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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 2010 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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6. PwC will be entitled to the benefit of and to enforce these terms; and
7. These terms and any dispute arising from them, whether contractual or non-contractual, are subject to English law and the exclusive jurisdiction of English courts.

**SOLICITORS INDEMNITY FUND**

**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

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# SOLICITORS INDEMNITY FUND

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## SOLICITORS INDEMNITY FUND

### REPORT OF THE DIRECTORS OF THE ADMINISTERING COMPANY

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#### 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 £1.0m 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 September 1 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 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 2011 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 of the Fund 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.

On 26 July 2007, Solicitors Indemnity Fund Limited entered into an administrative services agreement with Legal Indemnity Operations Limited (previously Legal and Professional Claims Limited), a wholly-owned subsidiary of the Law Society, for the provision of various administrative and claims handling services (the “Original Agreement”) in respect of the run-off of the Fund for a period of five years until 31 July 2012 and thereafter upon twelve months’ written notice of termination. Legal Indemnity Operations 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.

Given the reduction in the claim portfolio and volume of business, the Board had been considering various options for provision of claims management. Vision Underwriting Limited, a wholly owned subsidiary of Liberty Mutual Insurance Europe Limited, expressed an interest in providing these services and therefore the business of Legal Indemnity Operations Limited, including the staff and knowledge of the case book, were transferred to Vision Underwriting Limited on 23 July 2010.

On the same date, Solicitors Indemnity Fund Limited terminated, by mutual agreement, the Original Agreement with Legal Indemnity Operations Limited and made a discretionary payment of £42,000 to Legal Indemnity Operations Limited as compensation for early termination of the agreement.

Solicitors Indemnity Fund Limited also entered into a new administrative services agreement with Vision Underwriting Limited for the provision of various administrative and claims handling services (the “Agreement”) in respect of the run-off of the Fund for a period of ten years until 30 June 2020. The Law Society of England and Wales confirmed and agreed to this appointment. 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. As part of the transfer of business agreement the fixed assets of the Fund were sold to Vision Underwriting Limited for the consideration of £1 which realised a loss of £30,000 in the Fund. As a result there is no asset licence agreement for fixed assets although there is a charge in respect of the lease premises. Further details provided in Note 5 and 9.

## **SOLICITORS INDEMNITY FUND**

### **REPORT OF THE DIRECTORS OF THE ADMINISTERING COMPANY (continued)**

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#### **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*  
**B. V. Day OBE** - *(Retired 25 February 2010)*  
**J. K. Holder**  
**D. Hudson**  
**T. G. R. Lawrence** *(Retired 25 February 2010)*  
**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:

#### **Finance and Audit Committees (incorporating Investment Committee)**

**T. G. R. Lawrence** – *Chairman (Retired 25 February 2010)*  
**J. K. Holder** - *Chairman (Appointed 7 June 2010)*  
**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.

#### **Remuneration Committee**

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

The responsibilities of the Remuneration Committee are determining the remuneration of senior executives and approving the remuneration of all employees. This committee ceased in July 2010 when all employees were transferred to Vision Underwriting Limited.

#### **Claims Committee**

**B. V. Day OBE** – *Chairman (Retired 25 February 2010)*  
**D. A. McIntosh**  
**W. R. Treen** - *Chairman (Appointed 7 June 2010)*

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.

## **SOLICITORS INDEMNITY FUND**

### **REPORT OF THE DIRECTORS OF THE ADMINISTERING COMPANY (continued)**

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#### **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 10.

#### **DISCONTINUED ACTIVITIES**

The Fund was put into run-off on 1 September 2000 and so all its activities are treated and accounted for as discontinued operations. However, as 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 the number of the Fund's open claims reduced by 145, from 311 at 31 December 2009 to 166 at 31 December 2010. There were further savings on gross claims of £5.0 million (2009: £9.1 million), brought about by a reduction in gross claims provisions of £8.6 million (2009: £13.0 million), from £17.6 million at 31 December 2009 to £9.0 million at 31 December 2010, whilst claims payments, including internal claims costs, during the year were £3.6 million (2009: £3.8 million). Amounts recoverable from reinsurers increased by £89,000 (2009: reduced by £1.0 million) in the year, whilst reinsurance recoveries were £62,000 (2009: £0.9 million).

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. To 31 December 2010 there have been 17 claims notifications arising from these practices with an incurred value of £0.2 million which is consistent with the prior year. Provision has been made in the Gross Claims Provision for the total estimated future liabilities arising from these claims based on the best information currently available.

