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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 October 2015 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

**ANNUAL REPORT AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2015**

**BY OPENING THIS DOCUMENT YOU HAVE EXPLICITLY AGREED TO THE
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SOLICITORS INDEMNITY FUND

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SOLICITORS INDEMNITY FUND

REPORT OF THE DIRECTORS OF THE ADMINISTERING COMPANY FOR THE YEAR ENDED 31 OCTOBER 2015

ADMINISTRATION OF THE FUND

Solicitors Indemnity Fund Limited (the "Company") holds, manages and administers the Solicitors Indemnity Fund (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.

THE BOARD OF DIRECTORS AND ITS COMMITTEES

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

D. A. McIntosh - *Chairman*
D. Hudson (Retired 11 March 2015)
W. R. Treen
R. Collins
C. Dixon (Appointed 11 March 2015, retired 4 December 2015)
T. Fothergill (Appointed 2 December 2015)

PURPOSE AND PRINCIPAL ACTIVITIES OF THE FUND

The Solicitors Indemnity Fund is a statutory fund established in 1987 governed by the Solicitors' Indemnity Rules 1987 as amended from time to time. The Rules are presently made under sections 37, 79 and 80 of the Solicitors Act 1974, section 9 of the Administration of Justice Act 1985, and paragraph 19 of Schedule 11 of the Legal Services Act 2007, with the approval of the Legal Services Board under paragraph 19 of Schedule 4 to the Legal Services Act 2007. The Rules are now known as the SRA Indemnity Rules.

The Fund provided indemnity in respect of the practices of solicitors, recognised bodies and registered foreign lawyers carried on wholly or in part in England and Wales, with up to £1 million of cover per claim (£1.5 million for recognised bodies) until 31 August 2000, when the Council of The Law Society decided to require firms to purchase indemnity insurance in the open market. The Fund therefore went into run-off from 1 September 2000. In 2004, the indemnity limit increased for new claims arising within existing practices to £2 million and £3 million for recognised bodies.

The purpose of the Fund is to:

- Manage the ongoing notified claims arising from the pre 1 September 2000 period and settle the associated 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 concluded.
- Manage new claims arising from 1 September 2000 against practices that had ceased without successor prior to 1 September 2000 and settle the associated liabilities arising.
- Manage new claims and settle the associated liabilities arising from firms insured in the open market and which have ceased without successor from 1 September 2000 and where the requisite six-year run-off period provided by their last market insurer or the Assigned Risks Pool has elapsed. This cover was initially provided by way of a 10-year block programme commencing on 1 September 2007 and ending on 30 September 2017, but was extended in 2012 by an additional three years to 30 September 2020.

THE PROVISION OF CLAIMS AND ADMINISTRATION SERVICES

In 2010, the Company entered into an administrative services agreement with Vision Underwriting Limited 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 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. During 2012, an escrow agreement was signed and an escrow account set up to hold the remaining outstanding fees under the agreement. As these fees are legally in the ownership of the Fund until formally due they will continue to be reflected within the Fund's financial statements until such time as they are paid. During 2014, the terms of the agreement were amended to reflect a change in counterparty from Vision Underwriting Limited to Liberty Mutual Insurance Europe Limited (the parent company of Vision Underwriting Limited). Consideration has been given to the provision of resources required in respect of the extended period of post cessation cover from 2017 to 2020 referred to above: provision for these costs has been made on an estimated basis in these financial statements.

