplus	C7-6	(2,275)	-	(2,275)
Balance at 30 June 2016		**14,066**	**39,296**	**53,362**
Operating result				
Operating surplus after income tax		-	(489)	(489)
Other comprehensive income				
Increase/(decrease) in asset revaluation surplus	C7-6	819	-	819
Balance at 30 June 2017		**14,885**	**38,807**	**53,692**

Consolidated

	NOTE	Asset Revaluation Surplus $'000	Accumulated Surplus $'000	TOTAL $'000
Balance as at 1 July 2015		**16,341**	**119,631**	**135,972**
Operating result				
Operating surplus after income tax		-	4,685	4,685
Other comprehensive income				
Increase/(decrease) in asset revaluation surplus	C7-6	(2,275)	-	(2,275)
Balance at 30 June 2016		**14,066**	**124,316**	**138,382**
Operating result				
Operating surplus after income tax		-	3,932	3,932
Other comprehensive income				
Increase/(decrease) in asset revaluation surplus	C7-6	819	-	819
Balance at 30 June 2017		**14,885**	**128,248**	**143,133**

The accompanying notes form part of these statements.

QUEENSLAND LAW SOCIETY INCORPORATED

Statements of cash flows for the year ended 30 June 2017

		Consolidated		Parent Entity	
		2017	2016	2017	2016
	NOTE	$'000	$'000	$'000	$'000
Cash flows from operating activities					
Receipts from the profession		42,535	44,571	18,413	19,140
Receipts from commissions and funding		52	434	540	434
Payments to suppliers and employees		(27,327)	(23,539)	(17,206)	(18,091)
Receipts collected for Society entities		-	-	22,199	27,017
Payments to Society entities		-	-	(9,125)	(44,499)
Receipts collected for Legal Practitioners' Fidelity Guarantee Fund		892	1,110	892	1,110
Payments to Legal Practitioners' Fidelity Guarantee Fund		(424)	(2,588)	(424)	(2,588)
Reinsurance payments		(949)	(639)	-	-
Claims and claims related payments		(10,288)	(19,413)	-	-
Interest received		848	1,115	545	665
GST receipts		1,357	1,400	697	697
GST paid to ATO		(2,290)	(3,627)	(2,290)	(3,628)
Income tax paid	F1-2	(6,130)	(3,094)	-	-
Net cash (used in)/generated from operating activities	**C1**	**(1,724)**	**(4,270)**	**14,241**	**(19,743)**
Cash flows from investing activities					
Purchase of investments	C6	(26,305)	(5,405)	-	-
Proceeds from investment redemptions	C6	26,295	4,455	-	-
Cash distributions received		196	-	-	-
Payments for property, plant and equipment	C7	(343)	(447)	(195)	(435)
Net cash used in investing activities		(157)	(1,397)	(195)	(435)
Net (decrease) increase in cash and cash equivalents held		**(1,881)**	**(5,667)**	**14,046**	**(20,178)**
Cash and cash equivalents at the beginning of the year		**60,721**	**66,388**	**35,833**	**56,011**
Cash and cash equivalents at the end of the year	**C1**	**58,840**	**60,721**	**49,879**	**35,833**

The accompanying notes form part of these statements.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

A1 BASIS OF FINANCIAL STATEMENT PREPARATION

A1-1 GENERAL INFORMATION

The Queensland Law Society Incorporated (the Society) is the professional association for solicitors in Queensland constituted under the *Legal Profession Act 2007* (Qld) (the Act). While the Society is defined as a statutory body under the *Financial Accountability Act 2009*, it remains an independent professional body, subject to the governance of its elected Council.

A1-2 COMPLIANCE WITH PRESCRIBED REQUIREMENTS

The Group has prepared these financial statements in compliance with section 43 of the *Financial and Performance Management Standard 2009*. The financial statements comply with the Queensland Treasury's minimum Financial Reporting Requirements for reporting periods beginning on or after 1 July 2016.

The Society is a not-for-profit entity and these general purpose financial statements are prepared on an accrual basis (except for the Statement of Cash Flow which is prepared on a cash basis) in accordance with Australian Accounting Standards and interpretations applicable to not-for-profit entities.

New accounting standards early adopted and/or applied for the first time in these financial statements are outlined in Note E3.

A1-3 PRESENTATION

Currency and rounding

Amounts included in the financial statements are in Australian dollars and rounded to the nearest $1,000 or, where that amount is $500 or less, to zero, unless disclosure of the full amount is specifically required.

Foreign currency transactions are translated to Australian currency at the rate of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at reporting date are translated at the rates of exchange ruling on that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

Comparatives

Comparative information reflects the audited 2015-16 financial statements. Certain comparative amounts in the statement of comprehensive income have been reclassified to conform with the current year's presentation.

Current/non-current classification

Assets and liabilities are classified as either 'current' or 'non-current' in the Statement of Financial Position and associated notes.

Assets are classified as 'current' where their carrying amount is expected to be realised within twelve (12) months after the reporting date. Liabilities are classified as 'current' when they are due to be settled within twelve (12) months after the reporting date, or the Group does not have an unconditional right to defer settlement to beyond twelve (12) months after the reporting date.

All other assets and liabilities are classified as 'non-current'.

A1-4 AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements are authorised for issue by the Council of the Queensland Law Society Incorporated at the date of signing the management certificate.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

A1 BASIS OF FINANCIAL STATEMENT PREPARATION (continued)

A1-5 BASIS OF MEASUREMENT

Historical cost is used as the measurement basis in this financial report except for the following:

- Strata building which is measured at fair value; and
- Investments which are measured at fair value.

Historical cost

Under historical cost, assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire assets at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation or at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions (ie an exit price) regardless of whether that price is directly derived from observable inputs or estimated using another valuation technique.

Observable inputs are publicly available data that are relevant to the characteristics of the assets/liabilities being valued. Observable inputs used by the Society include, but are not limited to, published sales data for land and general office buildings.

Unobservable inputs are data, assumptions and judgements that are not available publicly, but are relevant to the characteristics of the assets/liabilities being valued. Significant unobservable inputs used by the Society include, but are not limited to, subjective adjustments made to observable data to take account of the characteristics of the Society's assets/liabilities and assessments of physical condition and remaining useful life. Unobservable inputs are used to the extent that sufficient relevant and reliable observable inputs are not available for similar assets/liabilities.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use.

All assets and liabilities of the Society for which fair value is measured or disclosed in the financial statements are categorised within the following fair value hierarchy, based on the data and assumptions used in the most recent specific appraisals:

- level 1 – represents fair market value measurements that reflect unadjusted quoted market prices in active markets for identical assets and liabilities;
- level 2 – represents fair value measurements that are substantially derived from inputs (other than quoted prices included within level 1) that are observable, either directly or indirectly; and
- level 3 – represents fair value measurements that are substantially derived from unobservable inputs.

The portfolio of financial instruments held consists of collective investment schemes. The fair value of the financial instruments is determined using net asset value of the collective investment schemes.

The carrying value less impairment provision of current trade receivables and payables approximate to their fair value. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

There were no transfers of assets between fair value hierarchy levels during the period.

More specific fair value information about the Society's investments, and property plant and equipment, are outlined in Notes C6 and C7, respectively.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

A1 BASIS OF FINANCIAL STATEMENT PREPARATION (continued)

A1-6 THE REPORTING ENTITY

The consolidated financial statements include all income, expenses, assets, liabilities and equity of the Society ("Parent Entity") and also comprises the entities it controls where these entities are material (refer to Note A3). The controlled entities are Law Claims Levy Fund (LCLF) and Lexon Insurance Pte Ltd (Lexon) and when combined are referred to as "the Group". All transactions and balances internal to the Parent Entity have been eliminated in full.

The Parent Entity financial statements include all income, expenses, assets, liabilities and equity of the Society only.

A2 THE SOCIETY'S OBJECTIVES

The Society is responsible for specific statutory responsibilities under the *Legal Profession Act 2007* (Qld) which includes the issue of practising certificates, maintenance of solicitors' records, and regulating the operation of solicitors' trust account records. The Society also provides membership services and events, continuing professional education, advisory support to members and the general public, and administers funds under the control of the Group, which extends to providing general insurance and services as licensed under the *Singapore Insurance Act*.

Major sources of income for the Group include annual fees for practicing certificates and membership, continuing professional education to the legal profession, investment income, and insurance premiums.

A3 CONTROLLED ENTITIES

The Society wholly controlled the following entities at the reporting date:

Law Claims Levy Fund (LCLF): LCLF is responsible for the management of professional indemnity claims of practitioners for the years 1987 to 1995, and the administration of insurance matters (jointly with Lexon Insurance Pte Ltd) in accordance with the Queensland Law Society Indemnity Rule 2005. LCLF was wholly controlled for the whole year.

Lexon Insurance Pte Ltd (Lexon): This Company was established on 23 June 2001 in Singapore and is 100% owned by the Society. The principal activity of the Company is that of a captive insurer providing professional indemnity insurance to members of the Queensland Legal Profession via a Master Policy with the Queensland Law Society. Lexon was wholly controlled for the whole year.

Details of directly controlled entities are outlined below:

2016-17

Name of Entity	Controlling Interest %	Total Assets $m	Total Liabilities $m	Total Revenue $m	Operating Results $m
Law Claims Levy Fund	100%	76	21	28	3.1
Lexon Insurance Pte Ltd	100%	154.5	100.4	29.8	1.2

2015-16

Name of Entity	Controlling Interest %	Total Assets $m	Total Liabilities $m	Total Revenue $m	Operating Results $m
Law Claims Levy Fund	100%	75.0	23.8	29.2	0.6
Lexon Insurance Pte Ltd	100%	149.9	97.1	22.2	3.5

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

A3 CONTROLLED ENTITIES (continued)

Principles of consolidation

The financial statements of controlled entities are included in the consolidated financial statements from the date control commences to the date control ceases. In the process of reporting the Society as a single economic entity, unrealised gains and losses, inter-entity balances resulting from transactions with or between controlled entities are eliminated on consolidation where material. The accounting policies have been consistently applied by each entity in the consolidated entity.