#### **LOSS DEVELOPMENT PROGRAMME**

The Fund's claims liabilities in excess of £90 million and up to a limit of £205 million with effect from 1 October 2004 were covered by an Adverse Loss Development Programme (ALDP) entered into with a leading insurer. Paid and estimated liabilities to 31 December 2009 from claims falling under this cover had not reached the excess point and, in the opinion of the Directors, were unlikely to do so in the future. During 2010 an actuarial review was carried out, by an external independent firm of actuaries, of the Fund's current claim liabilities, which confirmed that Directors' opinion. As a result, the Fund exercised the option of early commutation and the ALDP was commuted on 1 October 2010.

As a result of the early commutation there has been a release back to the Fund of £16.25 million. These funds have been recognised as income in the accounts and received as at 31 December 2010.

In the Directors' opinion, based on the actuarial review carried out and their judgement, the Fund's liabilities are fully covered by the claims provisions and retained surplus. As at 31 December 2010 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.

#### **INVESTMENTS**

The Fund's investment strategy over the last five years 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. At 31 December 2010 the value of gilts held had reduced to £7.6 million (2009: £8.5 million) and the value of short-term deposits has increased to £26.5 million (2009: £20.8 million).

## SOLICITORS INDEMNITY FUND

### REPORT OF THE DIRECTORS OF THE ADMINISTERING COMPANY (continued)

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#### OPERATING EXPENDITURE

The charges incurred by the Fund during the year for the provision of administrative and run-off services by Legal Indemnity Operations Limited were £1.3 million (2009: £2.9 million) and by Vision Underwriting Limited were £1.2 million (2009: £nil). Other operating expenses incurred during the year were £0.9 million (2009: £0.9 million), giving total gross operating expenses incurred of £3.4 million (2009: £3.8 million). The fee received from Legal Indemnity Operations Limited in respect of its use of the Fund's assets until 23 July 2010 was £0.4 million (2009: £0.7 million). The fee received from Vision Underwriting Limited in respect of its use of the Fund's premises from the 23 July 2010 was £0.1 million (2009: £nil). This gives a total net operating expenses of £2.9 million (2009: £3.1 million).

As explained in note 1(i) provision is made for all future costs expected to be incurred by the Fund while it is in run-off. The new agreement with Vision Underwriting Limited has provided more certainty of future costs to be incurred. Previously the directors had considered that approximately 80% of costs related to claims handling and 20% to administration, with the administration element not recognised to the extent future investment income could cover them.

Following the change in provider of the administrative services in 2010 and the changes to the portfolio of claims and activities required to manage it, 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 (2009: eighty per cent) expected net operating expenses to close are allocated to claims handling and provided in the year (note 10).

#### RESULT FOR THE YEAR

The surplus for the year before tax was £22.0 million (2009: £8.8 million) including exceptional income of £16.25 million as shown in the Income and Expenditure Account. The tax charge for the year was £4.4 million (2009: £1.8 million), giving a net surplus after tax for the year of £17.6 million (2009: £7.0 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 £6.0 million (2009: £6.0 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.

#### 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 December 2010 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 17th March 2011



## SOLICITORS INDEMNITY FUND

### REPORT OF THE DIRECTORS OF THE ADMINISTERING COMPANY (continued)

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#### 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 17th March 2011

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

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We have audited the non-statutory financial statements of Solicitors Indemnity Fund (the "Fund") for the year ended 31 December 2010 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 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 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 16 December 2010 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.

### **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 2010 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  
18<sup>th</sup> March 2011

