

Strong Stable Vigilant



Serving the Profession

The Legal Practitioners' Liability Committee has been insuring the legal practitioners of Victoria since 1986.

Pursuant to the *Legal Profession Act 2004* LPLC is the insurer to law practices engaging in legal practice in Victoria. It is the successor body to the Solicitors' Liability Committee.

The Solicitors' Liability Fund became the Legal Practitioners' Liability Fund in 1996.

The Fund is administered by the LPLC.

To engage in legal practice in Victoria, law practices must take out insurance with the LPLC.

The functions of the Committee are:

- To provide professional indemnity insurance to law practices;
- To undertake liability under contracts of professional; indemnity insurance entered into with law practices;
- Any other functions conferred upon it by the *Legal Profession Act 2004*.

The LPLC also provides risk management services to law practices.

The LPLC has the power to enter into contracts or arrangements relating to insurance and reinsurance.

The LPLC is an independent body which reports to the Attorney-General and Minister for Finance of the State of Victoria.

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Why the LPLC?

For 25 years, solicitors and more recently barristers, have enjoyed:

- Universal, high quality cover available to all practitioners and firms
- Run off cover for all ceased practices, at no additional cost
- Protection from insurance market failure and cyclical insurance markets
- 25 years of comprehensive, central data of all claims and notifications
- Comprehensive data which feeds into risk management programs and initiatives
- Appropriate pricing of risk because of central data base
- Targeted risk management made possible through the data base
- No disputes between insurers as a result of firms changing insurer
- No brokerage or marketing costs which would otherwise be incurred in the insurance market
- Consistent claims handling
- Transparency through annual reporting
- Consumers protected by high quality cover, including protection from fraud or dishonesty
- Public benefit acknowledged in three competition policy reviews

Highlights for 2010-11

- Low incidence of claims and notifications
– the lowest since 1989 for solicitor practitioners.
- Continuing low incidence of claims and claims cost for barristers.
- Return on investment of 10.06%.
- Pilot project for on-line renewal for barristers.
- Expanded risk management team.
- LPLC insures solicitor practitioners for 25 years and barrister practitioners for 6 years.

Chairman's report

2011 is a significant year for the LPLC in that it marks 25 years of the LPLC.

Compulsory insurance began for solicitors in 1978 through a Master Policy Scheme and a single insurer. It was not until 1986 that the self insurance model in Victoria began, a model that has enabled premiums to be lower than those of commercial insurers, as well as providing positive risk management.

It is important to understand the history behind what was then, an historic move.

Between 1978 and 1985, all solicitors were required to insure through the Law Institute's Master Policy Scheme. Claims were administered by Law Claims, which was a division of the Law Institute of Victoria.

As insurance markets hardened with a rapid increase in premiums during the 1980s, the Law Institute of Victoria looked at other options. In 1981, together with the then Chief Executive Officer of the Law Institute, Judge Gordon Lewis, I visited Canada. In British Columbia, we found that the Law Society there had developed a self insurance scheme, where a fund was established and which paid the first \$35,000 of each and every claim. Reinsurance was purchased to cover the difference between this amount and the sum insured.

Following that trip, we made a recommendation to the Law Institute Council that the Law Institute consider a self insurance model.

LPLC was the first self insurance model to be adopted among the Australian jurisdictions and was one of the first in the English common law world. It is, and remains the only insurance scheme administered by a statutory authority, a model which has served the profession well.

LPLC began with a fund of \$5.9M and insured approximately 6,000 practitioners.

Today, LPLC manages assets of \$198M and insures approximately 16,000 barristers and solicitors.

Other self insurance models have developed across the provinces of Canada as well as in Queensland, New South Wales, South Australia and Western Australia.

The profession which the LPLC insures has changed dramatically over the last 25 years. In 1986, the largest firm insured by LPLC had 20 partners. The largest firms now insured by LPLC have over 200 partners.