B1 REVENUE

B1-1 FEES AND MEMBERSHIP SERVICES

Memberships and practitioner fees are recognised as revenue within the membership period. Prepayment of fees is recognised as income in advance.

Membership services and events income is recognised as revenue when the service or event occurs. Prepayment of services and events is recognised as income in advance.

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Membership and practitioner fees				
Practising certificate fees	6,580	6,210	6,586	6,210
Member fees	4,998	4,720	5,003	4,720
Limitation of liability scheme	630	615	630	615
Specialist accreditation fee	273	322	273	322
Certificate of fitness	65	26	65	26
Late application levy	76	73	76	73
	12,622	**11,966**	**12,633**	**11,966**
Membership services and events				
Courses, conferences and events	2,252	2,371	2,254	2,371
Publications, DVDs and membership products	526	503	526	503
Proctor advertising and subscription	340	347	340	347
Marketing and sponsorship	316	456	316	456
	3,434	**3,677**	**3,436**	**3,677**
	16,056	**15,643**	**16,069**	**15,643**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

B1 REVENUE (continued)

B1-2 RENT AND ADMINSTRATION REVENUE

Rental revenue is recognised as income on a periodic straight line basis over the lease term.

Under the rules of the Act, certain operating expenses of the Society are recoverable from the Legal Practitioners' Fidelity Guarantee Fund (LPFGF) and the Legal Practitioners Admissions Board (LPAB). The gross amounts recovered are disclosed as income. Expenses incurred on behalf of the Legal Practitioners' Fidelity Guarantee Fund and Legal Practitioners Admissions Board form part of the administration expenses incurred by the Society.

	Consolidated		Parent	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Rent	273	502	283	502
Body corporate administration fee	15	15	15	15
Management fee and recovery expenditure				
Lexon Insurance Pte Ltd	-	-	253	308
Law Claims Levy Fund	-	-	29	30
Legal Practitioners Fidelity Guarantee Fund	130	157	130	157
Legal Practitioners Admissions Board	718	505	718	505
	1,136	**1,179**	**1,428**	**1,517**

B1-3 GRANTS AND FUNDING

Grants, donations and gifts are non-reciprocal in nature and are recognised as revenue in the year in which the Society obtains control over them.

	Consolidated		Parent	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Dept of Justice and Attorney-General (DJAG) grants	-	226	-	226
Queensland Law Foundation (QLF)	126	79	126	79
Law Claims Levy Fund (LCLF)	-	-	488	141
	126	**305**	**614**	**446**

Non-reciprocal grant from Department of Justice and Attorney-General (DJAG) ceased from September 2015.

Queensland Law Foundation (QLF) provided non-reciprocal funding. Terms of the funding are $83k to be used towards webinars and a series of regional professional development events, and $105k towards provision of Law Care services for all members. At 30 June 2017, $63k funding remains unspent. Consequently, no liability has been recognised for any unspent funding to be returned to QLF at the reporting date.

Law Claims Levy Fund (LCLF) is reimbursing costs incurred by the Society for execution of the Risk Project. This includes consultants to produce disaster guide and practice support resources for the outreach program and other direct development costs for the design of the outreach and referral programs.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

B1 REVENUE (continued)

B1-4 INSURANCE LEVIES

Insurance levies income is recognised as revenue at the commencement of the risk period covered by the policy and accrued proportionally over the period of coverage.

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Insurance levies	24,722	28,951	-	-
Unearned premium reserve (Note C10-1(b))	(6,512)	(4,866)	-	-
Reinsurance costs	(949)	(640)	-	-
Net premium revenue	17,261	23,445	-	-
Claims expense	(21,601)	(13,101)	-	-
Reinsurance and other recoveries	2,008	1,087	-	-
Net claims incurred (Note C10-1(a))	(19,593)	(12,014)	-	-
Stamp duty	(1,985)	(1,362)	-	-
Underwriting expenses	(5,647)	(5,384)	-	-
Underwriting result	**(9,964)**	**4,685**	**-**	**-**

B1-5 INVESTMENT INCOME

Distribution from investments income is recognised when declared by fund managers. Interest income is accrued on a time-proportion basis using the effective interest method.

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Distributions from investments	6,488	5,207	-	-
Interest income	913	1,124	612	686
	7,401	**6,331**	**612**	**686**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

B2 EXPENSES

B2-1 MEMBERSHIP SERVICES AND EVENTS EXPENDITURE

	Consolidated		Parent	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Direct membership services and events expenditure				
Courses, conferences and events	1,287	1,245	1,287	1,245
Publications, DVDs and membership products	515	428	515	428
Proctor advertising and subscription	296	278	296	278
Law Council capitation fees	1,037	1,003	1,037	1,003
	3,135	**2,954**	**3,135**	**2,954**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

B2 EXPENSES (continued)

B2-2 ADMINISTRATION EXPENSES

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Administration Expenses				
Office administration and insurance	1,020	1,004	775	733
Actuarial fees	146	139	-	-
Audit fees* #	189	178	89	82
Bad debts	11	(84)	(10)	10
Body corporate, electricity, rates and taxes	490	529	474	519
Captive managers fee	93	90	-	-
Catering, functions and entertainment	81	116	74	89
Regulatory audits and investigations	34	50	34	49
Directors fees	360	350	-	-
Bank fees and finance costs	174	62	148	131
Information technology and related costs	1,163	607	886	425
Investment management fees	319	210	-	-
Office rent	150	212	-	-
Presents, donations and gifts	52	96	50	91
Professional and consulting fees	1,428	1,816	704	1,027
Repairs and maintenance	277	264	274	259
Staff costs	803	789	651	610
Travel and vehicle costs	451	362	160	139
Liability capping scheme	267	227	267	227
	7,508	**7,017**	**4,576**	**4,391**
Council and committee costs				
Honorarium	382	382	382	382
Travel and accommodation	103	49	103	49
Catering and functions	32	34	32	34
	517	**465**	**517**	**465**
	8,025	**7,482**	**5,093**	**4,856**

* Total audit fees paid to Queensland Audit Office for both the Society and its controlled entity relating to the 2016-17 financial year are estimated to be $95,300 (2016: $92,900). There are no non-audit services included in this amount.

PricewaterhouseCoopers Singapore performs audit and taxation services for Lexon while PricewaterhouseCoopers Brisbane provides taxation services to the Group. Audit fees payable to PWC Singapore are estimated to be $81,167 (2016: $77,782).

Taxation fees are disclosed in the professional and consulting fee line above and amount to $53,758 (2016: $51,889).

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

C1 CASH AND CASH EQUIVALENTS

For the purposes of the Statements of Financial Position and Statements of Cash Flows, cash assets include all cash and cheques receipted but not banked at 30 June as well as deposits on call with financial institutions. The cash deposit account is an interest bearing account which is readily convertible to cash on hand at the Group's option.

Cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Cash at bank	3,113	5,230	2,656	1,723
Cash deposit accounts	52,727	50,491	47,223	29,110
Term deposits	3,000	5,000	-	5,000
Total cash and cash equivalents	**58,840**	**60,721**	**49,879**	**35,833**

Reconciliation of operating surplus to net cash provided by operating activities

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Operating surplus after income tax	**3,932**	**4,685**	**(489)**	**538**
Adjustments for:				
Investment income	(10,318)	(774)	-	-
Add/(less) non-cash items:				
Depreciation and amortisation	1,026	1,177	964	1,091
Change in assets and liabilities:				
(Increase)/decrease in assets				
Receivables	304	532	165	21
(Increase)/decrease in liabilities:				
Payables	(1,694)	(5,980)	13,492	(21,194)
Accrued employee benefits	141	(156)	109	(199)
Provision for outstanding claims	10,639	(1,955)	-	-
Tax related balances	(5,754)	(1,799)	-	-
Net cash generated from operating activities	**(1,724)**	**(4,270)**	**14,241**	**(19,743)**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

C2 INSURANCE AND REINSURANCE CONTRACTS

Insurance contracts

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts.

Reinsurance contracts

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group where significant insurance risk is transferred are classified as reinsurance contracts.

The benefits to which the Group is entitled under its reinsurance contracts are recognised as reinsurer's share of insurance liabilities. These assets consist of short-term balances due from reinsurers as well as longer term receivables that are dependent on the expected recovery. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as expenses when due.

The Group assesses its reinsurance assets for impairment at each reporting date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due and that the event has a reliably measureable impact on the amount that the Group will receive from the reinsurer.

The Group ceded reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

C3 FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the Statements of Financial Position when the Group becomes party to the contractual provisions of the financial instrument.

Financial instruments are classified and measured as follows:

- Receivables – held at amortised cost
- Payables – held at amortised cost
- Investments – held at fair value through profit or loss
- Investment in controlled entities – held at cost
- Cash and cash equivalent – held at fair value through profit or loss

The Group does not enter into transactions for speculative purposes, nor for hedging.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

C4 RECEIVABLES

Trade debtors are recognised at the amounts due at the time of sale or service delivery ie the agreed purchase/contract price. Settlement of these amounts is generally required within 30 days from invoice date. The collectability of receivables is assessed periodically with allowance being made for impairment. All known bad debts were written-off as at year end. Increases in the allowance for impairment are based on loss events.

Other debtors generally arise from transactions outside the usual operating activities of the Group and are recognised at their assessed values. Terms are a maximum of three months, no interest is charged and no security is obtained.

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Accounts receivables	535	609	354	430
Reinsurance recoverable	228	350	-	-
Less: provision for doubtful debts	(149)	(137)	(69)	(78)
	614	822	285	352
Prepaid expenses and other receivables	810	906	619	717
	1,424	**1,728**	**904**	**1,069**

C5 INVESTMENT IN CONTROLLED ENTITIES

In June 2001, Lexon was incorporated in Singapore as the captive insurer of the Society. The company was capitalised with $9,000,000 via surplus funds from the Society controlled Law Claims Levy Fund. A further $10,000,000 was issued in May 2009. The $19,000,000 share capital of the company is fully owned by the Society and the company is a controlled entity of the Society. Share capital is eliminated on consolidation.