**SOLICITORS INDEMNITY FUND**

**INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2010**

	Note	2010 £000	2009 £000
<b>DISCONTINUED OPERATIONS</b>			
Gross claims costs	5	(3,595)	(3,807)
Reinsurance recoveries		62	929
Net claims costs		<u>(3,533)</u>	<u>(2,878)</u>
Decrease in gross provision for claims	10	8,599	12,883
Increase/(Decrease) in amount recoverable from reinsurers	10	89	(1,030)
Decrease in net provision for claims		<u>8,688</u>	<u>11,853</u>
Exceptional profit Share from commutation of reinsurance agreement	2	16,250	-
<b>Decrease in claims incurred net of reinsurance</b>		<u>21,405</u>	<u>8,975</u>
Realised losses on fixed asset investments	4	(50)	(17)
Income from fixed asset investments	3	655	740
Unrealised losses on investments	4	-	(283)
Investment expenses		<u>(18)</u>	<u>(17)</u>
<b>Investment return</b>		<u>587</u>	<u>423</u>
Administrative expenses charge	5	-	(622)
		<u>21,992</u>	<u>8,776</u>
Contributions receivable	1(f)	-	11
<b>Surplus before taxation</b>	5	<u>21,992</u>	<u>8,787</u>
Taxation charge	6	(4,400)	(1,779)
<b>Surplus for the financial year</b>		<u>17,592</u>	<u>7,008</u>
Release of Surplus to The Law Society		(6,000)	(6,000)
<b>Realised surplus for the year</b>		<u>11,592</u>	<u>1,008</u>
Surplus Brought Forward		9,933	8,925
Other unrealised gains	4	2	-
<b>Surplus carried forward</b>		<u>21,527</u>	<u>9,933</u>

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 18 form part of these financial statements.

**SOLICITORS INDEMNITY FUND**

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2010**

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	Notes	2010 £000	2009 £000
Surplus for the financial year		11,592	1,008
Unrealised gains on fixed asset investments	4	2	-
Total recognised gains and losses relating to the financial year		<u>11,594</u>	<u>1,008</u>

**SOLICITORS INDEMNITY FUND**  
**BALANCE SHEET AS AT 31 DECEMBER 2010**

	Note	2010 £000	2009 £000
<b>Assets</b>			
Investments	7	34,052	29,377
Tangible Assets	9	-	145
Reinsurers' Share of Claims Provision	10	189	100
Debtors	8	233	457
Cash and Bank		515	466
<b>Total Assets</b>		<b>34,989</b>	<b>30,545</b>
<b>Liabilities</b>			
Gross Claims Provision	10	(8,956)	(17,555)
Creditors	12	(4,506)	(3,057)
<b>Total Liabilities</b>		<b>(13,462)</b>	<b>(20,612)</b>
<b>Net Assets</b>		<b>21,527</b>	<b>9,933</b>
<b>Retained Surplus</b>		<b>21,527</b>	<b>9,933</b>

Approved on behalf of Solicitors Indemnity Fund

The notes on pages 11 to 18 form part of these financial statements.



D. A. McIntosh  
Chairman

17th March 2011

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

## SOLICITORS INDEMNITY FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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#### 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 Income and Expenditure account where they are a reversal of previously recognised impairments and taken to the revaluation reserve 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 deposits is accounted for on an accruals basis.

(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 made up of claims handling costs including the costs of panel solicitors and internal claims handling staff, damages paid out, other costs and 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 2010 (continued)

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#### 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. Therefore no provision has been made for these administrative costs in the past, estimated to be approximately 20% of ongoing costs. Following the new administrative agreement with Vision Underwriting Limited, all future costs are considered to be claims management related and hence are fully provided for in the 2010 financial statements.

##### (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) Tangible Fixed Assets and Depreciation

Fixed assets are accounted for at cost of acquisition including associated expenses of getting them to their location. An annual review of the carrying value, expected residual value and rate of depreciation is carried out by the Directors. These assets are legally owned by Solicitors Indemnity Fund Limited but beneficially vested in the Fund.

Depreciation is provided to write off the cost less estimated residual value of fixed assets over their estimated useful economic lives on a straight line basis, as follows:

Computer Equipment	-	25%
Fixtures and Fittings	-	20%-25%

On 23 July 2010, all the fixed assets of the Company were transferred to Vision Underwriting Limited as part of the business sale agreement. Further details are in Note 9.

##### (m) 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, there has been a release back to the Fund of £16.25 million which has been recognised as income, in the accounts and was received in full as at 31 December 2010.

**SOLICITORS INDEMNITY FUND**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)**

**3. INVESTMENT INCOME**

	<b>2010</b>	2009
	<b>£000</b>	£000
Fixed interest and deposits	542	639
Interest on payments into court	113	101
	<u>655</u>	<u>740</u>

**4. GAINS AND LOSSES ON INVESTMENTS**

	<b>2010</b>	2009
	<b>£000</b>	£000
Net realised (losses)	(50)	(17)
Net unrealised gains/(losses)	2	(283)
	<u>(48)</u>	<u>(300)</u>

Unrealised losses of £283,000 in 2009 were recognised in the income and expenditure account, as there were no previously recognised gains for offsetting within reserves. The unrealised gains of £2,000 has been recognised in the statement of total recognised gains and losses for 2010.