Legal practice and the regulation of lawyers has become more complex.

The last 25 years have not been without their challenges. LPLC has seen:

- The stock market crash of 1987.
- The recession of the early 1990s and ensuing property crash which brought significant claims.
- Hard reinsurance markets in the 1990s.
- Three different statutes regulating the legal profession and LPLC.
- Development of regulation of the profession at a national level.
- Three competition policy reviews.

- A crisis in the insurance industry in 2001 as a result of the collapse of HIH and the events of 11 September 2001, resulting in very high increases in insurance premiums for most professions (although not for LPLC insured firms). In the case of builders, there was a hiatus while alternative arrangements were made in a limited insurance market.
- Ongoing investment challenges presented by the global financial crisis.

What began as a small enterprise collecting and investing premium and administering claims, has developed into an operation which not only provides an insurance and claims service, but which invests significant resources in risk management. There are as many LPLC risk managers as there are claims solicitors.

This investment has brought its rewards:

- A decreasing number of claims over the last decade;
- Cost of claims over the last decade has increased by a little over the cost of inflation, with the exception of this reporting year.

The development of LPLC's risk management capabilities has, we believe, not only assisted in the lower incidence of claims but has assisted in the containment of cost.

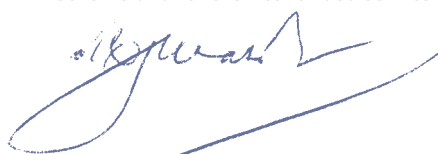
One of the most significant events of the last decade for LPLC was the extension of our scheme to include barristers. Barristers have now been insured by LPLC for the last 6 years and have enjoyed a significant reduction in the cost of cover as a result.

After adjusting for inflation, the cost of the premium for a sole practitioner is close to what it was when LPLC began in 1986.

The profession can be proud that the insurer that was created at its request in 1986, has achieved its goal in providing insurance for all practitioners, at a reasonable cost and on comprehensive terms and has avoided the grief suffered by other professions when insurance markets were hard, as they have been from time to time. The statutory model has endured as a model for 25 years, through several economic and insurance cycles.

The durability of the model, and its ability to adapt to changes in the profession and to several often extreme economic cycles, suggests that the model will continue to deliver the benefits it set out to achieve in 1985.

I thank the Chief Executive Officer, Miranda Milne, and the committed and dedicated staff of the LPLC to whom much of the credit should go for the success of the scheme and for their continued service



Matt Walsh
LPLC Chairman

From the CEO

A Changing Profession.

The LPLC has witnessed some significant changes in the legal profession during its 25 year history.

The legal profession has transformed from comprising many smaller firms – the largest of which had 20 partners.

The largest firms insured by LPLC now have more than 200 partners and while there are many small practices, there are fewer firms which sit between these two extremes.

The last 25 years have also seen two significant changes in regulation of the profession. The first was in 1996 with the introduction of the Legal Practice Act, when the Legal Practice Board and the Legal Ombudsman succeeded the Law Institute of Victoria and the Bar Council as regulators of Solicitors and Barristers respectively. The Legal Profession Act 2004 introduced the Legal Services Board as the new regulator and created the office of Legal Services Commissioner.

The number of practitioners insured by LPLC during that time increased from approximately 6,000 solicitor practitioners in 1986 to 14,000 solicitor practitioners and 1,800 barrister practitioners in 2011.

1996 saw the introduction of incorporated legal practices. There are now 652 incorporated legal practices insured by LPLC, comprising of some 2,700 practitioners.

The growth of incorporated legal practices and more highly leveraged partnerships, has caused LPLC to change the way in which premium is assessed for larger firms. LPLC introduced assessment of premium based on gross fee income for these firms for the reporting period.

National Profession

In December 2010, a bill and rules for the proposed national regulation of the legal profession were published. LPLC, along with other state insurers and law societies, participated in the Law Council of Australia's Professional Indemnity Taskforce, to devise national minimum standards for professional indemnity policies to be applied to those jurisdictions intending to participate in the national profession.