SOLICITORS INDEMNITY FUND

REPORT OF THE DIRECTORS OF THE ADMINISTERING COMPANY FOR THE YEAR ENDED 31 OCTOBER 2015 (continued)

RESULTS FOR THE YEAR

The activities of the Fund gave rise to a deficit after tax of £0.5 million for the year (2014: surplus £2.1 million); the Fund benefitting from interest received or receivable of £0.2 million (2014: £1.3 million) and the return generated from the investment portfolio of £0.7 million (2014: £0.7 million). Collectively these account for £0.9 million (2014: £2.0 million) of surplus with a deficit of £1.4 million arising from adverse developments on the indemnity operations. There has been increased activity in claims relating to the post six-year run-off cover above expectations. The Solicitors Indemnity Fund Limited (SIFL) Board has considered this development and adjusted the current year by increasing the provisions accordingly resulting in the deficit of £1.4 million. An actuarial review will take place within the next financial year to assess the impact of this development on future liabilities. Further information in relation to claims, expenses and investment performance is provided on page 3 below.

RISKS AND UNCERTAINTIES

The Fund's business carries significant uncertainties and the financial statements include significant judgements around claims costs and provisions, based on past historic experience. The claims provisions are reviewed on a regular basis to ensure these reflect up to date information and are considered the Fund's key performance measure. Further details of the claims provision are included in Note 8.

DISCONTINUED ACTIVITIES

The Fund ceased to provide indemnity to its members from 1 September 2000 and was placed into run-off 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 financial statements have not been prepared on a break-up basis.

CLAIMS

As at 31 October 2015, there were 135 open cases (2014: 155) a net reduction of 20 in the year. The increase in claims incurred net of reinsurance was £1.4 million (2014: decrease £155k), brought about by an increase in net provision for claims of £1.1 million (2014: decrease £407k), whilst claims payments, net of claim recoveries, and including internal claims costs, during the year were a net cost of £303k (2014: £324k). There was no movement on amounts recoverable from reinsurers (2014: £nil) in the year whilst reinsurance recoveries were £12k (2014: £72k).

Provision has been made within the Gross Claims Reserve for the total estimated future liabilities arising from the 10-year block programme and the more recent three-year extension providing cover to ceased firms after the six year run off period has elapsed. This is based on best information currently available of £6.1 million (2014: £5.9 million).

INVESTMENTS

The Fund's investment strategy is to hold a managed fixed income portfolio consisting of investment grade credit, high yield bonds and other securities. This provides the Fund with a constant income from investment but there remains volatility in the underlying value of the funds within the portfolio, which is accounted for as either an unrecognised loss or gain in the Statement of Total Recognised Gains and Losses on page 8. During the year, the Board decided to diversify the investment portfolio by part disinvesting from the fixed income portfolio and reinvesting within a managed index portfolio, which has a wider range of asset class and securities within it. Further details are provided in Note 6.

INTEREST ON CLAIM RECOVERIES

The Fund is entitled to interest on certain claim recoveries. Where the legal right to interest exists, and the interest can be accurately calculated and there is a reasonable expectation of recovery, the interest receivable has been recognised within these financial statements as a receivable item within Debtors. Further details are provided in Note 7.

SOLICITORS INDEMNITY FUND

REPORT OF THE DIRECTORS OF THE ADMINISTERING COMPANY FOR THE YEAR ENDED 31 OCTOBER 2015 (continued)

OPERATING EXPENDITURE

The charges incurred by the Fund during the year for the provision of administrative and run-off services by Liberty Mutual Insurance Europe Limited were £0.3 million (2014: £0.5 million). Other operating expenses incurred during the year were £0.3 million (2014: £0.2 million), giving total gross operating expenses incurred of £0.6 million (2014: £0.7 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 that any future investment returns would meet these liabilities. The Directors consider that all costs incurred by the Fund fully relate to claims handling costs in relation to the closure of the Fund. As such, one hundred per cent (2014: one hundred per cent) of all expected net operating expenses to the eventual closure of the Fund are allocated to claims handling and provided in full in the year (Note 8).

INDEPENDENT AUDITORS

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

THE LAW SOCIETY

The financial statements of the Fund are consolidated with the financial statements of The Law Society as at 31 October 2015 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 financial statements can be obtained from The Law Society, Law Society Hall, 113 Chancery Lane, London, WC2A 1PL.

