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You have requested access to a copy of a report prepared by PricewaterhouseCoopers LLP ("PwC") on the non statutory financial statements of Solicitors Indemnity Fund for the year ended 31 December 2011 prepared for the Directors of the Administering Company, Solicitors Indemnity Fund Limited (the "report"). The Solicitors Indemnity Fund Administering Fund to whom the report is addressed, has confirmed that a copy of the report may be provided to you. PwC* has consented to release of the report to you on conditions listed below, which by continuing to read you have accepted:

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* PwC refers to PricewaterhouseCoopers LLP, a limited liability partnership incorporated in England (number OC303525), whose registered office is at 1 Embankment Place, London WC2N 6RH

SOLICITORS INDEMNITY FUND

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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SOLICITORS INDEMNITY FUND

CONTENTS

	Page
Report of the Directors of the Administering Company	2
Independent Auditors' Report to the Directors' of Solicitors Indemnity Fund Limited	7
Income and Expenditure Account for the Year Ended 31 December 2011	8
Statement of Total Recognised Gains and Losses for the Year Ended 31 December 2011	9
Balance Sheet as at 31 December 2011	10
Notes to the Financial Statements for the Year Ended 31 December 2011	11

SOLICITORS INDEMNITY FUND

REPORT OF THE DIRECTORS OF THE ADMINISTERING COMPANY

PURPOSE AND PRINCIPAL ACTIVITIES

The Solicitors Indemnity Fund (the "Fund") is a statutory fund established in 1987 under section 37 of the Solicitors Act 1974 and governed by the Solicitors' Indemnity Rules. It provided professional indemnity insurance to the legal profession with up to £1million of cover per claim for all members until 1 September 2000, when the Council of The Law Society decided to move to open market insurance. The Fund therefore went into run-off on 1 September 2000. The purpose of the Fund is to:

- Manage the ongoing notified claims arising from the pre 2000 period where professional indemnity insurance was provided and settle the liabilities arising. The number of notified cases has been decreasing as cases meet their statutory limitation periods and the number of claims outstanding has been decreasing as claims have been managed and concluded; and
- Manage claims and settle associated liabilities arising from solicitors who ceased trading pre 2007 where their 6 year post cessation open market insurance has expired and there is no successor firm to pick up the liability. At the current time the ceased practices cover only claims as far as 2017 and there will be no cover post 2017. The Law Society of England and Wales is responsible for ensuring the profession is protected in this respect and is expected to decide during 2012 what form the future cover will take, if any. As the Fund only has responsibility for cases notified until September 2017 all provisions and estimates have been made on this basis.

ADMINISTRATION OF THE FUND

Solicitors Indemnity Fund Limited acts as the administering company (the "Company") which is responsible for the administration and governance over the Fund. It vests assets and recharges all invoiced transactions on behalf of the Fund. The Directors of the Company are responsible for the governance of the Fund.

In 2007, Solicitors Indemnity Fund Limited entered into an administrative services agreement with Legal Indemnity Operations Limited, a wholly-owned subsidiary of The Law Society, for the provision of various administrative and claims handling services in respect of the run-off of the Fund. Legal Indemnity Operations Limited recharged all of the costs it incurred plus a set mark up to the Fund for providing these services and it paid the Fund for use of its fixed assets via a licence agreement.

In July 2010 the business of Legal Indemnity Operations Limited, including the staff and knowledge of the case book, were transferred to Vision Underwriting Limited and Solicitors Indemnity Fund Limited entered into a new administrative services agreement with Vision Underwriting Limited in 2010 for the provision of various administrative and claims handling services in respect of the run-off of the Fund for a period of ten years until 30 June 2020. Solicitors Indemnity Fund Limited agreed to pay £4.7 million, payable on a reducing basis over ten years, to Vision Underwriting Limited for the provision of these services.