LPLC Performance

The amount collected for the premium pool decreased for the reporting year, following the less than anticipated impact the global financial crisis had on investment markets and upon claims. Premiums were reduced for most firms, although a few more leveraged firms experienced increases as a result of the move to assessment by gross fee income for larger firms.

While financial markets remain somewhat volatile, influenced in part by factors outside Australia, LPLC was pleased to experience a second year of positive investment returns.

The year saw a record low number of claims and notifications – the second lowest in 20 years. There was an unusual number of large claims, leading to higher total estimates. Consistently with past experience, it is anticipated that estimates will decrease as the policy year develops.

LPLC Team

LPLC welcomes two new members of the risk management team this year, Richard Antill and Matthew Rose.

LPLC has a small professional and support team. They are respected by the profession for their commitment and diligent attendance to the needs of both barristers and solicitors.



Miranda Milne
Chief Executive Officer

Claims – Solicitor practitioners

The year was characterised by a very low number of claims and notifications relative to the 25 year life of the scheme. However, the total costs of claims did finish somewhat higher than in previous years.

During the reporting year, 405 claims and notifications were received, with an estimated cost of \$36M. There was an unusually high incidence of large claims, which accounts for most of the higher cost of claims, when compared with earlier years. (See figures 1 and 2.)

Figures 3 and 4 demonstrate the cost of claims by area of practice, as a percentage of all claims for the year, as well as the number of claims as a percentage of all claims.

Approximately 80% of the cost of claims over the years originates from four areas of practice.

- Property and Conveyancing
- Mortgage
- Commercial
- Commercial Litigation

In the past, the cost of claims in each of these four principal areas has fluctuated. In the reporting year, the cost in all four areas has been high. Furthermore, there are a number of large claims, particularly in the area of conveyancing and commercial.

The most significant issues which arise in these practice areas are:

Property and Conveyancing

- Failing to advise on issues relating to matters affecting clients' property
- Defective vendors statements
- Errors in relation to subdivisions
- Claims arising out of failure to provide for GST

Mortgage

- No security or inadequate security
- Forged mortgages
- Failure or delay to register mortgages and caveats
- A resurgence in Amadio claims

Commercial

The area of commercial law is wide and varied. However, the most significant issues are;

- Claims arising out of taxation advice
- Disclosures in commercial agreements
- Drafting errors

Commercial Litigation

- Failing to issue proceedings
- Failure to properly investigate a cause of action leading to an adverse outcome for the client
- Inappropriate releases
- Litigants being generally dissatisfied with the conduct or outcome of their litigation

LPLC continues to dispose of claims expeditiously, resulting in payments being made more rapidly than is usual for this type of insurance.

During the year, a total of \$29.8M was paid in respect of claims (including legal costs).

Figure 1: Paid and unpaid claims for Solicitors (\$m)