**5. SURPLUS BEFORE TAXATION**

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

	<b>2010</b>	2009
	<b>£000</b>	£000
<b>Expenditure in the year:</b>		
Administration service charges for claims handling costs recharged from Legal Indemnity Operations Limited and Vision Underwriting Limited	2,499	2,869
Premises, computer and other operating costs	198	465
Legal and professional	319	102
Audit	68	51
Insurance	125	139
Depreciation – owned assets (vested by SIF Limited)	33	136
Loss on disposal of fixed assets	119	-
Total operating expenditure in the year	<u>3,361</u>	<u>3,762</u>
Less: Asset Licence Fee received	<u>(450)</u>	<u>(650)</u>
	<u>2,911</u>	<u>3,112</u>

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

	<b>2010</b>	2009
	<b>£000</b>	£000
Amounts paid	(1,970)	(3,564)
Recoveries received	1,286	2,247
Internal claims costs	(2,911)	(2,490)
<b>Gross claims costs</b>	<u>(3,595)</u>	<u>(3,807)</u>



## SOLICITORS INDEMNITY FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

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#### 5. SURPLUS BEFORE TAXATION (continued)

##### *Administrative costs*

The administrative costs of £2,499,000 consists of £1,249,000 relating to administration service charges on the Original Agreement between the Fund and Legal Indemnity Operations Limited. A termination payment of £42,000 is included within the £1,249,000 relating to compensation paid by the Fund to Legal Indemnity Operations Limited for the termination of the Original Agreement dated 26 July 2007. The remaining £1,250,000 relates to payment by the Fund to Vision Underwriting Limited under the new administrative agreement entered into on 23 July 2010 which is disclosed in further detail within the Directors Report.

The Agreement entered into by the Company and Vision Underwriting Limited requires the enactment of an escrow agreement and an escrow account. Solicitors Indemnity Fund Limited will pay into this account the fees which remain outstanding under the Agreement. As at the time of signing these accounts this agreement has not been finalised or signed.

##### *Asset Licence Income*

As at 26 July 2007 the Fund entered into a licence agreement with Legal Indemnity Operations Limited for its use of the Fund's premises, computer software and fixed assets. This was terminated on 23 July 2010. The fee charged by the Fund to Legal Indemnity Operations Limited for their use for the period 1 January 2010 – 22 July 2010 was £391,772 and is included under the heading of Asset Licence Fee received.

As at 23 July 2010 the Fund entered into a new licence agreement with Vision Underwriting Limited for its use of the Fund's premises only. The fee charged by the Fund to Vision Underwriting Limited for their use for the period 23 July 2010 – 31 December 2010 was £58,316 and is included under the heading of Asset Licence Fee received.

##### *Other*

Audit expenditure of £67,500 (2009: £51,000) is in respect of the audit of the financial statements. No amounts have been paid to the auditors in respect of non-audit services.

The Fund has no employees, all staff costs were incurred in Legal Indemnity Operations Limited, and recharged for the period 1 January 2010 – 22 July 2010. From 23 July 2010 all staff were transferred to Vision Underwriting Limited and these costs are covered by the Agreement. Directors' emoluments costs were split between Legal Indemnity Operations Limited and the Fund until 30 June 2010. From 1 July 2010 all Directors' emolument costs of £49,792 (2009: £46,050) are charged directly to the Fund. These are included above with legal and professional costs.

**SOLICITORS INDEMNITY FUND**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)**

**6. TAXATION CHARGE**

	<b>2010</b>	2009
	<b>£000</b>	£000
(a) Analysis of charge in the year		
Current Tax - Income tax charge on surplus for the year	<b>4,410</b>	1,794
Deferred tax (credit) / charge	<b>(10)</b>	(15)
Tax charge on surplus for the year	<u><b>4,400</b></u>	<u>1,779</u>
(b) Factors affecting tax charge for the year		
<b>Surplus for the financial year</b>	<b>21,992</b>	8,787
Tax at 20% (2009: 20% )	<b>4,398</b>	1,757
Capital allowances (more than) less than depreciation	<b>(14)</b>	-
Expenses disallowed for tax purposes	<b>25</b>	1
Under/(over)provisions from prior periods	<b>1</b>	36
Other	<b>-</b>	-
Actual current tax charge	<u><b>4,410</b></u>	<u>1,794</u>

