BY OPENING THIS DOCUMENT YOU HAVE EXPLICITLY AGREED TO THE FOLLOWING TERMS AND CONDITIONS WITHOUT RESERVATION

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 2016 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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3. Neither PwC’s report, nor information obtained from it, may be made available to anyone else without PwC’s prior written consent, except where required by law or regulation;

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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.

* 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 2016

SOLICITORS INDEMNITY FUND

CONTENTS

SOLICITORS INDEMNITY FUND

REPORT OF THE DIRECTORS OF THE ADMINISTERING COMPANY FOR THE YEAR ENDED 31 OCTOBER 2016

ADMINISTRATION OF THE FUND

Solicitors Indemnity Fund Limited (the "Company") holds, managers 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*
W. R. Treen
R. Collins
C. Dixon (Retired 4 December 2015)
T. Fothergill (Appointed 2 December 2015)

Company secretary – Andrew Darby

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 Council of The Law Society determined that from 1 September 2007 the Fund would also provide cover for 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 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.

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 reflect the anticipated decline in claims handling expected, 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 and in relation to ongoing claims management beyond the Liberty Mutual agreement to ensure there is adequate resourcing in place for ongoing claims management. No decision has yet been made by the Board in relation to the provision of these services.

Provision was previously made in relation to all future claims handling and administrative costs but on transition to new accounting standards these costs can no longer be recognised in full and provision is only made for anticipated direct claims handling costs in line with guidance.

PRINCIPAL 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 and known circumstances. The principal risks from the Fund's indemnity operations arise from fluctuations in the timing, frequency and severity of claims compared to expectation and inadequate reserving.

In addition, the Fund is exposed to financial risks arising from the fluctuation in the returns of the investments it holds.

Risk management (considering indemnity risk, credit risk, market risk and liquidity risk) are discussed in Note 4 of the financial statements.

RESULTS FOR THE YEAR

The activities of the Fund gave rise to a surplus before tax of £0.2 million for the year (2015: deficit £0.9 million). The Fund benefitted from interest and the returns generated from the investment portfolio of £0.5 million (2015: £0.9 million); but incurred administrative expenses charge of £0.4 million (2015: £0.2 million). Collectively these account for £0.1 million (2015: £0.7 million) of surplus with a surplus of £0.1 million (2015: deficit £1.6 million) arising from developments on the indemnity operations. The tax charge for the year was £0.3 million (2015: credit £80k), giving a net deficit after tax for the year of £0.1 million (2015: deficit £0.8 million).

Unrealised gains shown as other comprehensive income increased the surplus in the year by £1.5 million (2015: £58k). Further information in relation to claims, expenses and investment performance is provided below.

The result of the operations will fluctuate as they are based on the development of claims and recoveries which may differ from expectation.

CLAIMS

As at 31 October 2016, there were 144 open cases (2015: 134) a net increase of 10 in the year. The decrease in claims incurred net of reinsurance was £0.1 million (2015: increase £1.6 million), brought about by a decrease in net provision for claims of £0.6 million (2015: increase £1.5 million), whilst claims payments, net of claim recoveries, and including internal claims costs, during the year were a net cost of £0.5 million (2015: £0.1 million). No amounts were recognised as recoverable from reinsurers at year end (2015: £nil) whilst reinsurance recoveries in the year were £2k (2015: £12k).

Provision has been made within IBNR for the total estimated future liabilities arising from the 10-year block programme, and the three-year extension providing cover to ceased firms after the six year run off period has elapsed, including an estimate of future claims handling costs. This is estimated using external actuaries, based on all available information including historic trends and recent development and amounts to £7.3 million (2015: £7.3million). Further information is provided in Note 12.

INVESTMENTS

The Fund's investment strategy is to hold a varied and diversified portfolio to maximise returns whilst preserving capital. The Fund holds a managed fixed income portfolio consisting of investment grade credit, high yield bonds and other securities. The Fund also holds a managed index portfolio, which has a wider range of asset class and securities within it. This provides the Fund with a constant income from investment. 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 Comprehensive Income. Further details are provided in Note 9.

INTEREST ON CLAIM RECOVERIES

The Fund is entitled to interest on certain claim recoveries. Where the legal right to interest exists, 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 10.