C6 INVESTMENTS

Investments held at fair value through profit or loss at inception are those that are managed and their performances are evaluated on a fair value basis, in accordance with a documented Group investment strategy. Assets in this category are presented as current assets if they are either held for trading or are expected to be realised within 12 months after the reporting date.

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Investment in listed funds				
Opening balance	162,262	159,312	-	-
Additions	26,305	5,406	-	-
Additions via reinvestment	6,292	5,400	-	-
Disposals proceeds	(26,295)	(3,256)	-	-
Gain/(loss) on disposal	1,088	719	-	-
Fair value movements	2,742	(5,319)	-	-
Closing balance	**172,394**	**162,262**	**-**	**-**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

C7 PROPERTY, PLANT AND EQUIPMENT

C7-1 CONSOLIDATED

	Strata Title Building	Leasehold Improvements	Plant and Equipment	Computer Equipment	Software	Total
	$'000	$'000	$'000	$'000	$'000	$'000
2017						
Cost or valuation						
At the beginning of the year	16,800	1,452	4,496	594	1,638	24,980
Additions	-	-	-	260	83	343
Revaluations	840	-	-	-	-	840
At the end of the year	**17,640**	**1,452**	**4,496**	**854**	**1,721**	**26,163**
Depreciation						
At the beginning of the year	-	(212)	(2,484)	(406)	(910)	(4,012)
Charge for the year	(420)	(44)	(292)	(99)	(171)	(1,026)
Revaluations	(21)	-	-	-	-	(21)
At the end of the year	**(441)**	**(256)**	**(2,776)**	**(505)**	**(1,081)**	**(5,059)**
Net book value at 30 June 2017	**17,199**	**1,196**	**1,720**	**349**	**640**	**21,104**
2016						
Cost or valuation						
At the beginning of the year	20,870	1,384	4,313	399	1,638	28,604
Additions	-	68	183	195	-	446
Disposals	-	-	-	-	-	-
Revaluations	(4,070)	-	-	-	-	(4,070)
At the end of the year	**16,800**	**1,452**	**4,496**	**594**	**1,638**	**24,980**
Depreciation						
At the beginning of the year	(1,192)	(177)	(2,194)	(371)	(697)	(4,631)
Charge for the year	(604)	(35)	(290)	(35)	(213)	(1,177)
Revaluations	1,796	-	-	-	-	1,796
At the end of the year	**-**	**(212)**	**(2,484)**	**(406)**	**(910)**	**(4,012)**
Net book value at 30 June 2016	**16,800**	**1,240**	**2,012**	**188**	**728**	**20,968**
Property plant and equipment is stated as follows:						
30 June 2017						
At valuation	17,640	-	-	-	-	17,640
At cost	-	1,452	4,496	854	1,721	8,523
	17.640	**1,452**	**4,496**	**854**	**1,721**	**26,163**
Depreciation	(441)	(256)	(2,776)	(505)	(1,081)	(5,059)
	17,199	**1,196**	**1,720**	**349**	**640**	**21,104**
30 June 2016						
At valuation	16,800	-	-	-	-	16,800
At cost	-	1,452	4,496	594	1,638	8,180
	16,800	**1,452**	**4,496**	**594**	**1,638**	**24,980**
Depreciation	-	(212)	(2,484)	(406)	(910)	(4,012)
	16,800	**1,240**	**2,012**	**188**	**728**	**20,968**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

C7 PROPERTY, PLANT AND EQUIPMENT (continued)

C7-2 PARENT ENTITY

	Strata Title Building	Leasehold Improvements	Plant and Equipment	Computer Equipment	Software	Total
	$'000	$'000	$'000	$'000	$'000	$'000
2017						
Cost or valuation						
At the beginning of the year	16,800	1,452	4,319	465	1,238	24,274
Additions	-	-	-	193	2	195
Revaluations	840	-	-	-	-	840
At the end of the year	**17,640**	**1,452**	**4,319**	**658**	**1,240**	**25,309**
Depreciation						
At the beginning of the year	-	(211)	(2,310)	(260)	(576)	(3,357)
Charge for the year	(420)	(44)	(286)	(89)	(125)	(964)
Revaluations	(21)	-	-	-	-	(21)
At the end of the year	**(441)**	**(255)**	**(2,596)**	**(349)**	**(701)**	**(4,342)**
Net book value at 30 June 2017	**17,199**	**1,197**	**1,723**	**309**	**539**	**20,967**
2016						
Cost or valuation						
At the beginning of the year	20,871	1,384	4,135	282	1,238	27,910
Additions	-	68	184	183	-	435
Disposals	-	-	-	-	-	-
Revaluations	(4,071)	-	-	-	-	(4,071)
At the end of the year	**16,800**	**1,452**	**4,319**	**465**	**1,238**	**24,274**
Depreciation						
At the beginning of the year	(1,192)	(177)	(2,030)	(228)	(435)	(4,062)
Charge for the year	(604)	(34)	(280)	(32)	(141)	(1,091)
Revaluations	1,796	-	-	-	-	1,796
At the end of the year	**-**	**(211)**	**(2,310)**	**(260)**	**(576)**	**(3,357)**
Net book value at 30 June 2016	**16,800**	**1,241**	**2,009**	**205**	**662**	**20,917**
Property plant and equipment is stated as follows:						
30 June 2017						
At valuation	17,640	-	-	-	-	17,640
At cost	-	1,452	4,319	658	1240	7,669
	17,640	**1,452**	**4,319**	**658**	**1240**	**25,309**
Depreciation	(441)	(255)	(2,596)	(349)	(701)	(4,342)
	17,199	**1,197**	**1,723**	**309**	**539**	**20,967**
30 June 2016						
At valuation	16,800	-	-	-	-	16,800
At cost	-	1,452	4,319	465	1,238	7,474
	16,800	**1,452**	**4,319**	**465**	**1,238**	**24,274**
Depreciation	-	(211)	(2,310)	(260)	(576)	(3,357)
	16,800	**1,241**	**2,009**	**205**	**662**	**20,917**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

C7 PROPERTY, PLANT AND EQUIPMENT (continued)

C7-3 ACQUISITION OF ASSETS

All assets acquired are recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. Plant and equipment acquired are expensed unless the initial cost exceeds $5,000. Buildings and additions are recognised upon acquisition if the initial cost exceeds $10,000.

C7-4 DEPRECIATION AND AMORTISATION

All assets including strata title building have limited useful lives and are depreciated using the straight line method over their estimated useful lives.

Assets are depreciated from the date of acquisition. Any expenditure that increases the originally assessed capacity or service potential of an asset is capitalised and the new depreciable amount depreciated over the remaining useful life of the asset. Depreciation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods.

The depreciable amount of leasehold improvements is allocated progressively over the estimated useful lives of the improvements or the unexpired period of the lease, whichever is the shorter. The unexpired period of a lease includes any option period where exercise of the option is probable.

The depreciation and amortisation rates used for each class of asset are as follows:

	2017	2016
Asset Class		
Strata Title Building	2.5%	2.5%
Leasehold Improvements	2.5%	2.5%
Plant and Equipment	10% - 33%	10% - 33%
Computer Equipment	25% - 33%	25% - 33%
Software	20% - 33%	20% - 33%

C7-5 IMPAIRMENT OF PLANT AND EQUIPMENT

Plant and equipment are reviewed for impairment whenever there is any objective evidence or indication that these assets may be impaired.

If the recoverable amount of the asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the assets' recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the assets in prior years. A reversal of impairment loss for an asset is recognised in profit or loss.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

C7 PROPERTY, PLANT AND EQUIPMENT (continued)

C7-6 REVALUATIONS

The strata title building is measured at fair value in accordance with AASB 116 *Property, Plant and Equipment* and AASB 13 *Fair Value Measurement*. The building is reported at its revalued amount, being the fair value at the date of valuation, less any subsequent accumulated depreciation. The building is independently revalued every five years to ensure the carrying amount does not materially differ from the fair value at reporting date. An independent valuation of the strata title building was carried out as at 30 June 2015 by Mr S Fox AAPI, a member of the Institute of Valuers of Australia, and was on the basis of the open market value of Law Society House in vacant possession with all units combined.

In between independent valuations, the Society uses the Implicit Price Deflator for non-residential buildings indices to index the carrying amount of the building where there has been a material change in the index. Revaluation increments are recognised in the asset revaluation surplus except where amounts reversing a decrement previously recognised as an expense are recognised as revenues. Revaluation decrements are only offset against revaluation increments for the same class of assets and any excess is recognised as an expense. On this basis, the resulting revaluation for the current year is an increase of $819k (2016: decrease of $2,275k) is reflected as other comprehensive income in the Statement of Comprehensive Income.

Categorisation of fair values recognised as at 30 June 2017 are as follows:

		Consolidated		Parent Entity	
		2017 $'000	2016 $'000	2017 $'000	2016 $'000
Fair Value Input	**Type**				
Level 1	None	-	-	-	-
Level 2	Strata Title Building	17,619	16,800	17,619	16,800
Level 3	None	-	-	-	-
		17,619	**16,800**	**17,619**	**16,800**

C8 PAYABLES

Trade creditors are recognised on receipt of the goods or services and are carried at actual amounts, gross of applicable trade and other discounts. Amounts are unsecured and are generally settled on 30 day terms.

Income in advance relates primarily to receipts for insurance, membership fees and practising certificates received prior to year end during the renewal period for the upcoming year.