THE BOARD OF DIRECTORS AND ITS COMMITTEES

The Board of the administering Company comprises non-executive Directors drawn from the legal profession or with relevant insurance expertise. The following were Directors during the financial period under review and up to the date of signing of the financial statements:

D. A. McIntosh - *Chairman*
J. K. Holder
D. Hudson
M. R. Mathews
W. R. Treen

The Board of Directors has delegated certain powers and duties to Committees established by it and receives reports of their proceedings. The Board Committees, together with a brief description of their remit is as follows:

SOLICITORS INDEMNITY FUND

REPORT OF THE DIRECTORS OF THE ADMINISTERING COMPANY (continued)

Finance and Audit Committees (incorporating Investment Committee)

J. K. Holder - *Chairman*
D. Hudson
M. R. Mathews
D. A. McIntosh

The Committees review the financial statements and interim financial reporting, the annual expenditure budget and ad hoc financial matters and keep under review the investment performance and asset allocation. The Committees review the effectiveness of the internal processes with financial management representatives and external auditors and reports on it to the Board.

Claims Committee

W. R. Treen - *Chairman*
D. A. McIntosh

The Claims Committee was established in April 1998 to review claims handling procedures, the cost of legal advice on claims from an external panel of solicitors and appointments to that panel.

RISKS AND UNCERTAINTIES

As noted above the Fund business carries significant uncertainties and the financial statements include significant judgements around claims costs and provisions, based on past historic experience. As noted below the claims provisions are reviewed on a regular basis to ensure they reflect up to date information and are considered the Fund's key performance measure. Further details of the claims provision is included in note 9.

DISCONTINUED ACTIVITIES

The Fund ceased to provide insurance and was put into run-off on 1 September 2000 and therefore all its activities are treated and accounted for as discontinued operations. However, the Fund will continue to exist as a going concern to settle its liabilities, and therefore the accounts have not been prepared on a break-up basis.

CLAIMS

During the year under review some cases were settled, some new cases were notified and some were re-opened, however, by the year end the number of the Fund's open claims remained the same as 2010, at 166. There were overall savings on gross claims of £0.8 million (2010: £5 million), brought about by a reduction in gross claims provisions of £1.4 million (2010: £8.6 million), from £9 million at 31 December 2010 to £7.6 million at 31 December 2011, whilst claims payments, including internal claims costs, during the year were £0.6 million (2010: £3.6million). Amounts recoverable from reinsurers increased by £15,000 (2010: £89,000) in the year, whilst reinsurance recoveries were £29,000 (2010: £62,000).

The indemnity year ended 30 September 2008 was the first year of a ten year cover by the Fund agreed by The Law Society, in which the Fund assumed liabilities in respect of claims notified by practices that ceased without successor after 31 August 2000 and which have had the benefit of six years of post cessation cover from the open market qualifying insurers. In the year to 31 December 2011 there have been 25 claims notifications (2010: 17) arising from these practices with an incurred value of £0.3 million (2010: £0.2 million), which is consistent with the prior year. Provision has been made within the Gross Claims Provision for the total estimated future liabilities arising from these types of claims based on the best information currently available of £3.6m (2010: £4 million).

LOSS DEVELOPMENT PROGRAMME

The Adverse Loss Development Programme (ALDP), which covered the Fund's claims liabilities in excess of £90 million and up to a limit of £205 million, was commuted in 2010 and this resulted in a release back to the Fund of £16.3 million.

In the Directors' opinion, based on experience and actuarial estimates the Fund's liabilities are fully covered by the claims provisions and retained surplus. As at 31 December 2011 no new replacement cover has been put in place. The Directors' may, depending on market conditions and other factors, consider replacement cover in future years.

SOLICITORS INDEMNITY FUND

REPORT OF THE DIRECTORS OF THE ADMINISTERING COMPANY (continued)

INVESTMENTS

The Fund's investment strategy has been to hold a portfolio consisting of UK Government Securities, the interest coupons and maturities of which provide the funds to deal with the settlement of claims and expenses. As claims settlements have continually been less and recoveries greater than expected, the surplus cash liquidated from these maturities and interest has been invested in short-term certificates of deposit to provide better rate of return. During 2011, the Directors reviewed this strategy and elected to invest all funds not invested in UK Government Securities, within either a managed gilts funds or a managed cash fund. Further details are provided in note 7.