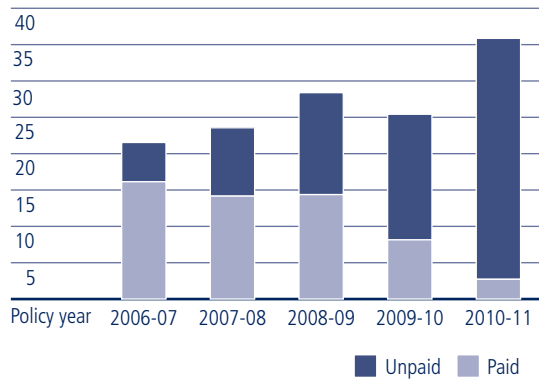


Figure 2: Open and closed files for Solicitors

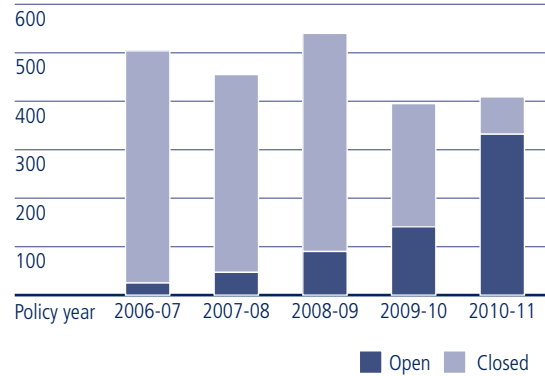


Figure 3: Percentage cost of claims by area of practice

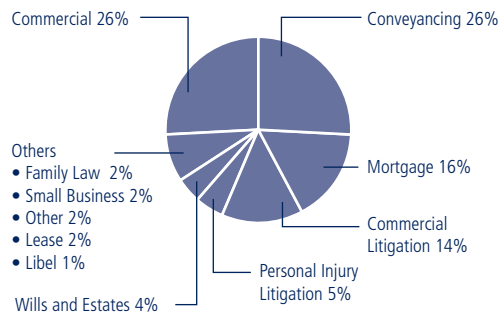
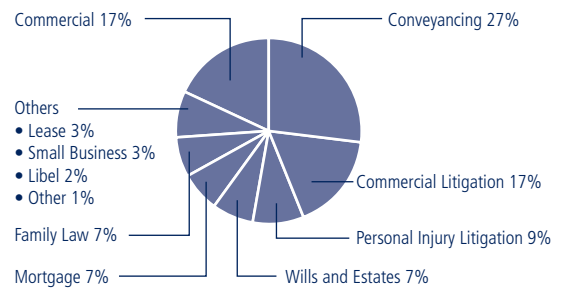


Figure 4: Percentage number of claims by area of practice



Risk Management – Solicitor practitioners

The reporting period saw a great deal of risk management activity.

The Risk Management Team, led by the Chief Risk Manager, Heather Hibberd, implemented a comprehensive program. LPLC delivers its risk management through LPLC seminars, both in Melbourne and several country centres. LPLC risk managers also present papers at a number of Law Institute of Victoria conferences. Services are also provided to the Leo Cussen Institute, College of Law and suburban solicitor associations. LPLC produced a number of publications and provides various ongoing telephone advisory services.

Conferences and Seminars

2010 Risk Management Intensive – Melbourne

The popularity of the all-day risk management intensive continued again this year. The program was repeated on three separate days in July and August. All three days were 'sold out' with a total of 651 attendees across the three days.

The topics covered were:

- Unfair terms and consumer protection legislation – how it will affect you
- Litigation: personal costs orders against solicitors
- Solicitor's certification issues
- Retirement village and aged care contracts and arrangements
- Wills and estates claims
- Conveyancing forum

DVD – 2010 Risk Management Intensive

Due to the popularity of this year's Risk Management Intensive, we recorded and produced a DVD which was available for sale for the full day, or half day of choice. Many people who missed out on attending the seminar availed themselves of this option.

Country Risk Management Seminar Series

Half day seminars were held again this year in May across Victorian rural regions: **Albury, Shepparton, Bendigo, Mt Eliza, Warrnambool, Ballarat, Traralgon and Mildura.**

For the second year we offered firms the opportunity to send a clerk free of charge with every legal practitioner who attended. This year, for the first time, practitioners had the option to register online and either pay by credit card or send in a cheque. Both initiatives were well received. **230** legal practitioners attended. They brought along with them **98** law clerks.