OPERATING EXPENDITURE

The charges incurred by the Fund during the year for the provision of administrative and claims handling services by Liberty Mutual Insurance Europe Limited were £0.2 million (2015: £0.3 million). Other operating expenses incurred during the year were £0.4 million (2015: £0.3 million), giving total gross operating expenses incurred of £0.6 million (2015: £0.6 million).

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 2016 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 financial year. The Directors' of the Company are responsible for preparing the financial statements in accordance with United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and The Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Fund and of the deficit for the Fund that year. In preparing those financial statements, the Directors of the Company are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements 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
20 February 2017

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 2016 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 2016;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity 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 comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland.

In applying the financial reporting framework, the Solicitors Indemnity Fund Limited (SIFL) Board has 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 Directors' Responsibilities set out on page 4, the Directors of SIFL 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 purpose to assist the Directors to discharge their stewardship obligations and fiduciary responsibilities in respect of the Fund under the Bye-laws in accordance with our engagement letter dated 5 September 2016 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 of SIFL; and
- the overall presentation of the financial statements.

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 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
21 February 2017

SOLICITORS INDEMNITY FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 OCTOBER 2016

	Note	**31 October 2016**	31 October 2015
		£000	£000
Claims costs	5	**(506)**	(79)
Reinsurance recoveries		**2**	12
Net claims costs		**(504)**	(67)
Decrease/(increase) in gross provision for claims	12	**926**	(1,097)
Decrease in expected claim recoveries	10	**(285)**	(442)
Decrease/(increase) in net provision for claims		**641**	(1,539)
Decrease/(increase) in claims incurred net of reinsurance		**137**	(1,606)
Realised losses on investments	6	**(12)**	(159)
Interest from investments and claim recoveries	7	**491**	1,125
Investment expenses		**(14)**	(39)
Total interest		**465**	927
Administrative expenses charge	5	**(387)**	(224)
Contributions receivable		**8**	11
Surplus/(deficit) before taxation	5	**223**	(892)
Taxation (charge)/credit	8	**(297)**	80
Deficit for the year		**(74)**	(812)
Other comprehensive income:			
Unrealised gains on investments		**1,498**	58
Other comprehensive income for the year, gross of tax		**1,498**	58
Total comprehensive income/(expense) for the year		**1,424**	(754)

All activities of the Fund relate to continuing operations.

The notes on pages 11 to 23 form part of these financial statements.

SOLICITORS INDEMNITY FUND

BALANCE SHEET AS AT 31 OCTOBER 2016

	Note	31 October 2016	31 October 2015
		£000	£000
Current assets:			
Financial assets at fair value through profit or loss			
Investments	9	**32,461**	31,226
Financial assets that are debt instruments measured at amortised cost			
Debtors	10	**2,116**	3,080
Cash held in Escrow		**155**	355
Cash and Bank		**421**	334
Total current assets		**35,153**	34,995
Current liabilities:			
Financial liabilities measured at amortised cost			
Creditors	11	**(510)**	(850)
Net current assets / Total assets less current liabilities		**34,643**	34,145
Liabilities due in more than one year:			
Provisions	12	**(10,505)**	(11,431)
Total liabilities due in more than one year		**(10,505)**	(11,431)
Total Liabilities		**(11,015)**	(12,281)
Net Assets		**24,138**	22,714
Retained Surplus		**24,138**	22,714

Approved on behalf of Solicitors Indemnity Fund

D. A. McIntosh
Chairman

20 February 2017

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

The notes on pages 11 to 23 form part of these financial statements.

SOLICITORS INDEMNITY FUND

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 OCTOBER 2016

	Retained surplus	Total
	£000	£000
Balance as at 1 November 2014	23,468	23,468
Deficit for the year	(812)	(812)
Other comprehensive income for the year:		
Unrealised gains on investments	58	58
Total comprehensive expense for the year	(754)	(754)
Dividends / distributions to the Law Society	-	-
Total transactions with owners, recognised directly in equity	-	-
Balance as at 31 October 2015	22,714	22,714
Deficit for the year	(74)	(74)
Other comprehensive income for the year:		
Unrealised gains on investments	1,498	1,498
Total comprehensive income for the year	1,424	1,424
Dividends / distributions to the Law Society	-	-
Total transactions with owners, recognised directly in equity	-	-
Balance as at 31 October 2016	**24,138**	**24,138**

The notes on pages 11 to 23 form part of these financial statements.