OPERATING EXPENDITURE

The charges incurred by the Fund during the year for the provision of administrative and run-off services by Vision Underwriting Limited were £0.9 million (2010: £1.3 million) and by Legal Indemnity Operations Limited were £nil (2010: £1.2 million). Other operating expenses incurred during the year were £0.2 million (2010: £0.8 million), giving total gross operating expenses incurred of £1.1 million (2010: £3.3 million). The fee received from Vision Underwriting Limited in respect of its use of the Fund's premises were £13,000 until the operations were relocated (2010: £58,000). The fee received from Legal Indemnity Operations Limited in respect of its use of the Fund's assets were £nil (2010: £0.4 million). This gives total net operating expenses of £1.1 million (2010: £2.9 million).

As explained in Note 1(j) provision is made for all future costs expected to be incurred by the Fund while it is in run-off, although any administrative costs do not need to be provided for to the extent future investment returns would meet the liabilities. The directors consider that all costs incurred by the Fund fully relate to claims handling costs in relation to closure of the Fund. As such, one hundred per cent (2010: one hundred per cent) expected net operating expenses to close are allocated to claims handling and provided in full in the year (note 9).

RESULT FOR THE YEAR

The surplus for the year before tax was £1.2 million (2010: £22 million). The tax charge for the year was £0.3 million (2010: £4.4 million), giving a net surplus after tax for the year of £0.9 million (2010: £17.6 million).

SURPLUS

Under the authority given to it by the Council of The Law Society, The Law Society directed the Fund, under Rule 11 of the Solicitors Indemnity Rules 2006, to release £nil (2010: £6 million) from surplus to The Law Society during the year. The Directors liaise with Law Society representatives to ensure that the amounts repatriated to the Society do not jeopardise the ongoing financial position of the Fund.

POST BALANCE SHEET EVENTS

The Agreement entered into by the Company and Vision Underwriting Limited in July 2010 for ongoing administrative and claims handling services required the establishment of an escrow agreement and an escrow account. This agreement was concluded and signed on 6 January 2012. At this time, Solicitors Indemnity Fund Limited paid into this account fees of £2.6 million, which represent the remaining outstanding fees under the management agreement. As these fees are legally in the ownership of the Fund these will continue to be reflected within investments until such time as they are paid out.

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and this has been confirmed by the Directors.

SOLICITORS INDEMNITY FUND

REPORT OF THE DIRECTORS OF THE ADMINISTERING COMPANY (continued)

THE LAW SOCIETY

The financial statements of the Fund are consolidated with the financial statements of The Law Society as at 31 December 2011 based on an assessment by The Law Society that the Fund should be a consolidated part of the Group due to the control of the Fund and its entitlement to surplus accumulated reserves. Copies of The Law Society accounts can be obtained from The Law Society, Law Society Hall, 113 Chancery Lane, London, WC2A 1PL.



D. A. McIntosh
Chairman

Dated 21st March 2012

SOLICITORS INDEMNITY FUND

REPORT OF THE DIRECTORS OF THE ADMINISTERING COMPANY (continued)

STATEMENT OF RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Company is responsible, on behalf of the Fund, for preparing the financial statements for the Fund for each period which give a true and fair view of the financial transactions of the Fund during the period under review and of the disposition at the end of the period of its assets and liabilities. The Company has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) and in certain areas the spirit of the ABI SORP. In preparing those financial statements, the Company:

- selects suitable accounting policies and applies them consistently;
- makes judgements and estimates that are reasonable and prudent;
- states whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepares the financial statements for the discontinued activities of the Fund on the going concern basis unless it is inappropriate to presume that the Fund will continue in business.

The Company is also responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time, the financial transactions and the assets and liabilities of the Fund. It is further responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

In the case of each director in office at the date the directors' report is approved, the following applies:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.