	Consolidated		Parent	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Income in advance	12,306	11,905	12,306	11,905
Unearned insurance levies	21,131	23,654	-	-
Creditors	357	1,091	178	622
Legal Practitioners' Fidelity Guarantee Fund	752	337	752	337
Law Claims Levy Fund	-	-	21,151	8,127
Reinsurance payable	1,176	737	-	-
Other payables and accruals	2,152	1,844	1,549	1,453
	37,874	**39,568**	**35,936**	**22,444**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

C9 ACCRUED EMPLOYEE BENEFITS

Annual leave and long service leave

The liabilities for long service leave and annual leave that are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in accrued employee benefits and measured as the present value of expected future cash outflows to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels and experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments are recognised in profit or loss.

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

	Consolidated		Parent	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Annual leave				
Annual leave – opening balance	562	620	451	504
Leave taken	(820)	(386)	(672)	(209)
Leave accrued	895	328	719	156
Annual leave – closing balance	**637**	**562**	**498**	**451**
Long service leave				
Long Service Leave – opening balance	835	934	562	708
Leave taken	(32)	(121)	(31)	(121)
Leave accrued	97	21	93	(25)
Long service leave – closing balance	**900**	**834**	**624**	**562**
Current long service leave	**724**	**630**	**468**	**432**
Non-current long service leave	**176**	**204**	**156**	**130**
	900	**834**	**624**	**562**
Number of employees at year end	138	138	123	125
Number of full time equivalent employees at year end	123	119	108	107

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Notes to the financial statements for the year ended 30 June 2017

C10 PROVISIONS

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

C10-1 INSURANCE LIABILITIES

Insurance liabilities comprise of provision for outstanding claims and unearned premium reserves.

(a) Provision for outstanding claims

Central estimate

Full provision is made for the estimated cost of all claims admitted or intimated but not settled at the balance sheet date, less reinsurance recoveries, using the best information available at that time.

In addition, provision is made for claims incurred but not reported (IBNR) at the date of the balance sheet. The central estimates are determined by reference to a variety of estimation techniques, generally based on statistical analysis of historical experience which assumes an underlying pattern of claims development and payments.

Central estimates are calculated gross of reinsurance with separate estimates made in relation reinsurance recoveries based on the gross central estimate.

The net central estimate is discounted at the risk free rate of return to reflect the time value of money.

Risk margin

Risk margins are determined by the Board and are held to mitigate the potential for uncertainty in the central estimate. The risk margin is determined by reference to industry analysis, historical experience and the judgment of experienced and qualified actuaries.

The probability of sufficiency is a statistical measure of the relative adequacy of the outstanding claims provision and is derived from a comparison of the risk margin with the net discounted central estimate. A 90% probability of sufficiency indicates that the outstanding claims provision is expected to be adequate 9 times out of 10. The Board aims to include risk margins such that the probability of sufficiency is in the range of 90%.

Discount rates

The outstanding claims provision is discounted for the time value of money using risk free rates that are based on current observable, objective rates that relate to the nature, structure and terms of the future obligations.

The relevant discount rate is applied to the anticipated cash flow profile of the central estimate, including related reinsurance recoveries, determined by reference to a combination of historical analysis and current expectations of when claims and recoveries will be settled.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

C10 PROVISIONS (continued)

C10-1 INSURANCE LIABILITIES (continued)

(a) Provision for outstanding claims (continued)

Outstanding claims

Outstanding claims reserves comprise outstanding claims, including provisions for claims incurred but not reported and reserves for case claims.

		Consolidated		Parent
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Opening provision for outstanding claims	64,708	75,584	-	-
Claims incurred	20,640	12,605	-	-
Claims paid during the year	(13,428)	(23,978)	-	-
Movement in claims handling provision	961	497	-	-
Closing provision for outstanding claims	72,881	64,708	-	-
Opening insurance contract liabilities ceded	(3,607)	(7,663)	-	-
Movement in reinsurance recoveries	(18)	481	-	-
Reinsurance receivables invoiced	1,277	3,575	-	-
Closing insurance contract liabilities ceded	(2,348)	(3,607)	-	-
Net outstanding claims	**70,533**	**61,101**	**-**	**-**
Law Claims Levy Fund	-	-	-	-
Lexon Insurance Pte Ltd	70,533	61,101	-	-
Net outstanding claims	**70,533**	**61,101**	**-**	**-**

		Consolidated		Parent
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Current insurance contract liabilities ceded	(921)	(915)	-	-
Non-current contract liabilities ceded	(1,427)	(2,692)	-	-
Insurance contract liabilities ceded	(2,348)	(3,607)	-	-
Current provision for outstanding claims	15,681	13,220	-	-
Non-current provision for outstanding claims	57,200	51,488	-	-
Provision for outstanding claims	72,881	64,708	-	-
Net outstanding claims	**70,533**	**61,101**	**-**	**-**

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Notes to the financial statements for the year ended 30 June 2017

C10 PROVISIONS (continued)

C10-1 INSURANCE LIABILITIES (continued)

(a) Provision for outstanding claims (continued)

Maturity analysis

2017	<1 year $'000	1 to 5 years $'000	>5 years $'000	Total $'000
Gross central estimate	15,681	30,742	3,470	49,893
Reinsurance recoveries	(921)	(1,470)	(2)	(2,393)
Net central estimate	14,760	29,272	3,468	47,500
Discount				(1,945)
Risk margins				19,412
Claims handling				5,566
Net claims outstanding				**70,533**

2016	<1 year $'000	1 to 5 years $'000	>5 years $'000	Total $'000
Gross central estimate	13,220	27,309	3,512	44,041
Reinsurance recoveries	(915)	(2,659)	(32)	(3,607)
Net central estimate	12,305	24,650	3,480	40,434
Risk margins				16,061
Claims handling				4,606
Net claims outstanding				**61,101**

Risk margin

The risk margin included in the net outstanding claims is 42.6% (2016: 39.7%) of the central estimate, with a probability of sufficiency of approximately 90% (2016: 90%).

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Notes to the financial statements for the year ended 30 June 2017

C10 PROVISIONS (continued)

C10-1 INSURANCE LIABILITIES (continued)

(a) Provision for outstanding claims (continued)

Claims incurred development

Current year claims relate to risks borne in the current reporting year. Prior year claims relate to a reassessment of the risks borne in all previous reporting years and include releases of risk margins as claims are paid.

	For the year ended 30 June 2017			For the year ended 30 June 2016		
	Current year	Prior years	Total	Current year	Prior years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Gross claims incurred						
Undiscounted	18,120	(2,487)	15,633	15,839	(5,379)	10,460
Discount	(898)	566	(332)	(677)	2,272	1,595
	17,222	1,921	15,301	15,162	(3,107)	12,055
Reinsurance recoveries						
Undiscounted	(24)	90	66	-	746	746
Discount	1	(86)	(85)	-	(265)	(265)
	(23)	4	19	-	481	481
Net claims						
Undiscounted	18,096	(2,397)	15,699	15,839	(4,632)	11,207
Discount	(897)	479	(418)	(677)	2,006	1,329
	17,199	(1,918)	15,281	15,162	(2,626)	12,536
Risk margins	6,473	(3,122)	3,351	5,890	(6,909)	(1,019)
Claims handling expenses	1,940	(979)	961	1,552	(1,055)	497
Net claims incurred (Note B1-4)	**25,612**	**(6,019)**	**19,593**	**22,604**	**(10,590)**	**12,014**

The Law Claims Levy Fund has stop loss insurance that capped the fund's liability at $5,000,000 for payments made after 1 July 2001.

Lexon and the Law Claims Levy Fund has assessed the provisions for outstanding claims based upon an independent actuarial assessment as at 30 June 2017 by Mr Andrew Cohen (FIAA) and Mr Collin Wang (FIAA) of Finity Consulting Pty Ltd. The key assumptions are detailed in Note D1.

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Notes to the financial statements for the year ended 30 June 2017

C10 PROVISIONS (continued)

C10-1 INSURANCE LIABILITIES (continued)

(b) Unearned Premiums Reserves

The portion of premiums that relates to unexpired risk at the reporting date is reported as the unearned premium liability. Unearned premiums are calculated based on the 1/365 method applied to the net premiums written for the financial year.

Where necessary, premium deficiency reserves calculated using actuarial methods on loss statistics are included in unearned premium reserves.

Unearned premium and premium reserves

	2017	2016
	$'000	$'000
Opening unearned premiums	23,654	28,019
Unearned movement during the year	(2,523)	(4,365)
Closing unearned premiums	**21,131**	**23,654**
Opening unearned premium reserves	4,866	-
Movement in unearned premium reserves	1,646	4,866
Closing unearned premium reserve	**6,512**	**4,866**
To be earned within 12 months	27,643	28,520
To be earned in greater than 12 months	-	-
Total unearned premiums	**27,643**	**28,520**

Premiums have been recognised in accordance with the attachment of risk. As such, the premiums relating to the next financial year are recorded as unearned.

Net premium liabilities

	2017	2016
	$'000	$'000
Unearned premium	21,131	23,654
Unearned premium reserves	6,512	4,866
Total unearned premium	27,643	28,520
Reinsurers' share of unearned premium reserves	(1,176)	(737)
Net unearned premiums	**26,467**	**27,783**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

C10 PROVISIONS (continued)

C10-1 INSURANCE LIABILITIES (continued)

(b) Unearned Premiums Reserves (continued)

Expected present value of future cash flows for future claims including risk margin

	2017 $'000	2016 $'000
Undiscounted central estimate	19,412	20,968
Discount to present value	(1,349)	(1,193)
Discounted central estimate	**18,063**	**19,775**
Reinsurance and other costs	3,652	2,438
Claims handling costs	1,824	1,780
Risk margin	4,104	4,527
Expected present value of future cash flows for future claims including risk margin	**27,643**	**28,520**
Unearned premiums	**21,131**	**23,654**
Deficiency	**6,512**	**4,866**

Liability adequacy test

At reporting date, a liability adequacy test was performed to ensure the adequacy of the contract liability. In performing this test, current estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from assets backing such liabilities, are used. Any deficiency is immediately charged to statement of comprehensive income by establishing a provision for losses arising from the liability adequacy test.