1. General Information

The Solicitors Indemnity Fund is a statutory fund established within the United Kingdom in 1987 governed by the Solicitors' Indemnity Rules 1987 as amended from time to time as outlined in the Report of the Directors. The registered office of Solicitors Indemnity Fund Limited, the administering company, is 113 Chancery lane, London, WC2A 1PL, United Kingdom.

2. Statement of Compliance

The individual financial statements of Solicitors Indemnity Fund have been prepared in compliance with United Kingdom Accounting Standards, comprising Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102").

Due to the nature of the Fund it is not required to comply with the Companies Act 2006. However, the Fund has complied with those elements of the Companies Act relevant to the financial statements that the Directors of SIFL believe are necessary to enable the financial statements to give a true and fair view.

3. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Details of the transition to FRS 102 are disclosed in Note 16. Whilst not required to comply with Financial Reporting Standard 103 "Insurance Contracts" where relevant, the principles the standard have been used in determining the accounting policies.

(a) Basis of preparation

The financial statements are prepared on a going concern basis, under the historical cost convention with the exception of the valuation of investments. The most significant accounting policies adopted by the Fund are described below and these have been applied consistently to all the years presented, unless otherwise stated. The Fund continues to prepare its financial statements in accordance UK Accounting Standards. The standards applicable have changed during the year and therefore there have been changes to the accounting policies applied and financial results compared to prior periods as outlined in Note 16.

Whilst not required to comply with Financial Reporting Standard 103 "Insurance Contracts" where relevant the principles the standard have been used in determining the accounting policies.

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. It was previously treated as 'discontinued operations' under the provisions of the previous accounting principles and the ABI SORP relating to insurance operations. In the current year the business has transitioned to FRS 102 where the guidance is different and therefore the operations have been reclassified as continuing.

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.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Fund accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3 (q).

(b) Going Concern

Having assessed the principal risks, the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Exemption for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of and no objection to, the use of exemptions by the Fund's shareholders.

The Fund has taken advantage of the following exemptions:

i) from the requirement to prepare a statement of cash flows as required by paragraph 3.17(d) of FRS 102;
ii) from the requirement to present a reconciliation of the number of shares outstanding at the beginning and end of the period as required by paragraph 4.12(a)(iv) of FRS 102; and
iii) from the requirement to disclose the key management personnel compensation in total as required by paragraph 33.7 of FRS 102.

(d) Basis of accounting

The financial statements are prepared under the historical cost convention with the exception of the valuation of investments. See below.

(e) 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 Statement of comprehensive income 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 Statement of comprehensive income where they fall below historical cost. Profits and losses on sales of investments are measured by reference to the carrying value.

Investments are measured at fair value. Changes in fair value are recognised in other comprehensive income as a separate component in equity. The fair value of investments are obtained at the balance sheet date based on net asset value readily available from an exchange, investment manager or pricing service.

(f) 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.

(g) Contributions

Contributions are accounted for on the accruals basis.

(h) Reinsurance recoveries

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

(i) Claims costs

Claims costs recognised each year comprise claims handling costs including the costs of panel solicitors, damages paid out, and other costs net of recoveries. Claims costs are accounted for based on incurred comprising of reserves and/or paids. Recoveries are recognised at the point they can be reliably measured and there is a reasonable expectation of recovery.

(j) 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 claims handling costs, including a proportion of overheads. Claims provisions are not discounted.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Reinsurance provisions

Historic reinsurance policies are held to provide cover for the risk associated with uncertainties of certain 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.

(l) Run-off costs

In prior years in accordance with FRS 3 and the ABI SORP, provision was made for future run-off costs as the Fund is in wind down. This provision was discounted at the risk free rate to reflect the time value of money given the period over which this provision was expected to be utilised. Under the SORP it was 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 considered that all costs incurred by the Fund fully related to claims handling costs in relation to closure of the Fund and so were fully provided for.

As explained above, on adoption of FRS 102, the Fund has reclassified its run-off business as continuing and reassessed the provision for run-off costs in line with FRS 102's requirements in respect of restructurings. Run-off costs are no longer provided for and annual operating expenses are allocated between claims handling costs or an administrative expenses charge.

(m) 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.

(n) Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

(o) Financial instruments

The Fund has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of the financial instruments.

Financial assets

Basic financial assets, including trade and other debtors and cash and bank balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Financial instruments (continued)

Financial assets (continued)
At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the statement of comprehensive income.