D. A. McIntosh
Chairman

Dated 21st March 2012

SOLICITORS INDEMNITY FUND

INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF SOLICITORS INDEMNITY FUND LIMITED

We have audited the non-statutory financial statements of Solicitors Indemnity Fund (the "Fund") for the year ended 31 December 2011 which comprise the Income and Expenditure Account, the Statement of total recognised gains and losses, the Balance Sheet and the related notes. The financial reporting framework that has been applied in the preparation of these non-statutory financial statements is United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of the directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 6 the Directors of the Solicitors Indemnity Fund Limited (the "Directors") are responsible for the preparation of the non-statutory financial statements, in their capacity as Directors of the entity holding, managing and administering the Solicitors Indemnity Fund, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the non-statutory financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for management's purposes to assist the Directors of the Fund to discharge their stewardship obligations and fiduciary responsibility in respect of the Fund under the By-Laws in accordance with our engagement letter dated 4 November 2011 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come including without limitation under any contractual obligations of the Fund, save where expressly agreed by our prior consent in writing.

Scope of the audit of the non-statutory financial statements

An audit involves obtaining evidence about the amounts and disclosures in the non-statutory financial statements sufficient to give reasonable assurance that the non-statutory financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the non-statutory financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on non-statutory financial statements

In our opinion the non-statutory financial statements:

- give a true and fair view of the state of the Fund's affairs as at 31 December 2011 and of its surplus for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.



PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

23 March 2012

SOLICITORS INDEMNITY FUND**INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2011**

	Note	2011 £000	2010 £000
DISCONTINUED OPERATIONS	1(a)		
Gross claims costs	5	(670)	(3,595)
Reinsurance recoveries		29	62
Net claims costs		(641)	(3,533)
Decrease in gross provision for claims	9	1,408	8,599
Increase in amount recoverable from reinsurers	9	15	89
Decrease in net provision for claims		1,423	8,688
Exceptional profit Share from commutation of reinsurance agreement	2	-	16,250
Decrease in claims incurred net of reinsurance		782	21,405
Realised losses on fixed asset investments	4	(191)	(50)
Income from fixed asset investments	3	667	655
Investment expenses		(33)	(18)
Investment return		443	587
Surplus before taxation	5	1,225	21,992
Taxation charge	6	(296)	(4,400)
Surplus for the financial year		929	17,592
Release of Surplus to The Law Society		-	(6,000)
Realised surplus for the year		929	11,592
Surplus Brought Forward		21,527	9,933
Other unrealised gains	4	254	2
Surplus carried forward		22,710	21,527

There is no difference between the surplus before taxation and the results for the years stated above and their historical cost equivalents.

The notes on pages 11 to 17 form part of these financial statements.

SOLICITORS INDEMNITY FUND

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 £000	2010 £000
Surplus for the financial year		929	11,592
Unrealised gains on fixed asset investments	4	254	2
Total recognised gains and losses relating to the financial year		<u>1,183</u>	<u>11,594</u>

SOLICITORS INDEMNITY FUND
BALANCE SHEET AS AT 31 DECEMBER 2011

	Note	2011 £000	2010 £000
Assets			
Investments	7	31,872	34,052
Reinsurers' Share of Claims Provision	9	204	189
Debtors	8	263	233
Cash and Bank		888	515
Total Assets		33,227	34,989
Liabilities			
Gross Claims Provision	9	(7,548)	(8,956)
Creditors	10	(2,969)	(4,506)
Total Liabilities		(10,517)	(13,462)
Net Assets		22,710	21,527
Retained Surplus		22,710	21,527

Approved on behalf of Solicitors Indemnity Fund



D. A. McIntosh
Chairman

21st March 2012

On behalf of Solicitors Indemnity Fund Limited, in capacity as administrators of the Fund.

The notes on pages 11 to 17 form part of these financial statements.

SOLICITORS INDEMNITY FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1. ACCOUNTING POLICIES

(a) **Basis of preparation**

Following the decision of the Council of The Law Society in June 1999 to move to market insurance, the Fund went into run-off on 1 September 2000. Consequently, in order to comply with Financial Reporting Standard (FRS) 3 (Reporting Financial Performance) it is necessary to report the activities of the Fund as "Discontinued operations". As the Fund will continue as a going concern to settle ongoing claims and other liabilities the financial statements are not prepared on a break-up basis.

The Solicitors Indemnity Fund Limited, that administers the Fund, holds title to all of the assets which are beneficially held for the Fund. It has legal title to all assets and liabilities relating to the Fund. In accordance with the initial set up guidelines for the Fund, all of the assets and liabilities are recorded in these financial statements as if they belong to the Fund, and are not recognised in the financial accounts of Solicitors Indemnity Fund Limited.