The probability of adequacy of the unearned premium reserves differs from the probability on the outstanding claims provision. The reason for the difference is that the former is a benchmark used only to test the sufficiency of the net unearned premium liability whereas the latter is a measure of the adequacy of the outstanding claims provision actually carried.

Accounting standards require the inclusion of a risk margin in insurance liabilities, but do not prescribe a minimum level of margin. Whilst there are established practices in the calculation of the probability of adequacy of the outstanding claims provision, no such guidance exists in relation to the level of risk margin to be used in determining the adequacy of net premium liabilities. The group has adopted a risk margin of 20% to produce a 75% level of sufficiency on a net basis. This is the minimum level recognised in Australia as an industry benchmark for liability adequacy tests, in accordance with the Australian Prudential Regulatory Authority (APRA).

The application of the liability adequacy test in respect of the net unearned premium liabilities identified a deficiency at 30 June 2017 (deficiency at 30 June 2016).

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

C10 PROVISIONS (continued)

C10-1 INSURANCE LIABILITIES (continued)

(b) Unearned Premiums Provision (continued)

Maturity analysis

2017	<1 year $'000	1 to 5 years $'000	>5 years $'000	Total $'000
Unearned premium reserve				
Unexpired risk reserve				
Gross central estimate	2,313	15,147	3,324	20,784
Unexpired risk reserves - reinsurance	(11)	(151)	(33)	(195)
Reinsurance recoveries	(1,176)	-	-	(1,176)
Net central estimate	**1,126**	**14,996**	**3,291**	**19,413**
Discount				(1,354)
Risk margins				4,104
Duty and other costs				2,480
Claims handling				1,824
Net unearned premium reserve				**26,467**

2016	<1 year $'000	1 to 5 years $'000	>5 years $'000	Total $'000
Unearned premium reserve				
Unexpired risk reserve				
Gross central estimate	2,192	16,068	3,445	21,705
Reinsurance recoveries	(737)	-	-	(737)
Net central estimate	**1,455**	**16,068**	**3,445**	**20,968**
Discount				(1,193)
Risk margins				4,527
Duty and other costs				1,701
Claims handling				1,780
Net unearned premium reserve				**27,783**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

D1 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events 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. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Certain critical accounting judgements in applying the Group's accounting policies are related to policyholder claims.

Actuarial methodology for estimate for policyholder claims

The Group's estimates for reported and unreported losses, establishing resulting provisions and related reinsurance recoverables are continually reviewed and updated, and adjustments resulting from this review are reflected in profit or loss. The process relies upon the use of external advisors (lawyers, actuaries and loss adjustors) and the assumption that past experience is an appropriate basis for predicting future events.

In estimating the outstanding claims liability, projected future claim payments are discounted to the calculation date for each claim year.

The projected future claims payment for each year are based on the claim estimates and an allowance for the development of claims (Incurred But Not Enough Reported – IBNER) especially for the recent claim years in respect of which limited claims information is not available and estimates are therefore the most subjective; and an allowance for additional claims, which were incurred but have not yet been reported (Incurred But Not Reported – IBNR).

The IBNER and IBNR estimate has been calculated using a combination of the Incurred Claims Development ("ICD") and Bornhuetter-Ferguson ("BF") methods.

Key assumptions

The following key valuation assumptions have been used to estimate future projected payments and outstanding claims liabilities:

- The ICD basis allows for the following development:

							Development Year
Development Factor	Yr2	Yr3	Yr4	Yr5	Yr6	Yr7	Yr8
Current Year	20.5%	18.1%	10.6%	7.0%	5.1%	3.5%	2.3%
Prior Year	21.2%	17.3%	8.8%	7.0%	5.1%	3.5%	2.3%

- The average cost per solicitor (used in the BF method) adopted is $3,400 (2016: $3,600).
- The Group has assumed reinsurance recoveries will be fully recoverable on a prompt basis.
- The Group has applied the zero-coupon yield for Commonwealth Government bonds to the expected future cashflows. This has resulted in a uniform discount rate of 1.99% (2016: 1.65%) per annum.
- The Group has assumed future inflation will be the same as past inflation, to the extent that it has been captured by the claims development data.
- The Group has included an allowance for claims handling expenses ("CHE") based on historical experience and projected expenses.
- While the Group has calculated a central estimate, a risk margin at a 90th percent probability of sufficiency has been applied and the Group has adopted reserves at this level to maintain a higher level of adequacy.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

D1 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Key assumptions (continued)

- While claim numbers are not directly used in determining estimates, they are a good lead indicator. Given the policy is based on claims made, there is an assumption of minimal development post the end of the year.

The following key valuation assumptions have been used to estimate the unexpired risk reserve:

- The average cost per solicitor adopted is $3,000 (2016: $3,400)
- The estimated growth in solicitor numbers is 3.5% (2016: 3.6%)

There have been no significant changes in the business underwritten by the Group or the way the insurance liabilities are estimated. Hence, no significant amendments have been made to the valuation methodology.

The assumptions have been determined by management and the actuarial team by taking into account: claim development experience, statistical analysis and market trends.

Sensitivity analysis of key estimates

While the gross ultimate costs are sensitive to valuation assumptions, the net results are less sensitive due to the aggregate limits that apply which reduce the net exposure. The gross undiscounted unused exposure for all years totals $81.0 million (2016: $68.7 million) before risk margins; and $60.8 million (2016: $52.0 million) after allowing risk margins to the 90th probability of sufficiency.

The impacts on the estimated total provision due to changes in assumptions are:

The group's results and balance sheet have been determined with a probability of sufficiency of 90%. As such, the sensitivity analysis shows the impact using this same measure before tax.

In relation to outstanding claim liabilities:

- Reserve under estimation: A 10% (2016: 10%) reserve under estimation results in an additional gross undiscounted reserve of $5.0 million (2016: $4.6 million) and net discounted reserve (after risk margins) of $7.0 million (2016: $6.1 million) or 9.9% (2016: 10.0%) of the discounted net central estimate plus risk margins.
- Reserve over estimation: If estimated reserves on all years improved by 10% (2016: 10%) then it would result in a decrease in gross undiscounted reserve of $5.0 million (2016: $4.6 million) and the total net provision (after risk margins) would decrease by $7.0 million (2016: $6.1 million) or 9.9% (2016: 10.0%) of the discounted net central estimate plus risk margins.
- Discount rate: A half a percentage point decrease in discount rate (from 1.99% (2016: 1.65%) to 1.49% (2016: 1.15%)) would increase our provision by $0.7 million (2016: $0.7 million) or 1.0% (2016: 1.1%) of the discounted net central estimate plus risk margins.
- Claims handling provision: A one percentage point increase in the claims handling rate applied would increase our provision by $0.6 million (2016: $0.5 million) or 0.8% (2016: 0.8%) of the discounted net central estimate plus risk margins.
- Cost per solicitor overestimation: A reduction in the cost per solicitor from $3,400 to $2.900 (2016: $3,600 to $3,100) reduces our provision by $2.0 million (2016: $1.8 million) or 2.8% (2016: 2.9%) of the discounted net central estimate plus risk margins.
- Cost per solicitor underestimation: An increase in the cost per solicitor from $3,400 to $3,900 (2016: $3,600 to $4,100) increases our provision by $2.0 million (2016: $1.8 million) or 2.8% (2016: 2.9%) of the discounted net central estimate plus risk margins.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

D1 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Sensitivity analysis of key estimates (continued)

In relation to unearned risk reserves:

- Solicitor number underestimation: A 10% (2016: 10%) under estimation results in an additional gross undiscounted reserve of $2.4 million (2016: $2.6 million) and net discounted reserve (after risk margins) of $2.4 million (2016: $2.6 million) or 9.45% (2016: 9.8%) of the discounted net unearned risk reserve estimate including risk margins.
- Solicitor number overestimation: A 10% (2016: 10%) over estimation results in a decrease in gross undiscounted reserve of $2.4 million (2016: $2.6 million) and net discounted reserve (after risk margins) of $2.4 million (2016: $2.6 million) or 9.5% of (2016: 9.8%) of the discounted net unearned risk reserve estimate including risk margins.
- Cost per solicitor under estimation: An increase in the cost per solicitor from A$3,000 to A$3,500 (2016: A$3,400 to A$3,900) increases our provision by A$4.0 million (2016: A$2.7 million) or 15.9% (2016: 10.1%) of the discounted net unearned premium reserve estimate including risk margins.
- Cost per solicitor over estimation: A reduction in the cost per solicitor from A$3,000 to A$2,500 (2016: A$3,400 to A$2,900) reduces our provision by A$4.0 million (2016: A$3.8 million) or 15.9% (2016: 14.3%) of the discounted net unearned premium reserve estimate including risk margins.

D2 MANAGEMENT OF INSURANCE AND FINANCIAL RISK

Lexon is a captive insurer and issues a single insurance contract to its holding corporation that transfers insurance risks of its holding corporation to itself. This section summarises these risks and the way the Group manages them.

D2-1 INSURANCE RISK

The risk any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

The primary insurance activity carried out by the Group assumes the risk of loss from persons that are directly subject to the risk – professional indemnity liability. Such risk may relate to liability that may arise from an insurable event. As such, the Group is exposed to the uncertainty surrounding the timing and severity of claims under the contract.

The Group manages its insurance risk through underwriting guidelines, centralised management of reinsurance and monitoring of emerging issues.

(a) Underwriting strategy

The Group is unable to provide a diversified portfolio of similar risks due to its licensing arrangement. The Group currently only underwrites the risk of its holding corporation. Such a focus on one “insured” group does create a wider variability of outcome than a balanced portfolio.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

D2 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

D2-1 INSURANCE RISK (continued)

(b) Reinsurance strategy

In considering the purchase of reinsurance protection, the Group's philosophy is twofold, namely:

- To reduce risk; and
- To stabilise solvency

To achieve such objectives, the Group will consider the placing of reinsurance protection at appropriate levels with reinsurance carriers of a proven financial record. Specific reinsurance placements should reflect the appropriate balance between retention and reinsurance commensurate with the nature and complexity of the risk, all within acceptable exposure limits to the Group.