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is the normal transaction price.

Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publically traded and whose fair values cannot be measured reliably are measured at cost less impairment.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the statement of comprehensive income.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities
Basic financial liabilities, including trade and other creditors are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

The Fund does not hold or issue derivatives financial instruments.

Offsetting
Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle to liability simultaneously.

(p) Related party transactions

The Fund discloses transactions with related parties which are not wholly owned with the same group. It does not disclose transactions with members of the same group that are wholly owned.

(q) Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Sources of estimation uncertainty
The Fund makes estimates and assumptions concerning the future. The resulting accounting estimates may differ to actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are addressed below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Critical accounting judgements and estimation uncertainty (continued)

The ultimate liability arising from claims
The estimation of the ultimate liability arising from claims under indemnity contracts is the Fund's most critical accounting estimate. The Fund's Provisions at year-end total £10.5 million (2015: £11.4 million) and consist of three components: case reserves, claims incurred but not reported ("IBNR") and a claims handling costs provision. Case reserves are estimated on a case by case basis by claims handlers and, where deemed necessary and appropriate, further opinions are sought from third party solicitors.

External actuaries estimate IBNR using standard actuarial claims projection techniques. Such methods extrapolate the development of paid and incurred claims, recoveries from third parties, average cost per claim and expected loss ratios. The main assumption underlying these techniques is that past claims development experience is used to project ultimate claims costs. To the extent that the ultimate cost is different from the estimate, where experience is better or worse than that assumed, the surplus or deficit will be credited or charged through the Statement of comprehensive income in future years.

Direct claims handling costs are recognised to the extent they can be separately identified as specifically relating to claims handling expected to be incurred due to known claims and IBNR cases. The provision for direct claims handling costs are included within the known claims and IBNR provisions to the extent they are estimated to relate to each.

(r) Future amendments to FRS 102

Amendments to FRS 102 were issued in July 2015 as a result of changes to the EU-directives and UK Companies Regulations. The amendments are mandatory for periods beginning on or after 1 January 2016, with early adoption permitted for periods beginning on or after 1 January 2015. Entities will have to adopt and comply with all amendments if they elect to early adopt the Amendments to FRS 102 (issued in July 2015).

None of these are expected to have a significant effect on the financial statements of the Fund.

4. RISK MANAGEMENT

The process of governance and risk management is addressed through a framework of policies and procedures as documented within the Administering Company's Corporate Risk Register. Risk management policies are developed by the Board of Directors and executives taking into account the size and nature of the organisation. The Board is responsible for satisfying itself that a proper internal control framework exists within the Fund to manage financial risks and that adequate controls are in place and operate effectively.

a) Indemnity Risk

The principal risks from the Fund's indemnity operations arise from fluctuations in the timing, frequency and severity of claims compared to expectation for known claims (claims reserves and expected claim recoveries) and future claims (IBNR). These reserve risks are considered in turn.

i) Claims Reserves

These provisions are for all known cases and are notified on a "claims made" basis and fall within an indemnity year. Reserve 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. They also include an estimate of future direct claims handling costs. These reserves 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. Therefore there is a risk that known claims may have been inadequately provided for, or there may be a deterioration in the claim leading to adverse development.

Claims reserves are made up of all outstanding claims relating to the pre 1 September 2000 operational period and include claims made against practices that had ceased without successor since 1 September 2000 but only in respect of those firms that had ceased prior on or before 31 August 2000. The claims reserves also include for all the claims arising from the post six-year run off protection provided by the Fund. This protection relates to claims made against firms that had ceased on or after 1 September 2000 and after a lapse of the six year run-off cover provided by the prior market participating insurer. The development of the pre 1 September 2000 claims are almost complete and there remain only a few cases left to resolve. The majority of claims reserves in value and volume relate to the post six-year run off protection provided.