(b) **Reporting standards**

The financial statements are prepared in accordance with applicable UK accounting standards and certain aspects of the ABI SORP.

(c) **Basis of accounting**

The financial statements are prepared under the historical cost convention with the exception of the valuation of investments (see (d) below).

Significant estimates are outlined in individual policies.

(d) **Valuation of investments**

Investments, comprising listed securities, are valued at their mid-market value at Balance Sheet date on a portfolio basis. Upward revaluations are taken to the Revenue account where they are a reversal of previously recognised impairments or treated as unrealised where the value is an increase above historical cost. Impairments to the value of investments are taken to the revaluation reserve where they are a reversal of previously recognised upward revaluations or the profit and loss account where they fall below historical cost. Profits and losses on sales of investments are measured by reference to the carrying value.

(e) **Investment income**

Interest on fixed interest securities and gilts are accounted for on an accruals basis.

Income from managed gilts funds are remitted bi-annually from the fund but are accounted for on an accruals basis as the income is received into the fund.

(f) **Contributions**

Contributions are accounted for on the accruals basis.

(g) **Reinsurance recoveries**

Reinsurance recoveries are accounted for as and when payment becomes due based on the liability being incurred.

(h) **Claims costs**

Claims costs are made up of claims handling costs including the costs of panel solicitors and internal claims handling staff, damages paid out, other costs net of recoveries. Claims are accounted for as and when payment is authorised and recoveries are recognised at the point they become virtually certain and they can be measured.

(i) **Claims provisions**

Estimation techniques are used to determine the Gross Claims Provision which represents the estimated outstanding liabilities relating to all indemnity years.

Ultimate claim settlements are estimated by the use of statistical projections of historical data, together with case by case reviews of notified losses, and are based on information available at the time the estimates are made. This is done at regular intervals during the year. There is uncertainty as to the quantum of the ultimate settlement of the liabilities which is inherent in the process of estimating such that, in the normal course of events, unforeseen or unexpected future developments could cause the ultimate cost of settling the outstanding liabilities to differ from that currently estimated. Any differences between provisions and subsequent settlements are dealt with in later accounting periods as actual costs and recoveries are known. Claims provisions include the estimated future costs of panel solicitors and of internal claims handling staff, including overheads. Claims provisions are not discounted.

SOLICITORS INDEMNITY FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

1. ACCOUNTING POLICIES (continued)

(i) Claims provisions (continued)

Recoveries provisions

Recoveries are recognised at the point at which they become virtually certain, practically when the Fund is notified of entitlement to amounts and they can be measured. The Fund does not make provision for other potential future recoveries due to the uncertainty of whether any amounts can be recovered.

Reinsurance provisions

Reinsurance policies are held to provide cover for the risk associated with uncertainties of claims settlements and costs. Claims are made against policies to the extent that criteria have been met. Amounts are recognised to the extent that the Directors believe they are recoverable with provision made for any doubtful debts.

(j) Run-off costs

In accordance with FRS3 and the ABI SORP, provision is made for future run-off costs as the Fund is in wind down. Under the SORP it is not necessary to provide for future anticipated administrative run-off costs to the extent that they are offset by the expected future investment return of the Fund. The directors consider that all costs incurred by the Fund fully relate to claims handling costs in relation to closure of the Fund and so are fully provided for in 2011 (2010: fully provided for).

(k) Deferred taxation

Deferred taxation is recognised in respect of all timing differences (except those noted as exceptions in the accounting standard) that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date. Deferred tax assets are recognised only to the extent that it is more likely than not that there will be taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

(l) Cash Flow Statement

As the financial statements of the Fund are consolidated within the financial statements of The Law Society, which are available at 113 Chancery Lane, London, WC2A 1PL, the Fund has taken advantage of the exemption contained in Financial Reporting Standard (FRS) 1 (Revised 1996) (Cash Flow Statements)

2. EXCEPTIONAL PROFIT SHARE FROM COMMUTATION OF REINSURANCE AGREEMENT

As a result of the early commutation of the Adverse Loss Development Programme (ALDP) with a leading insurer in 2010, there was a release back to the Fund of £16.3 million which was recognised as income in 2010.