The program comprised three one hour sessions on:

- The new personal property securities reform - focusing on the key concepts and practical effect of the changes, especially for small business
- Ways to manage quality in your office and avoid claims, in particular putting in place appropriate supervision strategies
- Conveyancing claims in country Victoria

LIV Conferences and Seminars

The risk management team spoke at the following Law Institute of Victoria conferences:

- LIV National Costs Law Conference
- LIV Legal Support Conference
- LIV Geelong Conference
- LIV Succession Law Conference
- LIV Property & Environment Law Conference
- LIV Family Law Conference
- LIV compliance conferences

In-house Seminars

Workshops targeted at all levels of practitioners were conducted for 19 firms. Minimum numbers of practitioners are required for in-house workshops or seminars.

Graduate Program Workshops

This year we conducted **5** two hour workshops for the College of Law and **12** introductory risk management seminars for graduates and trainees at Leo Cussen.

Other seminars and speaking engagements

The risk management team spoke at:

- Leo Cussen Business Law Conference
- Leo Cussen risk management seminar
- Southern Solicitors' Association meeting
- North West Solicitors' Association meeting
- Two private seminar providers.

Working Directly with Law Firms

During the year we worked directly with a number of firms, of various sizes, on aspects of their internal risk management strategies and practices. These firms were identified by the LPLC as likely to benefit from targeted assistance, either in relation to specific risk management issues or through involvement in more wide-ranging projects undertaken by the LPLC's risk management function.

Publications

In Check Newsletter

From September 2010 LPLC's quarterly newsletter *In Check* was sent via email to both our email subscribers and firms on our new database of firm emails. The newsletter highlights topical risk management issues that have emerged from recent claims or discussions with the profession or changes to the law. The popularity of the newsletter continues to be evidenced by the regular phone calls received from the profession to discuss issues raised after each newsletter is published.

This newsletter is now emailed to subscribers and firms on our new database of approximately 3,500. Only a little over 100 copies are now sent by post.

Emergency bulletins

Five bulletins were published this year. All of the bulletins were sent by email to the firms on our email database and our email subscribers with only a small number being sent in hard copy to the remaining firms we do not have email addresses for. This has enabled us to disseminate this emergency information very quickly.

- A bulletin about changes to the *Estate Agents Act 1980* (Vic) affecting solicitors, which came into operation on 1 January 2011 was sent via email on 7 December 2010.
- Two bulletins were issued in January regarding the floods in Queensland and Victoria. These bulletins urged firms affected by the floods to be aware of time sensitive matters and other obligations to clients.
- A bulletin was sent in early February about the *Civil Procedures Act 2010* (Vic) heralding important legislative reform for civil proceedings conducted in the Supreme, County and Magistrates Courts.
- A bulletin on the key concepts surrounding the *Personal Properties Securities Act 2009* (Cth) was sent in June 2011.

Law Institute Journal Column

LPLC's full page risk management column has continued this year in the Law Institute Journal.

The topics published were:

- Subject to Finance clauses
- Dealing with difficult clients (Part 1)
- Dealing with difficult clients (Part 2)
- Understanding why mistakes happen
- Civil proceedings reform
- The importance of doing searches
- Managing file handovers
- Family law binding financial agreements
- Warning about Personal Properties Security Reform
- Dealing with file closure and closed files
- GST property reminders

Telephone Enquiry Services and Hotlines

Telephone enquiry service

LPLC risk managers and claims managers field a large number of telephone enquiries from the profession. Often the enquiry is in relation to a topic covered in one of our publications or seminars. Very often practitioners ring up because they sense that there is a risk in what they have been asked to do and need to talk to someone about it. This service is greatly appreciated by those that avail themselves of it.

LPLC GST Hotline

Derry Davine continued to ably provide the service this year on behalf of LPLC. Practitioners who use the service are grateful for the opportunity to have their questions answered in an efficient and accessible way, thereby avoiding the potential of claims in this complex area.

Water Hotline

The Water hotline continued to operate this year along similar lines to the GST hotline. All client-related questions are directed to LPLC and those that cannot be answered by LPLC staff are referred to our water panel expert for advice. The first half hour of the advice is paid for by the LPLC.