STATEMENT OF RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors' of the Administering Company are 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 Directors' of the Company have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law. In preparing those financial statements, the Directors of the Company:

- select suitable accounting policies and applies them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare 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 Directors of the Company are 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. They are 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.

Approved on behalf of the Solicitors Indemnity Fund Limited

D. A. McIntosh



Chairman

Dated 24 March 2016

Report on the financial statements

Our opinion

In our opinion, Solicitors Indemnity Fund's (the "Fund") financial statements (the "financial statements"):

- give a true and fair view of the state of the Fund's affairs as at 31 October 2015 and of its deficit for the year then ended; and
- have been properly prepared in accordance with United Kingdom accounting standards.

What we have audited

The Fund's financial statements comprise:

- the Balance Sheet as at 31 October 2015;
- the Income and Expenditure Account for the year then ended,
- the Statement of Total Recognised Gains and Losses for the year then ended ; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards.

In applying the financial reporting framework, the Directors of the Solicitors Indemnity Fund Limited (the "Directors") have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of responsibilities in respect of the financial statements set out on page 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & 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 to discharge their stewardship obligations and fiduciary responsibilities in respect of the Fund under the By-laws in accordance with our engagement letter dated 22 October 2015 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the 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 financial statements.

SOLICITORS INDEMNITY FUND

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

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements for the year ended 31 October 2015 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



PricewaterhouseCoopers LLP
Chartered Accountants
London
24 March 2016

SOLICITORS INDEMNITY FUND

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 OCTOBER 2015

		31 October 2015	31 October 2014
	Note	£000	£000
DISCONTINUED OPERATIONS			
Claims costs	4	(303)	(324)
Reinsurance recoveries		12	72
Net claims costs		(291)	(252)
(Increase)/Decrease in gross provision for claims	8	(696)	1,265
(Decrease) in expected claim recoveries	7	(442)	(858)
(Increase)/Decrease in net provision for claims		(1,138)	407
(Increase)/Decrease in claims incurred net of reinsurance		(1,429)	155
Realised losses on investments	3	(159)	(264)
Interest from investments and claim recoveries	2(a)	1,125	1,157
Exceptional Interest on claim recoveries receivable	2(b)	-	1,097
Investment expenses		(39)	(36)
Total interest		927	1,954
Contributions receivable		11	-
(Deficit)/surplus before taxation	4	(491)	2,109
Taxation charge	5	-	-
(Deficit)/surplus for the year		(491)	2,109
Release of Surplus to The Law Society		-	-
Realised (deficit)/surplus for the year		(491)	2,109
Surplus brought forward		19,775	17,192
		19,284	19,301
Other unrealised gains		58	474
Surplus carried forward		19,342	19,775

There is no difference between the deficit before taxation and the deficit for the year stated above and their historical cost equivalents.

The notes on pages 10 to 15 form part of these financial statements.

SOLICITORS INDEMNITY FUND

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 OCTOBER 2015

		31 October 2015	31 October 2014
	Note	£000	£000
(Deficit)/surplus for the financial year		(491)	2,109
Unrealised gains on investments	3	58	474
Total recognised losses and gains relating to the financial year		(433)	2,583

SOLICITORS INDEMNITY FUND
BALANCE SHEET AS AT 31 OCTOBER 2015

		31 October 2015	31 October 2014
	Note	£000	£000
Current assets:			
Investments	6	31,226	29,922
Debtors	7	2,447	3,246
Cash held in Escrow		355	700
Cash and Bank		334	215
Total current assets		<u>34,362</u>	<u>34,083</u>
Current liabilities:			
Creditors	9	(165)	(149)
Total current liabilities		<u>(165)</u>	<u>(149)</u>
Liabilities due in more than one year:			
Provisions	8	(14,855)	(14,159)
Total liabilities due in more than one year		<u>(14,855)</u>	<u>(14,159)</u>
Total Liabilities		<u>(15,020)</u>	<u>(14,308)</u>
Net Assets		<u>19,342</u>	<u>19,775</u>
Retained Surplus		<u>19,342</u>	<u>19,775</u>

Approved on behalf of Solicitors Indemnity Fund



D. A. McIntosh
Chairman

24 March 2016

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

The notes on pages 10 to 15 form part of these financial statements.