3. INVESTMENT INCOME

	2011	2010
	£000	£000
Fixed interest and deposits	634	542
Interest on payments into court	33	113
	<u>667</u>	<u>655</u>

SOLICITORS INDEMNITY FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

4. GAINS AND LOSSES ON INVESTMENTS

	2011	2010
	£000	£000
Net realised (losses)	(191)	(50)
Net unrealised gains	254	2
	<u>63</u>	<u>(48)</u>

5. SURPLUS BEFORE TAXATION

Surplus before taxation is stated after charging / (crediting) the following amounts:

	2011	2010
	£000	£000
Expenditure in the year:		
Administration service charges for claims handling costs recharged from Vision Underwriting Limited	890	1,250
Administration service charges for claims handling costs recharged from Legal Indemnity Operations Limited	-	1,249
Premises, computer, insurance and other operating costs	58	323
Legal and professional	141	319
Audit	59	68
Depreciation – owned assets (vested by SIF Limited)	-	33
Loss on disposal of fixed assets	-	119
Total operating expenditure in the year	<u>1,148</u>	<u>3,361</u>
Less: Asset Licence fee received from Vision Underwriting Limited	(13)	(58)
Less: Asset Licence fee received from Legal Indemnity Operations Limited	-	(392)
	<u>1,135</u>	<u>2,911</u>

Analysis of gross claims costs within the income and expenditure account is as follows:

	2011	2010
	£000	£000
Amounts paid	(825)	(1,970)
Recoveries received	1,290	1,286
Internal claims costs	(1,135)	(2,911)
Gross claims costs	<u>(670)</u>	<u>(3,595)</u>

Administrative costs

The administrative costs of £0.9 million (2010: £1.3 million) relate to payments by the Fund to Vision Underwriting Limited under the administrative agreement disclosed in further detail within the Directors Report.

SOLICITORS INDEMNITY FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

5. SURPLUS BEFORE TAXATION (continued)

Asset Licence Income

In 2010 the Fund entered into a licence agreement with Vision Underwriting Limited for its use of the Fund's premises. The fee charged by the Fund to Vision Underwriting Limited for their use was £12,653 (2010: £58,316). This agreement expired during 2011 when the business relocated.

In 2010 £0.4 million was charged by the Fund to Legal Indemnity Operations Limited under a licence agreement for its use of the Fund's premises, computer software and fixed assets. This was terminated in 2010.

Other

Audit expenditure of £59,000 (2010: £67,500) is in respect of the audit of the financial statements. No amounts have been paid to the auditors in respect of non-audit services.

Directors' emolument costs of £61,703 (2010: £49,792) are charged directly to the Fund and are included above with legal and professional costs.

6. TAXATION CHARGE	2011	2010
	£000	£000
(a) Analysis of charge in the year		
Current Tax - Income tax charge on surplus for the year	281	4,410
Deferred tax charge/(credit)	15	(10)
Tax charge on surplus for the year	<u>296</u>	<u>4,400</u>
(b) Factors affecting tax charge for the year		
Surplus before taxation	<u>1,225</u>	21,992
Tax at 20% (2010: 20%)	245	4,398
Capital allowances more than depreciation	(15)	(14)
Expenses disallowed for tax purposes	1	25
Under provisions from prior periods	-	1
Tax on unrealised gains	50	-
Actual current tax charge	<u>281</u>	<u>4,410</u>

7. INVESTMENTS

	2011	2010
	£000	£000
Managed gilts fund	17,915	-
Managed cash fund	7,195	-
UK government bonds	6,762	7,563
Certificate of deposits and cash equivalents	-	26,489
	<u>31,872</u>	<u>34,052</u>

Investments consist of a mix of gilts, cash funds and UK government gilts of varying maturity dates up to 2017 with coupon rates of between 4.75% to 9%. The historic cost of investments amounts to £30.7 million (2010: £32.9 million).