4. RISK MANAGEMENT (continued)

ii) Claims Reserves (continued)

The table below sets out the split of claims reserves by pre 2000 claims and post six-year run off claims:

	31 October 2016	31 October 2015
	£000	£000
Pre 2000 claims	**567**	1,589
Post six-year run off claims	**2,626**	2,502
	3,193	4,091

The movement of claims reserves are a Key Performance Indicator and are reviewed by the Board at each meeting. Furthermore, the Board are provided with significantly more information relating to large and sensitive claims being any claim with a reserve in excess of £20,000.

iii) Expected Claim Recoveries

Recoveries are only recognised once there is a reasonable expectation of the recovery being received and this is reserved at the net anticipated recovery value. Claim recoveries relate almost entirely to claims from the pre 2000 period and generally relate to assignments and charges obtained against third party assets as a consequence of an underlying claim settlement. The recovery reserves are subject to periodic review for changes in circumstances, such as changes to underlying asset values and adjustments are made if required.

The Board review and monitor the progress of claims recoveries at each of their meetings. Detailed commentary on the recovery as well as updates are provided for all recoveries. The Board actively seek to crystallise any potential future recovery at the earliest time whilst being mindful of the sensitivities that surround any given claim.

iv) IBNR

This provision relates to claims incurred but not reported (IBNR). These claims arise 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. An actuarial projection is made of this provision. The IBNR provision also includes an estimate of direct future claims handling costs. The principal assumptions underlying the actuarially calculated liability estimates is that the future claims development will follow a similar pattern to past claims development experience. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example, one-off occurrence, changes in market factors such as public attitude to claiming, recession, cessation of firms and other market conditions. Judgement is further used to assess the extent to which external factors such as judicial decision and government legislation affects the estimates. Conveyancing claims make up the majority of claims by value and volume within the IBNR provision and are the single largest risk type by category.

Actuarial reviews are carried out on a tri-annual basis or earlier if deemed necessary. The latest actuarial review was undertaken by Willis Towers Watson during this financial year. The Board review the development of claims against the expected actuarial projection and where necessary adjust the provision accordingly. The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Fund, where more information about the claim event is generally available. Claims IBNR will not be apparent until many years after the event giving rise to the claims has happened given the timeframe of post six-year run off cover.

Sensitivity analysis for all claims

There is a wide range of possible outcomes in assessing claim provisions due to the uncertainty associated in estimating ultimate claims liabilities.

For known claim reserves and recoveries estimates, a range of outcomes are identified and a best estimate of the claims settlement or recovery value is used to raise a claim reserve or expected claim recovery.

4. RISK MANAGEMENT (continued)

Sensitivity analysis for all claims (continued)

For all actuarial projections, the final outcome will depend on the actual development of claims which in turn relies on the appropriateness of the historical date to predict the likely development of claims by type. Unforeseen changes may affect the suitability of that data and would be expected to have an impact on the accuracy of the results and increased uncertainty in the projections. Such changes could include unexpected claims inflation, shocks to the global economy, deep recession or a house market crash, changes in legislation or the emergence of new types of claim.

Both type of reserves include an estimate of future claims handling cost. Estimates are made of all future costs of the Fund and an annual analysis is carried out to assess the extent to which these costs are directly attributable to claims handling and the proportion relevant to known claims and IBNR.

Sensitivity analysis is provided by the actuarial forecasts, whereby the 50^{th} percentile and 98.5^{th} percentile forecast provides differing outcomes as to the number of future claims notified, the average settlement amount and the rate of claims inflation. The Fund has adopted the mean (50^{th} percentile) value for these financial statements. The Board consider the 98.5^{th} percentile to be the level to which the Fund will hold surplus to protect against any adverse development. This amounts to an additional £5.8 million. The Board are satisfied that the Fund has ample surplus available to cover this exposure.

b) Credit, Market and Liquidity Risk

Credit risk is the risk an obligor or counterparty will be unable to pay amounts in full when due. Market risk is the risk of fluctuations to the net asset value of investments due to the volatility or level of financial variables impacting the value of the Fund's investment portfolio. Liquidity risk is the risk that cash may not be available to pay obligations when due.

The Fund's primary financial risk, and exposure to the above risks, is that proceeds from financial assets are not sufficient to meet its claims settlement obligations due under the run-off its indemnity business. As the Fund has no premium income, the underlying security of the investment portfolio is paramount to ensure that the income generated is available to contribute towards payment of claims and operating expenses.

The Board has set an investment strategy, within its risk appetite as identified by the Corporate Risk Register, and has retained the services of an independent investment manager under specific mandates to administer the Fund's investments.

At present the Fund has invested in two diversified, and appropriately liquid, investment portfolios which are fully managed by its investment managers. These are held either independently via a custodian or through unitised shares. One is a managed fixed income portfolio which consists of investment grade credit, high yield bonds and other securities. The Fund also holds a managed index portfolio, which includes equities, government bonds, investment grade credit and other securities within it.