SOLICITORS INDEMNITY FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2015

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 statements of Solicitors Indemnity Fund Limited.

(b) **Reporting standards**

The financial statements are prepared in accordance with applicable UK accounting standards.

(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 the Balance Sheet date on a portfolio basis. Upward revaluations are taken to the Income and Expenditure 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 Income and Expenditure account where they fall below historical cost. Profits and losses on sales of investments are measured by reference to the carrying value.

(e) **Interest from investments and claim recoveries**

Income from the various investment portfolios is remitted throughout the year but is accounted for on an accruals basis. Interest from claim recoveries are recognised when they are able to be reliably measured and there is a reasonable expectation of recovery.

(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 comprise claims handling costs including the costs of panel solicitors and internal claims handling staff, damages paid out, and other costs net of recoveries. Claims costs are accounted for when incurred and recoveries are recognised at the point they can be reliably measured and there is a reasonable expectation of recovery.

(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 internal claims handling staff, including overheads. Claims provisions are not discounted.

SOLICITORS INDEMNITY FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2015 (continued)

1. ACCOUNTING POLICIES (continued)

(j) **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.

(k) **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 the current year (2014: fully provided for).

(l) **Recoveries provisions**

Recoveries are recognised at the point at which they can be measured and there is a reasonable expectation of recovery, practically when the Fund is notified of entitlement to amounts. Assessment is made of the likelihood of recovery and subsequent provision made if required. The Fund does not make provision for other potential future recoveries due to the uncertainty of whether any amounts can be recovered.

(m) **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.

(n) **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).

2a. INTEREST FROM INVESTMENTS AND CLAIM RECOVERIES

	31 October 2015	31 October 2014
	£000	£000
Fixed interest	952	943
Interest on claim recoveries	173	214
	<u>1,125</u>	<u>1,157</u>

2b. EXCEPTIONAL INTEREST ON CLAIM RECOVERIES RECEIVABLE

In 2014 interest on claim recoveries receivable of £1,097,000 was recognised as an exceptional item as the Directors obtained better information in relation to the amounts of interest due and the likelihood of recovery, enabling recognition of interest that had previously not been recognised.

SOLICITORS INDEMNITY FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2015 (continued)

3. GAINS AND LOSSES ON INVESTMENTS

	31 October 2015	31 October 2014
	£000	£000
Net realised losses	(159)	(264)
Net unrealised gains	58	474
	<u>(101)</u>	<u>210</u>

4. (DEFICIT)/SURPLUS BEFORE TAXATION

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

	31 October 2015	31 October 2014
	£000	£000
Expenditure in the year:		
Administration service charges for claims handling costs paid to Liberty Mutual Insurance Europe Limited	345	470
Insurance and other operating costs	41	45
Legal and professional	121	91
Audit	54	52
Net operating expenditure in the year, included in gross claims costs	<u>561</u>	<u>658</u>
Utilisation of provision for run-off costs	(738)	(642)
Net expenses incurred/(recovered)	<u>(177)</u>	<u>16</u>

Administrative costs

The administrative costs of £0.3 million (2014: £0.5 million) relate to payments by the Fund to Liberty Mutual Insurance Europe Limited under the administrative agreement disclosed in further detail within the Directors Report.

Other

Audit expenditure of £54k (2014: £52k) is in respect of the audit of the financial statements. No amounts have been paid to the auditors in respect of non-audit services (2014: nil).

Directors' emolument costs of £76k (2014: £57k) are charged directly to the Fund and are included above within legal and professional costs.