**7. INVESTMENTS**

	<b>2010</b>	2009
	<b>£000</b>	£000
UK government bonds	<b>7,563</b>	8,528
Certificate of deposits and cash equivalents	<b>26,489</b>	20,849
	<u><b>34,052</b></u>	<u>29,377</u>

Investments consist of a mix of certificate of deposits 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 £32.9 million (2009: £28.0 million)

**8. DEBTORS**

	<b>2010</b>	2009
	<b>£000</b>	£000
Deferred tax asset	<b>75</b>	65
VAT	<b>-</b>	44
Other debtors	<b>158</b>	230
Prepayments and accrued income	<b>-</b>	118
All amounts are due within one year.	<u><b>233</b></u>	<u>457</u>

As at 31 December 2010 the balance outstanding within other debtors from Vision Underwriting Limited is £25,591 included within other debtors.

**SOLICITORS INDEMNITY FUND**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)**

**8. DEBTORS (CONTINUED)**

Deferred tax assets comprise of:

Accelerated capital allowances	<b>£000</b>
Balance as at 1 January 2010	<b>65</b>
Deferred tax credit in surplus for the financial year	<b>10</b>
Balance as at 31 December 2010	<b>75</b>

**9. TANGIBLE ASSETS**

	<b>Fixtures &amp; Fittings</b>	<b>Computer Equipment</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost</b>			
At 1 January 2010	562	499	1,061
Additions	7	-	7
Disposals	(562)	(418)	(980)
Sale to Vision Underwriting Limited	(7)	(81)	(88)
<b>As at 31 December 2010</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Accumulated Depreciation</b>			
At 1 January 2010	483	433	916
Charge for the period	21	12	33
Disposals	(503)	(388)	(891)
Sale to Vision Underwriting Limited	(1)	(57)	(58)
<b>As at 31 December 2010</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net book value</b>			
<b>As at 31 December 2010</b>	<b>-</b>	<b>-</b>	<b>-</b>
As at 31 December 2009	79	66	145

During the year the Company moved offices and as a result an impairment review was done which led to assets with a cost of £980,000 and related depreciation of £891,000 (Net book value: £89,000) being written off.

On 23 July 2010, the tangible fixed assets of the Fund were transferred to Vision Underwriting Limited as part of the business sale agreement for a consideration of £1 paid to Legal Indemnity Operations Limited. The assets sold had a cost of £88,000 and related depreciation of £58,000 (Net book value: £30,000).

## SOLICITORS INDEMNITY FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

#### 10. 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:

	31/12/2010 £'000	31/12/2009 £'000	Movement £'000
Case reserves	327	3,952	3,625
IBNR	4,088	7,153	3,065
Run off costs	4,541	6,450	1,909
	<b>8,956</b>	<b>17,555</b>	<b>8,599</b>
Recoverable under reinsurance arrangements	(189)	(100)	(89)
	<b>8,766</b>	<b>17,455</b>	<b>8,689</b>

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.

	31/12/2010 £'000	31/12/2009 £'000
Cases with a net liability estimated	3,988	6,370
Cases with net recovery predicted	(3,661)	(3,418)
Case reserves included in claims provisions	<b>327</b>	<b>3,952</b>

As explained in note 13 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.

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 SIF 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.

Run off costs – as the Fund is in run-off, estimated future costs are all recognised in the accounts. In 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 2010 the provision includes estimates of maintaining some claims handling services until 2030, however the level is gradually decreasing.

## SOLICITORS INDEMNITY FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

#### 11. PROVISION FOR OTHER LIABILITIES AND CHARGES

As suggested by the ABI SORP, no provision for the estimated future administrative run-off costs before discount has been made to the extent they are offset in full by the expected investment return of the Fund. As at 31 December 2010 all costs are considered to be claims management related and therefore all costs are provided for. In 2009 amounts of £1,612,000 were not provided for.

#### 12. CREDITORS

	2010	2009
	£000	£000
Excess of loss insurance recoveries repayable	-	492
Amount due to Legal Indemnity Operations Limited	-	404
Amount due to the Law Society Group	13	1
Corporation taxation	4,365	1,764
Other tax and social security payable	16	-
Accruals and deferred income	70	280
Claims payable	42	116
	<u>4,506</u>	<u>3,057</u>

#### 13. 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.

#### 14. 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 2010.