SOLICITORS INDEMNITY FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

8. DEBTORS

	2011	2010
	£000	£000
Deferred tax asset	60	75
VAT	1	-
Other debtors	202	158
	<u>263</u>	<u>233</u>

All amounts are considered to be due within one year. Some element of the deferred tax asset may fall due in more than one year but it has not been separated out here as the timing of the future surpluses required is uncertain.

Deferred tax assets comprise of accelerated capital allowances:

	£000
Balance as at 1 January 2011	75
Deferred tax charge on surplus for the financial year	(15)
Balance as at 31 December 2011	<u>60</u>

9. CLAIMS PROVISION

The Claims provisions are made in accordance with the accounting policies and as explained in the report of the Directors they carry a significant level of judgement and rely on estimation techniques based on past experience and available information.

There are three main aspects to the provision as follows:

	31/12/2011	31/12/2010	Movement
	£000	£000	£000
Case reserves	(47)	327	374
IBNR	3,632	4,088	456
Run off costs	3,963	4,541	578
	<u>7,548</u>	<u>8,956</u>	<u>1,408</u>
Recoverable under reinsurance arrangements	(204)	(189)	15
	<u>7,344</u>	<u>8,767</u>	<u>1,423</u>

- a) Case reserves – provision is made for known cases. Estimates are made by specialist claims experts and panel solicitors of the likely damages and potential costs involved in settling the claim, as well as any expected recoveries to be made. These are revised on a regular basis based on updated information as the claims progress. Recoveries are only recognised when management and external advisors believe it is reasonably certain that amounts will be received. These provisions are sensitive to changes in the complexity of the case and the potential outcome and therefore damages changing.

SOLICITORS INDEMNITY FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

9. CLAIMS PROVISION (continued)

	31/12/2011	31/12/2010
	£000	£000
Cases with a net liability estimated	3,952	3,988
Cases with net recovery predicted	(3,999)	(3,661)
Case /(recoveries) reserves included in claims provisions	(47)	327

As explained in note 11 there are additional significant assets over which the Fund has some title or claim, which may lead to potential future recovery. However, there is such uncertainty over the timing and amount of any recovery that no estimate can be made of the value of the asset.

- b) Incurred but not reported (IBNR) – An actuarial estimate is made of those cases where the event that triggers a claim has already happened i.e. an act of negligence has occurred at some time in the past but is presently unknown to the Fund because it has not been reported. When disclosed to the Fund it would still be subject to any statutory limitation provisions applying. The risk exposure of all IBNR claims reduces over time as cases reach their primary or statutory limitation period. There remains significant risk in the post 6 year run-off provision as this is an undeveloped and immature area of business that took effect from 1 September 2007 when the Fund began providing cover for post 6 year run-off claims.
- c) Run off costs – as the Fund is in run-off, estimated future costs are all recognised in the accounts. In 2011 and 2010 the majority of the provision is based on the agreed contract with Vision Underwriting Limited and therefore the uncertainty in this aspect of the provision has been reduced. The main uncertainty is the period of time for which the Fund will need to manage ongoing claims and this will depend on the complexity of the remaining cases. In 2011 the provision includes estimates of maintaining some claims handling services until 2030, however the level is expected to gradually decrease.

10. CREDITORS

	2011	2010
	£000	£000
Excess of loss insurance recoveries repayable	10	-
Amount due to The Law Society Group	-	13
Taxation	2,887	4,365
Other tax and social security payable	19	16
Accruals and deferred income	53	70
Claims payable	-	42
	<u>2,969</u>	<u>4,506</u>

11. CONTINGENT GAINS AND LOSSES

There are a number of assets over which the Fund has some title/ claim which may lead to potential future recoveries. These potential assets are not recognised as part of the provisions for recoveries as, in the opinion of the Directors, they are so uncertain that they cannot be practically measured and hence no estimate is included here.

12. ULTIMATE CONTROLLING PARTY

In the opinion of the Directors the ultimate controlling party is the Council of The Law Society by virtue of it being the controlling party of the Fund.

Copies of The Law Society's accounts can be obtained from The Law Society, Law Society Hall, 113 Chancery Lane, London, WC2A 1PL. Consolidated accounts including this company are prepared by The Law Society, which is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 31 December 2011.