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

	31 October 2015	31 October 2014
	£000	£000
Amounts paid	(430)	(1,069)
Recoveries received	688	1,403
Internal claims costs	<u>(561)</u>	<u>(658)</u>
Claims costs net of recoveries	<u>(303)</u>	<u>(324)</u>

SOLICITORS INDEMNITY FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2015 (continued)

5. TAXATION CHARGE

	31 October 2015	31 October 2014
	£000	£000
(a) Analysis of total tax charge/(credit) in the year		
Current Tax		
Current Tax - Income tax credit on deficit for the year	-	-
Adjustment in respect of prior years	-	-
Current tax credit	-	-
Deferred Tax		
Deferred tax charge	-	-
Write-down of deferred tax asset	-	-
Total deferred tax charge	-	-
Total tax charge on deficit for the year	-	-
(b) Factors affecting tax credit for the year		
(Deficit)/surplus before taxation	(491)	2,109
Tax charge at 20% (2014: 20%)	(98)	422
Capital allowances in excess of depreciation	(6)	(7)
Tax on unrealised gains	12	95
Accrued income taxable when received	40	-
Losses not utilised carried forward	52	-
Tax losses bought forward utilised in the year	-	(510)
Actual current tax charge	-	-

A deferred tax asset of £687k (2014: £414k) in respect of unutilised tax losses is not recognised at the balance sheet date. A deferred tax asset of £27k (2014: £33k) in respect of capital allowances in excess of depreciation is not recognised at the balance sheet date.

6. INVESTMENTS

	31 October 2015	31 October 2014
	£000	£000
Managed index portfolio	20,488	-
Managed fixed income portfolio	10,738	29,922
	31,226	29,922

The historic cost of investments amounts to £30.9 million (2014: £29.7 million).

SOLICITORS INDEMNITY FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2015 (continued)

7. DEBTORS

	31 October 2015	31 October 2014
	£000	£000
VAT recoverable	7	11
Expected claim recoveries	1,533	1,975
Interest on claim recoveries receivable	902	1,097
Other debtors	5	163
	<u>2,447</u>	<u>3,246</u>

Interest on claim recoveries receivable includes £0.7 million (2014: £0.6 million) falling due after more than year. All other amounts are considered due within one year except for the expected claim recoveries, of which £1.1 million (2014: 1.2 million) is falling due after more than one year.

Recoveries are only recognised when management and external advisors believe there is a reasonable expectation of recovery.

As explained in Note 10 there are additional 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.

8. PROVISIONS

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 experience and available information.

There are three main aspects to the provision as follows:

	31 October 2015	31 October 2014	Movement
	£000	£000	£000
Gross claims reserves	3,607	2,305	1,302
IBNR	6,074	5,942	132
Run off costs	5,174	5,912	(738)
	<u>14,855</u>	<u>14,159</u>	<u>696</u>

- Claims 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. These provisions are sensitive to changes in the complexity of the case and the potential outcome and therefore cost of damages changing.
- 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.

SOLICITORS INDEMNITY FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2015 (continued)

8. PROVISIONS (continued)

- c) Run off costs – as the Fund is in run-off, estimated future costs are all recognised in the financial statements. Part of the provision is based on the agreed contract with Liberty Mutual Insurance Europe Limited and therefore the uncertainty in this aspect of the provision is lower. 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. The provision includes estimates of maintaining some claims handling services until 2030, however the level is expected to gradually decrease. Significant uncertainty remains in relation to the claims handling costs associated with the post cessation cover referred to in paragraph (b) above.

9. CREDITORS

	31 October 2015	31 October 2014
	£000	£000
Accruals and deferred income	70	79
Claims payable	70	70
Other tax and social security payable	25	-
	<u>165</u>	<u>149</u>

10. CONTINGENT GAINS AND LOSSES

There are a some 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.

11. 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 financial statements can be obtained from The Law Society, Law Society Hall, 113 Chancery Lane, London, WC2A 1PL. Consolidated financial statements 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 October 2015.