Ceded reinsurance contains credit risk, and such reinsurance recoverables are reported after known deductions for insolvencies and uncollectible items. The Group monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically. The Board of Directors of Lexon is responsible for setting the minimum security criteria for acceptable reinsurance.

(c) Terms and conditions of insurance contracts

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below.

The following gives an assessment of the Group's main product – professional indemnity liability and the ways in which it manages the associated risks.

Product features

The Group writes professional indemnity liability and under these contracts, monetary compensation awards are paid for any description of civil liability whatsoever incurred in connection with the Law Practice.

Professional indemnity liability is generally considered a long tail line, as it takes a relatively long period of time to finalise and settle claims for a given claim year. The speed of claim reporting and claim settlement is a function of the specific coverage provided, the jurisdiction and specific policy provisions.

This line is typically the largest source of uncertainty regarding claims provisions. Major contributors to this provision estimate uncertainty include the reporting lag, the number of parties involved in the underlying action, the potential amounts involved and whether such claims were reasonably foreseeable and intended to be covered at the time the contracts were written. Claims with longer reporting law will result in greater inherent risk.

Management of risks

The key risks associated with this product are underwriting risk and claims experience risk.

Underwriting risk includes the risk of higher claims cost than expected owing to the random nature of claims and their frequency and severity and the risk of change in legal or economic conditions or behavioural patterns affecting reinsurance pricing and conditions of reinsurance cover. This may result in the Group having either too little premium for the risks it has agreed to underwrite and hence, has not enough funds to invest and pay claims, or that claims are in excess of those expected.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

D2 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

D2-1 INSURANCE RISK (continued)

(c) Terms and conditions of insurance contracts (continued)

Claims development history

	2010/11 & prior $'000	2011/12 $'000	2012/13 $'000	2013/14 $'000	2014/15 $'000	2015/16 $'000	2016/17 $'000	Total $'000
Gross								
Estimate of ultimate claims								
Costs:								
• at end of reporting year		18,688	18,706	20,254	16,447	15,869	18,184	
• one year later		15,609	19,670	14,455	15,340	15,247		
• two years later		14,922	18,684	13,259	13,196			
• three years later		16,869	18,370	15,116				
• four years later		16,199	17,427					
• five years later		15,989						
Cumulative payments to date		(14,925)	(14,706)	8,253)	(6,973)	(2,803)	(780)	
Estimate of claims reserve		1,064	2,721	6,863	6,223	12,444	17,404	
Effect of discounting		(33)	(84)	(186)	(210)	(528)	(897)	
Best estimate of claims liability	3,121	1,031	2,637	6,677	6,013	11,916	16,507	47,902
Risk margin								19,412
Provision for claims handling								5,567
Total gross outstanding claims included in the balance sheet								**72,881**
Movement in accident year estimate before discounting and margins	(492)	(210)	(943)	1,857	(2,144)	(622)	18,184	15,630
Net								
Estimate of ultimate claims								
Costs:								
• at end of reporting year		18,688	18,706	20,254	16,447	15,869	18,161	
• one year later		15,609	19,670	14,455	15,340	15,247		
• two years later		14,922	18,684	13,259	13,196			
• three years later		16,869	18,370	15,116				
• four years later		16,199	17,427					
• five years later		15,989						
Cumulative payments to date		(14,925)	(14,706)	(8,253)	(6,973)	(2,803)	(780)	
Estimate of claims reserve		1,064	2,721	6,863	6,223	12,444	17,381	
Effect of discounting		(33)	(84)	(186)	(210)	(528)	(897)	
Best estimate of claims liability	796	1,031	2,637	6,677	6,013	11,916	16,484	45,554
Risk margin								19,412
Provision for claims handling								5,567
Total net outstanding claims included in the balance sheet								**70,533**
Movement in accident year estimate before discounting and margins	(402)	(210)	(943)	1,857	(2,144)	(622)	18,161	15,697

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

D2 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

D2-1 INSURANCE RISK (continued)

(c) Terms and conditions of insurance contracts (continued)

Claims development history (continued)

Insurance risk is managed primarily through sensible pricing, product design, appropriate investment strategy and reinsurance. The Group therefore monitors and reacts to changes in the general economic and commercial environment in which it operates. The Group also assesses the need to minimise its underwriting risks by retaining part of the risks underwritten for its own account and reinsuring the remainder.

D2-2 REINSURANCE RISK

The Group cedes insurance risk to limit exposure to underwriting losses under agreements that cover risks or group risks on yearly renewable terms. These reinsurance agreements spread the risk and minimise the effect of losses. The amount of risk retained depends on the Group's evaluation of the risk. Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse the ceded amount in the event the claim is agreed and paid. However, the Group remains liable to its policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations it assumes.

When selecting a reinsurer, the Group considers their relative security. The security of the insurer is assessed from public rating information.

D2-3 CONCENTRATION OF RISK

The concentration of insurance risk before and after reinsurance is solely in Australia and from a single line of business, Professional Indemnity Insurance.

D2-4 FINANCIAL RISK

The Group's activities expose it to a variety of financial risks: market risk, (currency risk, price risk and interest rate risk), credit risk, liquidity risk.

Management and the Council regularly review the performance and ensure all investments held are within the approved mandate.

(a) Currency risk

The Group is not exposed to significant foreign currency risk in relation to its functional currency as the majority of the Group's transactions, assets and liabilities are denominated in Australian Dollars.

The Group holds minor cash balances in Singapore Dollars.

The Group outsources its investment activities to respected fund managers who use defined risk management techniques as part of the funds mandates.

Investments in income securities are predominately hedged where a currency exposure exists.

As part of the Group's investment mandate, it holds units in two funds, which hold unhedged international securities. Any unhedged position is in accordance with the strategic asset allocation, and is monitored regularly by management.

(b) Price and interest rate risk

The Group is exposed to equity securities price risk arising from the investments classified as fair value through profit or loss. These securities are held with Australian fund managers.

The Group seeks to reduce risk by diversifying across a range of securities, maturities and counterparties. Investment of the funds is subject to risk control limits and constraints:

Duration and Tracking Error Limits (interest rate management)

The Modified Duration of the funds are constrained within a specified period either side of the Modified Duration of the Benchmark.

Rolling year ex post tracking error will be limited to a specified number of basis points. The ex-ante tracking error of the funds is not expected to exceed a specified number of basis points.

D2 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

D2-4 FINANCIAL RISK (continued)

(b) Price and interest rate risk (continued)

Sector Exposure Bands

- The weighting of each sector (e.g domestic, international – government, non-government) within the funds will be maintained in specified limits.

Credit Limits

- The funds will be invested in a broad and diversified range of securities across the credit spectrum.

Credit Risk Limits for Individual Security Investments

Individual security limits apply for direct physical holdings based on their credit rating and inclusion in the benchmark.

(c) Credit risk

There is no significant credit risk with respect to the collectability of premiums as the Group only underwrites risks from its holding corporation. All premiums are paid up front at the commencement of the period covered under the insurance policy.

Credit risk arising on funds placed with external fund managers and on reinsurance activities is managed by established policies to ensure that the counter-parties have adequate financial ratings and appropriate credit history.

(i) Financial assets that are neither past due or impaired

At the balance sheet date no financial assets are past due or impaired other than trade receivables noted below.

Cash and cash equivalents that are neither past due nor impaired are placed with reputable financial institutions with high credit ratings and no history of default.

Financial assets, fair value through profit or loss are redeemable on demand. These are placed with reputable fund managers.

No insurance recoveries are past due. All reinsurance contracts are placed in accordance with the Group's reinsurance policy which ensure appropriate credit rating of individual reinsurers and concentration risk is reduced to acceptable levels.

(ii) Financial assets that are past due and/or impaired

Trade debtors includes excesses which are due in relation to claims.

Receivables include excess balances of $95,500 (2016: $105,000) which are more than one month past due. There is a provision of $80,000 (2016: $59,500) on these outstanding balances.

Reinsurance recoveries of $NIL (2016: $Nil) are outstanding more than one month.

While provisions have been raised against outstanding excesses, the *Queensland Law Society Indemnity Rule 2005* gives power to QLS to take action against insureds where any balances are outstanding.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

D2 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

D2-4 FINANCIAL RISK (continued)

(c) Credit risk (continued)

(iii) Credit ratings

The following table shows the investment grades of balances due:

	Investment Grade (AAA to BBB) $'000	Not rated $'000	Total $'000
At 30 June 2017			
Cash and cash equivalents	11,616	47,224	58,840
Reinsurers' share of outstanding claims reserves	2,348	-	2,348
Trade and other receivables	229	1,195	1,424
Financial assets at fair value through\profit or loss	-	172,394	172,394
	14,193	**220,813**	**235,006**
At 30 June 2016			
Cash and cash equivalents	26,611	34,110	60,721
Reinsurers' share of outstanding claims reserves	3,606	-	3,606
Trade and other receivables	389	1,340	1,729
Financial assets at fair value through\profit or loss	-	162,262	162,262
	30,606	**197,712**	**228,318**

Financial asset investments are placed with the following fund managers:

- Queensland Investment Corporation
- UBS Global Asset Management
- AMP Capital Investors
- MFS Investment Management
- Nikko Asset Management
- Denning Pryce
- Schroder Investment Management
- Zurich Investment Management (exited October 2016)

(d) Liquidity risk

In the management of liquidity risks, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group also constantly reviews its investments to ensure that there are sufficient cash and liquid deposits to meet its estimated outflows from its insurance contract.

The Group manages its expected cash flow requirements using the latest actuarial valuations detailing projected cash flows. These are monitored in conjunction with available cash and investments readily convertible to cash.

A maturity analysis of unearned risk and premium reserves and outstanding claims reserves are provided in Note C10-1.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

D2 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

D2-4 FINANCIAL RISK (continued)

(e) Capital risk

The Group's objectives when managing capital are to ensure that the Group is adequately capitalised, and assessing shortfalls between reported and required capital levels on a regular basis.