Website

A new look website was launched this year making access to material easier and faster. The website at www.lplc.com.au is continually updated with our risk management publications. It contains all recent publications as well as:

- In Check and LIJ column archives
- All risk management booklets
- Q & A's for GST
- Details of all forthcoming risk management seminars.

New Risk Managers

The LPLC welcomed two new risk managers this year, Matthew Rose and Richard Antill, and said farewell to Catherine Hannebery. Catherine has moved to take up an in-house role at a national firm.

Matthew joined the LPLC in September 2010 after working in risk management roles with the London offices of global law firms Clifford Chance and Mayer Brown. Previously, Matthew practised as a Senior Associate in Minter Ellison's commercial litigation group.

Prior to joining LPLC, also in September 2010, Richard was a barrister at the Victorian Bar for seven years. He practised in general commercial litigation with specialties in property matters and solicitor-client disputes.

Richard and Matthew bring with them complimentary skills and experience which will enhance our current risk management program and contribute to its ongoing development.

Barrister Practitioners

It is now six years since the Victorian Bar joined the LPLC. During that time, premium rates have decreased significantly.

The total premium collected for approximately 1,800 barristers in the reporting year was 27%, less than the premium collected for approximately 1,600 barristers in 2005.

There was a further reduction of premium rates of 5% for the 2010 – 2011 policy year.

During the six year period, cover was increased from \$1.5M per claim in 2005 to \$2M in 2007.

The cover continues with unlimited reinstatements, as well as automatic run off entitlements for all barristers who cease private legal practice, whether by way of appointment to the bench, retirement, death or loss of practising certificate.

During the reporting period, LPLC piloted a new online renewal facility for barristers. Approximately 30% of barristers insuring with LPLC took advantage of this convenient way of securing their insurance. Barristers were able to complete their insurance applications and declarations of gross fee income online pay by credit card, and immediately print their certificate of insurance once payment was accepted. This meant that the process took approximately 5 minutes from completing the application form to receiving the certificate of insurance.

Claims

There were 40 claims and notifications in the 2010/2011 reporting year, with an incurred value of \$1.271m.

Figures 5 and 6 show the cost claims, both paid and unpaid since barristers joined the scheme. They also show the number of open and closed files.

The ultimate outcome and cost of a particular claim can be difficult to predict at the time of notification, particularly when only limited information is available about the underlying circumstances. A formal claim may not be made against the practitioner until some months or years later. The relatively small number of claims notified to LPLC does mean the barrister's scheme is more susceptible to volatility in terms of cost. This volatility may be caused by one or two large claims. For example a matter reported in the 2007/2008 policy year might be finally resolved some years later, but at a much higher cost than originally expected.

Despite this, the claims experience for barristers over the past six years is one of relative stability, both in terms of claims frequency and claims cost. Claims costs have been maintained well within the amount of premium collected, and LPLC has therefore now been able to build equity in the Fund on barristers' account. This assists in smoothing premiums, even if there is a temporary spike in claims.

Figures 7 and 8 demonstrate the percentage cost and number of claims by area of practice.