The investment manager produces monthly or quarterly investment reports to explain movements in the investment mix, performance against benchmark indices and any changes in investment strategy. These reports are considered at each Board meeting and contact is maintained throughout the year with the investment manager and meetings take place at least once a year to discuss the performance and appropriateness of the investment portfolios given the Board's risk appetite.

5. SURPLUS /(DEFICIT) BEFORE TAXATION

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

	31 October 2016	31 October 2015
Expenditure in the year:	**£000**	£000
Administration service charges costs paid to Liberty Mutual Insurance Europe Limited	**200**	345
Insurance and other operating costs	**40**	41
Legal and professional	**300**	121
Audit	**73**	54
Net operating expenditure in the year	**613**	561

Included within the Statement of comprehensive income as follows:		
Cost of claims handling, including claims related share of overheads included within 'claims costs'	**226**	337
Non claims related costs included within 'administrative expenses charge'	**387**	224
	613	561

Administrative costs

The administration service charges costs of £200k (2015: £345k) relate to payments by the Fund to Liberty Mutual Insurance Europe Limited under the administrative agreement disclosed in further detail within the Report of Directors.

Other

Audit expenditure of £73k (2015: £54k) is in respect of the audit of the financial statements. Non audit services paid to auditors was £15k (2015: nil).

Directors' emolument costs of £82k (2015: £76k) are charged directly to the Fund and are included above within legal and professional costs.

Analysis of claims costs within the statement of comprehensive income is as follows:

	31 October 2016	31 October 2015
	£000	£000
Amounts paid	**(792)**	(430)
Recoveries received	**512**	688
Claims handling costs	**(226)**	(337)
Claims costs net of recoveries	**(506)**	(79)

6. GAINS AND LOSSES ON INVESTMENTS

	31 October 2016	31 October 2015
	£000	£000
Net realised losses	**(12)**	(159)
Net unrealised gains	**1,498**	58
	1,486	(101)

7. INTEREST FROM INVESTMENTS AND CLAIM RECOVERIES

	31 October 2016	31 October 2015
	£000	£000
Fixed interest	**459**	952
Interest on claim recoveries	**32**	173
	491	1,125

8. TAXATION CHARGE

	31 October 2016	31 October 2015
	£000	£000
(a) Analysis of total tax charge in the year		
Current Tax		
Current Tax - Income tax credit on surplus for the year	**349**	-
Adjustment in respect of prior years	**-**	-
Current tax credit	**349**	-
Deferred Tax		
Deferred tax charge credit	**(52)**	(80)
Write-down of deferred tax asset	**-**	-
Total deferred tax credit	**(52)**	(80)
Total tax charge on surplus/(deficit) for the year	**297**	(80)

(b) Factors affecting tax charge for the year		
Surplus /(deficit) before taxation	**223**	(892)
Tax charge at 20% (2015: 20%)	**45**	(178)
Capital allowances in excess of depreciation	**(5)**	(6)
Tax on unrealised gains	**298**	12
Accrued income taxable when received	**11**	40
Losses arising not recognised for deferred tax purposes	**-**	52
Losses previously unrecognised utilised in the year	**(52)**	-
Total tax charge	**297**	(80)

A deferred tax asset of £24k (2015: £27k) in respect of capital allowances in excess of depreciation is not recognised at the balance sheet date.

9. INVESTMENTS

	31 October 2016	31 October 2015
	£000	£000
Managed index portfolio	21,260	20,488
Managed fixed income portfolio	11,201	10,738
	32,461	31,226

The historic cost of investments amounts to £30.6 million (2015: £30.9 million).

10. DEBTORS

	31 October 2016	31 October 2015
	£000	£000
VAT recoverable	8	7
Expected claim recoveries	1,248	1,533
Interest on claim recoveries receivable	856	902
Deferred tax asset	-	633
Other debtors	4	5
	2,116	3,080

Interest on claim recoveries receivable includes £0.5 million (2015: £0.7 million) falling due after more than year. All other amounts are considered due within one year except for the expected claim recoveries, of which £0.7 million (2015: 1.1 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 13 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.