Lexon is required under the *Singapore Insurance Act*, Cap. 142 and the relevant Regulations made thereunder to meet and maintain at all times during the course of each financial year that it carries on insurance business, minimum fund solvency and capital solvency requirements. As at balance sheet date, Lexon has met the fund solvency requirement for its Offshore Insurance Fund and the minimum capital adequacy requirement.

Management monitor the capital position using a risk based capital model.

(f) Fair value measurements

The following table presents assets measured at fair value and classified by level of the following fair value measurement hierarchy as at balance sheet date.

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
As at 30 June 2017				
Financial assets				
Investments carried at fair value through profit or loss	-	172,394	-	172,394
Total financial assets	**-**	**172,394**	**-**	**172,394**
As at 30 June 2016				
Financial assets				
Investments carried at fair value through profit or loss	-	162,262	-	162,262
Total financial assets	**-**	**162,262**	**-**	**162,262**

The portfolio of financial instruments held consists of collective investment schemes. The fair value of the financial instruments is determined using net asset value of the collective investment schemes.

The carrying value less impairment provision of current trade receivables and payables approximate to their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(g) Sensitivity Analysis

Financial assets at fair value through profit or loss have had the following sensitivity analysis applied, which are based on the Australian Prudential Regulatory Authority's (APRA) General Insurance Prudential Standard GPS 114.

Interest rate sensitivity

Interest rate sensitivity measures the changes on the capital base from changes in real interest rates. The sensitivity has been determined by multiplying the nominal risk-free interest rate by -0.20 (downward stress) and 0.25 (upward stress), with a maximum stress adjustment of 200 basis points in either direction.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

D2 MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

D2-4 FINANCIAL RISK (continued)

(g) Sensitivity Analysis (continued)

Inflation risk sensitivity

Expected inflation sensitivity measures the changes on the capital base from changes to expensed consumer price index inflation rates. The sensitivity has been determined by adjusting the expected inflation rates by adding 125 basis points (upward movement) and subtracting 100 basis points (downward movement).

Currency sensitivity

Currency sensitivity measures the changes in the capital base due to changes in foreign currency exchange rates. The sensitivity has been determined by applying a 25% increase and 25% decrease in exchange rates. An increase in the Australian Dollar is divided by 1.25 (or multiplied by 0.8) while a decrease is divided by 0.75 (or multiplied by 1.333).

Equity sensitivity

Equity sensitivity measures the change on the capital base of a fall in equity and other asset values. For listed equities, the fall is determined by increasing the dividend yield on the ASX 200 index by 2.5 percent. For unlisted equities, the fall is determined by increasing the dividend yield on the ASX 200 index by 3.0 percent.

Property stress

Property sensitivity measures the change on the capital base of a fall in property and infrastructure asset values. The fall is determined by increasing the rental yield (for property assets) or earnings yield (for infrastructure assets) by 2.75 percent.

Credit spread stress

Credit spread sensitivity measures the change on the capital base of an increase in credit spreads and the risk of default. The sensitivity has been determined by adding a spread (based on APRA credit spread and default factors) to the current yield on the asset and multiplying the reduced value of the asset by (1 – default factor).

The below details the impact to financial assets at fair value through profit or loss before tax and before any aggregation benefits.

	2017 $'000	2016 $'000
Stress Test	**Upward impact**	
Interest rate	(19)	(336)
Inflation	792	206
Currency	(1,776)	(1,469)
	Downward impact	
Interest rate	95	317
Inflation	(773)	23
Currency	852	2,041
Stress Test	**Impact**	
Equity	(4,570)	(11,714)
Property	-	-
Credit spread	(2,213)	(3,561)

D3 COMMITMENTS

D3-1 OPERATING LEASES

Payments made under operating leases (net of any incentives received from the lessor) are taken to the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the financial year in which the termination takes place.

D3-2 NON-CANCELLABLE OPERATING LEASES

The future minimum lease payable under non-cancellable operating leases contracted for at 30 June 2017 but not recognised as liabilities, are as follows:

	Consolidated		Parent	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Within one year	182	153	-	-
One to five years	538	662	-	-
	720	**815**	**-**	**-**

The Group commitments include a lease for office premises. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

Lexon has a bank guarantee for $108,031 (2016: $87,813) in favour of the lessor of 307 Queen Street, Brisbane QLD 4000 which can be drawn upon in event of a default in accordance with the rental agreement.

D3-3 CAPITAL EXPENDITURE COMMITMENTS

Capital expenditure contracted for 30 June 2017 but not provided for was $nil (2016: $nil).

D4 EVENTS AFTER THE BALANCE DATE

There are no known contingent liabilities as at 30 June 2017. There are no events subsequent to reporting date requiring disclosure in the financial report.

D5 FUTURE IMPACT OF ACCOUNTING STANDARDS NOT YET EFFECTIVE

At the date of authorisation of the financial report, the expected impacts of new or amended Australian accounting standards issued with future commencement dates are:

AASB 1058 *Income of Not-for-Profit Entities* and AASB15 *Revenue from Contracts with Customers*

These standards will become effective from reporting periods beginning on or after 1 January 2019 and contains much more detailed requirements for the accounting for certain types of revenue from customers.

Depending on the specific contractual terms, the new requirements may potentially result in a change to the timing of revenue from sales of the Group's services, such that some revenue may need to be deferred to a later reporting period to the extent that the Society has received cash but has not met its associated obligations (such amounts would be reported as a liability (unearned revenue)).

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

D5 FUTURE IMPACT OF ACCOUNTING STANDARDS NOT YET EFFECTIVE (continued)

The Society is yet to complete its analysis of current arrangements for sale of its services, but at this stage does not expect a significant impact on its present accounting practices.

AASB 16 Leases

This Standard will become effective for reporting periods beginning on or after 1 January 2019. When applied, the standard supersedes AASB 117 Leases, AASB Interpretation 4 *Determining whether an Arrangement contains a Lease*, AASB Interpretation 115 *Operating Leases – Incentives* and AASB Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

The Society has not yet quantified the impact on the Statement of Comprehensive Income or the Statement of Financial Position of applying AASB 16 to its current operating leases, including the extent of additional disclosure required. Based on the current leases that the Group has, additional property, plant and equipment may need to be accounted for on the Statement of Financial Position.

All other Australian accounting standards and interpretations with future effective dates are either not applicable to the Group's activities, or have not material impact.

E1 KEY MANAGEMENT PERSONNEL (KMP) DISCLOSURES

Key management personnel and remuneration disclosures are made in accordance with the *Financial Reporting Requirements (FRR)* for Queensland Government Agencies issued by Queensland Treasury, consistent with additional guidance included in the revised version of AASB 124 *Related Party Disclosures*.

The following details for key management personnel include those positions that had authority and responsibility for planning, directing and controlling the activities of the Society during 2016-17 and 2015-16. This is supported through the Council Charter which is available on the Society's website. Further information on these positions can be found in the body of the Annual Report.

The role of President, Deputy President, and Vice President are supported by the elected Council members.

Position	Position Responsibility
President	Lead the Council in settling the corporate direction and goals and monitoring the performance of the Society. Each President is elected for a term of one calendar year. Supported by elected Council Members.
Deputy President	To provide direct support to President. The Deputy President succeeds to the office of President at the beginning of the second term
Vice President	Supporting the President and Deputy President in the discharge of their duties. The Vice President holds office for a two year term.
Chief Executive Officer	To lead day to day operations of the Society and is charged with implementing and managing best practice standards and processes in risk management, compliance and governance of the Society. The Chief Executive Officer is accountable to the governing body of elected Council members.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

E1 KEY MANAGEMENT PERSONNEL (KMP) DISCLOSURES (continued)

Position	Person	Start of Term	End of Term
President	William Potts	01/01/2016	31/12/2016
	Christine Smyth	01/01/2017	Current
Deputy President	Christine Smyth	01/01/2016	31/12/2016
Vice President	Kara Cook	01/01/2016	Current
Chief Executive Officer	Amelia Hodge	20/07/2015	10/02/2017
Chief Executive Officer (Acting)	Matthew Dunn	31/01/2017	Current

KMP Remuneration Policy

Remuneration entitlements are set by the Council. The Society does not bear any cost of remuneration for its Councillors. Remuneration packages for key management personnel comprise the following components:

Short term employee expenses which include:

- base salary, allowances and leave entitlements paid and provided for in the entire year or for that part of the year during which the employee occupied the specific position.
- performance payments recognised as an expense during the year
- non-monetary benefits – consisting of provision of car parking, kilometerage travel reimbursement and accommodation (exempt fringe benefits tax applicable)

Long term employee benefits include long service leave entitlements accrued during the period. There were $nil longer term employee benefits paid in the reporting period.

Post-employment benefits include amounts expenses in respect of employer superannuation contributions.

Termination benefits include payments in lieu of notice on termination and other lump sum separation entitlements (excluding annual and long service leave entitlements) payable on termination of employment or acceptance of an offer of termination of employment.

1 July 2016 – 30 June 2017

	Short Term Employee Expenses		Post Employment Benefits	Termination Benefits	Total Expenses
	Monetary Expenses	Non-monetary Benefits			
Position	$'000	$'000	$'000	$'000	$'000
President 1 July 2016 – 31 December 2016	131	25	12	-	168
President 1 January 2017 – 30 June 2017	131	27	12	-	170
Deputy President 1 January 2016 – 31 December 2016	43	4	4	-	51
Vice President 1 January 2017 – 30 June 2017	43	-	4	-	47
Chief Executive Officer 1 July 2016 – 10 February 2017	193	6	19	53	271
Chief Executive Officer (Acting) 31 January 2017 to 30 June 2017	113	1	11	-	125

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

E1 KEY MANAGEMENT PERSONNEL (KMP) DISCLOSURES (continued)

1 July 2015 – 30 June 2016

	Short Term Employee Expenses		Post Employment Benefits	Termination Benefits	Total Expenses
	Monetary Expenses	Non-Monetary Benefits			
Position	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
President 1 July 2015 – 31 December 2015	131	1	12	-	144
President 1 January 2016 – 30 June 2016	131	9	12	-	152
Deputy President 1 January 2016 – 30 June 2016	43	3	4	-	50
Vice President 1 July 2015 – 31 December 2015	47	-	-	-	47
Chief Executive Officer 1 July 2015 – 30 June 2016	264	7	25	-	296

Performance payments

The remuneration package for the Chief Executive Officer provides for performance payments to be made conditional on the achievement of key performance indicators (KPI) specified in the KMP's employment contract and subject to discretionary approval by the Council.