11. CREDITORS

	31 October 2016	31 October 2015
	£000	£000
Accruals and deferred income	80	70
Claims payable	70	70
Deferred tax liability	-	685
Tax and social security payable	360	25
	510	850

12. 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 two main aspects to the provision as follows:

	31 October 2016	31 October 2015	Movement
	£000	£000	£000
Gross claims reserves	**3,193**	4,091	(898)
IBNR	**7,312**	7,340	(28)
	10,505	11,431	(926)

a) Gross 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. They also include an estimate of future claims handling costs. These estimates 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.

b) Incurred but not reported (IBNR) – An 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. An actuarial projection is made of this provision. The IBNR provision also includes an estimate of future claims handling costs. 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.

Direct claims handling costs are recognised to the extent they can be separately identified as specifically relating to claims handling expected to be incurred due to known claims and IBNR cases. The provision for direct claims handling costs are included within the known claims and IBNR provisions to the extent they are estimated to relate to each. Direct claims handling costs have been recognised within gross claims reserves of £371k (2015: £484k) and IBNR of £1,153k (2015: 1,266k).

13. 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.

14. RELATED PARTY TRANSACTIONS

The Fund is exempt from disclosing other related party transactions as they with other companies that are wholly owned within the Group.

15. 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 due to The Law Society's entitlement to surpluses 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 2016.

16. TRANSITION TO FRS 102

This is the first year that the Fund has presented its results under FRS 102. The last financial statements under previous UK GAAP were for the year ended 31 October 2015. The date of transition to FRS 102 was 1 November 2014. Set out below are the changes in accounting policies which reconcile the deficit for the financial year ended 31 October 2015 and the total retained surplus as at 1 November 2014 and 31 October 2015 between UK GAAP as previously reported and FRS 102.

Transition exemptions

The Fund has not taken any of the transition exemptions available in preparing its first set of FRS 102 financial statements.

Reconciliations

In accordance with the requirements of FRS 102 a reconciliation of the prior year deficit and opening balances is provided below:

Reconciliation of deficit for the year

		31 October 2015 £000
Deficit for the year as previously reported under UK GAAP		(491)
Run-off costs no longer recognised as a provision	(i)	(401)
Tax Credit	(iv)	80
Deficit for the year as reported under FRS 102		(812)

Reconciliation of other comprehensive income

There were no reconciling items in other comprehensive income for the year.

Reconciliation of retained surplus

		1 November 2014 £000	31 October 2015 £000
Total retained surplus as previously reported under UK GAAP		19,775	19,342
Reversal of elements of run-off costs provision no longer allowed	(i)	3,825	3,424
Deferred tax liability	(ii)	(765)	(685)
Deferred tax asset	(iii)	633	633
Total retained surplus as reported under FRS 102		23,468	22,714

Notes to the reconciliations

Reversal of elements of run-off costs provision no longer allowed and associated tax impact

Under the guidance in FRS 102 the Fund does not meet the definition of a discontinued operation. Under previous UK GAAP and guidance in the supplementary ABI Statement of Recommended Practice for insurance entities, the Fund was treated as a discontinued operation and as such a provision was recognised in relation to future run-off costs to manage the Fund.

16. TRANSITION TO FRS 102 (continued)

Notes to the reconciliations (continued)

(i) Reversal of run-off costs provision

Therefore the run off provisions have had to be reversed on a retrospective basis, resulting in a reduction of provisions of £3,825k in 2015 and £3,424k in the opening balance sheet. These numbers are net of direct claims handling costs provisions which have been reclassified into the gross claims and IBNR provisions.

As run–off costs can no longer be provided for, run-off costs incurred in 2015 are expensed in the year. The net impact of this transitional adjustment was a decrease in the retained surplus of £401k for the year ended 31 October 2015.

(ii) Deferred tax liability

The retrospective reversal of run-off costs provision gives rise to a deferred tax liability on the additional taxable income generated.

(iii) Deferred tax asset

As the Fund had previously unrecognised carried forward tax losses which it can use to offset against the liability created in ii) above, a deferred tax asset has been created in relation to the losses.

(iv) Tax credit

As a result of the above transactions, a tax credit was recognised in the Statement of comprehensive income in relation to the tax on the provision movement in 2015.

The net impact of the above adjustments, which all relate to the release of the previously recognised provision for run off costs, had a net impact to increase the deficit by £321k for the year ended 31 October 2015 and increase the retained surplus by £3,372k.