Achievement of each KPI is measured on an annual basis. Council retain discretion as to whether performance payments are made.

Amount of $12,500 was expensed in 2016-17 (2016: $nil) to the Chief Executive Officer for achievement of KPI's.

As at the date of management certification of these financial statements, the eligibility to a performance payment for the Chief Executive Officer (Acting) in respect of 2016-17 has not yet been confirmed. Eligibility will be determined only once the assessment process is completed and a recommendation is yet to be made by the Council. Therefore, any performance payment ultimately approved will be reported as an expense within 2017-18.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

E2 RELATED PARTY TRANSACTIONS

The following significant transactions took place between the Consolidated Group and related parties during the financial period on commercial terms agreed by between the parties concerned.

	2017 $	2016 $
Management fees paid by Lexon to parent entity	222,090	249,984
Management fees paid by LCLF to parent entity	28,734	30,453
Gross premiums paid by Law Claims Levy Fund to Lexon	21,800,000	27,000,000
Grant paid by LCLF to parent entity	488,048	140,450
Professional fees paid to a firm of which a councillor of QLS is a member:		
• McInnes Wilson Lawyers	5,356	-
• Potts Lawyers	27,210	-
Professional fees paid to a firm of which a director of Lexon is a member:		
Legal fees in the provision of claim defence costs:		
• Coyne & Associates	-	166,309
• McInnes Wilson Lawyers	501,368	558,003
• Potts Lawyers	75,751	-
Other non claim professional advice provided:		
• McInnes Wilson	18,300	3,000
• K&L Gates	6,890	4,046
Management fees paid to a firm which a director of Lexon is a member:		
• AON Insurance Managers (Singapore) Pte Ltd	92,882	90,177
Consulting fees paid to Lexon Legal, a firm of which a QLS Councillor is a member:		
• Consulting fee	335,240	309,509
• Consulting fee – staff cost reimbursement	-	33,635
• Consulting fee – contribution to office costs	21,608	49,672
Key management personnel compensation Lexon:		
Directors fees	392,155	399,192
Other officers		
• Salaries and other short term employee benefits	991,876	1,065,703
• Employer's contribution to defined contribution plans	70,866	77,801

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

E3 FIRST YEAR APPLICATION OF NEW ACCOUNTING STANDARDS OR CHANGE IN ACCOUNTING POLICY

The Group did not voluntarily change any of its accounting policies during 2016-17.

No Australian Accounting Standards have been early adopted for 2016-17.

Accounting Standards Applied for the First Time

The only Australian Accounting Standard that became effective for the first time in 2016-17 is AASB 124 Related Party

Disclosures. This standard requires note disclosures about relationships between a parent entity and its controlled entities key management personnel (KMP) remuneration expenses and other related party transactions, and does not impact on financial statement line items. As Queensland Treasury already required disclosure of KMP remuneration expenses, AASB124 itself had minimal impact on the group's KMP disclosures compared to 2015-16 (refer to Note E1).

F1 TAXATION

Income tax is recognised on consolidation.

The Queensland Law Society Inc (parent entity) is exempt from income tax by virtue of section 50-25 of the *Income Tax Assessment Act 1997* with the exception of Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST). Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position. Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing activities and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Lexon is registered in Australia for income tax. The Company has dual tax residency in Australia and Singapore. In relation to offshore insurance business, the Company has been granted tax exempt status for a period of ten years from 1 April 2010 under the tax exemption scheme for captive insurers by the Monetary Authority of Singapore.

Current income tax is recognised at the amount expected to be paid to or recovered from the tax authorities.

Deferred income tax is recognised for all temporary differences except when the deferred income tax arises from the initial recognition of an asset or liability which affects neither accounting nor taxable profit nor loss at the time of the transaction.

Current and deferred income tax is measured using the tax rates and tax laws that have been enacted or substantively enacted by the Statement of Financial Position date, and are recognised as income or expenses in the Statement of Comprehensive Income, except to the extent that the tax arises from a transaction which is recognised directly in equity.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

F1-1 INCOME TAX EXPENSE

	Consolidated		Parent	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Tax expense attributable to profit is made up of:				
Current income tax	690	3,903	-	-
Deferred income tax (Note F1-3)	(314)	(2,608)	-	-
	376	1,295	-	-
(Over)/Under Provision in preceding financial years	26	-	-	-
Deferred income tax (Note F1-3)	(26)	-	-	-
	376	1,295	-	-

The tax expense on results differs from the amount that would arise using the standard tax rate due to the following:

	Consolidated		Parent	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Operating Surplus	4,308	5,980	(489)	538
Tax calculated at a tax rate of 30% (2016: 30%)	1,292	1,794	(147)	161
Effects of:				
Income not subject to tax	(735)	(271)	147	(161)
Franking credits available	(181)	(228)	-	-
	376	**1,295**	**-**	**-**

QUEENSLAND LAW SOCIETY INCORPORATED

Notes to the financial statements for the year ended 30 June 2017

F1-2 CURRENT INCOME TAX LIABILITY

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Income tax at the beginning of the financial year	3,810	3,001	-	-
Income tax refunded / (paid)	(6,130)	(3,094)	-	-
Current year income tax	691	3,903	-	-
Under provision in proceeding financial years	26	-	-	-
Income tax at the end of the financial year (Refund)	**(1,603)**	**3,810**	**-**	**-**

F1-3 DEFERRED INCOME TAX BALANCES

The movement in the deferred income tax accounts are as follows:

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Deferred tax assets				
Balance at beginning of the financial year	3,034	1,433	-	-
Credit to profit or loss:			-	
• Claims handling provision	288	149	-	-
• Other timing differences	13	20	-	-
• Unearned premium deficiency	494	1,460	-	-
• Allowance for impairment of receivables	6	(28)	-	-
	3,835	3,034	-	-
Deferred tax liabilities				
Balance at beginning of financial year	(327)	(1,333)	-	-
Charge to income statement:				
• Unrealised investment movements	(497)	1,095	-	-
• Tax-free distributions on investments	37	(89)	-	-
	(787)	(327)	-	-
Net deferred tax asset at end of the financial year	**3,048**	**2,707**	**-**	**-**

QUEENSLAND LAW SOCIETY INCORPORATED

Management Certificate for the year ended 30 June 2017

These general purpose financial statements have been prepared pursuant to section 62(1) of the *Financial Accountability Act 2009* (the Act), section 43 of the *Financial and Performance Management Standard 2009* and other prescribed requirements. In accordance with section 62(1)(b) of the Act we certify that in our opinion:

a. the prescribed requirements in respect of the establishment and keeping of accounts have been complied with in all material respects; and

b. the financial statements have been drawn up so as to present a true and fair view, in accordance with prescribed accounting standards, of the transactions of the Queensland Law Society Incorporated and its controlled entities for the financial year ended 30 June 2017 and of the financial position of the Society as at the end of that year; and

c. these assertions are based on an appropriate system of internal controls and risk management processes being effective, in all material respects, with respect to financial reporting throughout the reporting period.

President
Queensland Law Society
Christine Smyth

31 / 8 / 17

Chief Executive Officer (Acting)
Queensland Law Society
Matt Dunn

31 / 8 / 17

QUEENSLAND LAW SOCIETY INCORPORATED

Independent Auditor's Report

To the Council of Queensland Law Society Incorporated.

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

OPINION

I have audited the accompanying financial report of Queensland Law Society Incorporated (the parent) and its controlled entities (the group).

In my opinion, the financial report:

a) gives a true and fair view of the parent's and group's financial position as at 30 June 2017, and their financial performance and cash flows for the year then ended; and
b) complies with the *Financial Accountability Act 2009*, the Financial and Performance Management Standard 2009 and Australian Accounting Standards.

The financial report comprises the statements of financial position as at 30 June 2017, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, notes to the financial statements including summaries of significant accounting policies and other explanatory information, and the management certificate.

BASIS FOR OPINION

I conducted my audit in accordance with the *Auditor-General of Queensland Auditing Standards*, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report.

I am independent of the parent and group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code and the *Auditor-General of Queensland Auditing Standards*.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

RESPONSIBILITIES OF THE COUNCIL FOR THE FINANCIAL REPORT

The Council is responsible for the preparation of the financial report that gives a true and fair view in accordance with the *Financial Accountability Act 2009*, the Financial and Performance Management Standard 2009 and Australian Accounting Standards, and for such internal control as the Council determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

The Council is also responsible for assessing the parent's and group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless it is intended to abolish the parent or group or to otherwise cease operations.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL REPORT

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

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the parent's and group's internal control.

QUEENSLAND LAW SOCIETY INCORPORATED

Independent Auditor's Report

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the group.
- Conclude on the appropriateness of the parent's and group's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent's or group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. I base my conclusions on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the parent or group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial report. I am responsible for the direction, supervision and performance of the audit of the group. I remain solely responsible for my audit opinion.

I communicate with the Council regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

In accordance with s.40 of the *Auditor-General Act 2009*, for the year ended 30 June 2017:

a) I received all the information and explanations I required; and

b) In my opinion, the prescribed requirements in relation to the establishment and keeping of accounts were complied with in all material respects.

QUEENSLAND
31 AUG 2017
AUDIT OFFICE

Nick George
as delegate of the Auditor-General

Queensland Audit Office
Brisbane