Figure 5: Paid and unpaid claims for Barristers

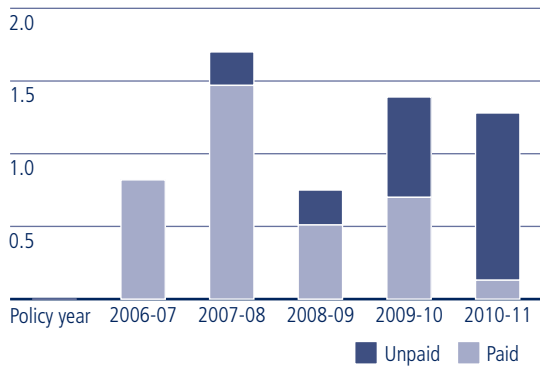


Figure 6: Open and closed files for Barristers

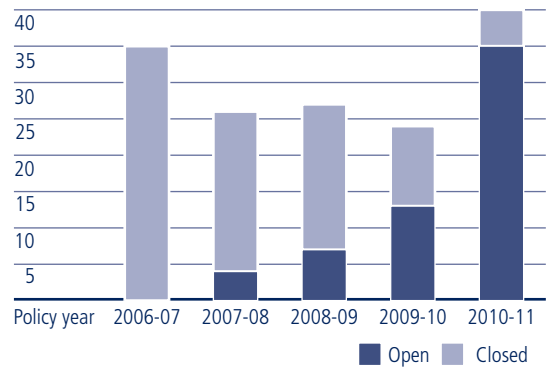


Figure 7: Percentage cost by area of practice

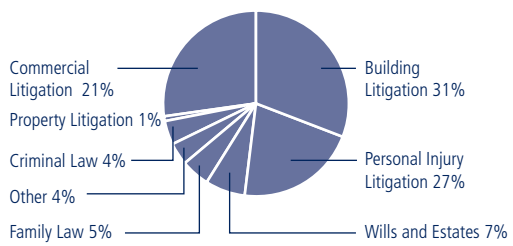
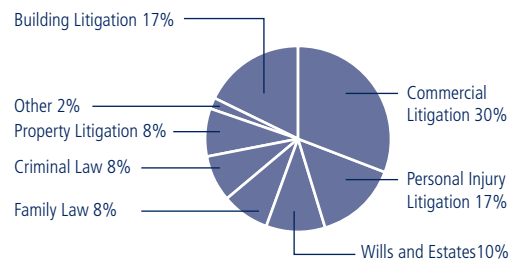


Figure 8: Percentage of claims and notifications



There were particular issues emerging from claims notified this year:

Limitation periods

There was an unusually high number of barristers who notified matters arising from the failure to recognise the existence and timing of relevant limitation periods. These matters were not just in relation to personal injury claims, but occurred also in testator's family maintenance cases, building cases, and commercial claims. These errors were all made by barristers acting within their respective areas of expertise, with the limitation period being overlooked because of one of three factors:

- delay – not attending to the brief in a timely manner, even after prompting from the instructing solicitor in a number of cases.
- oversight – a failure to recognise the necessity for urgency in issuing proceedings, resulting in the deadline being missed. Typically this arose because the barrister did not turn his mind to the issue.
- ignorance of the law – misunderstanding the legal principles upon which the relevant cause of action accrued, and time had therefore begun to run.

Settlement of litigation

We saw:

- clients with 'settler's remorse', revisiting the settlement and complaining the settlement sum was less than the barrister had originally suggested the claim should be worth.
- clients alleging that Counsel had applied unfair pressure to settle.
- drafting errors in settlement documents prepared under time pressure.

Costs claims against Counsel

- these claims arose from failing to recognise a looming conflict of interest until too late in the piece, resulting in an adjournment and wasted costs.
- breaches of duty to the Court in relation to the conduct of proceedings. There is certainly a growing willingness amongst the judiciary and tribunal members to reinforce ethical standards in relation to the manner in which Counsel prepare cases and conduct themselves in Court, and to visit serious breaches by Counsel with costs sanctions.

Risk Management

LPLC's experienced claims solicitors provide a confidential telephone service for barristers with specific queries about their exposure to a claim for professional liability, as well as any queries that arise throughout the year in relation to the coverage provided by the policy. This service continues to be well utilised by members of the Bar, particularly younger practitioners.

LPLC's website includes a number of articles, seminar papers and risk bulletins providing a handy source of reference material for members of the Bar, both young and old, in relation to professional liability risks they face in their everyday practice.

Victorian Bar

LPLC liaises with the Bar in relation to a variety of insurance and risk management issues including any changes to the policy wording, any emerging risk issues relating to barristers' practice of law, and provides support to enable the Bar to comply with its reporting obligations to the Professional Standards Council.

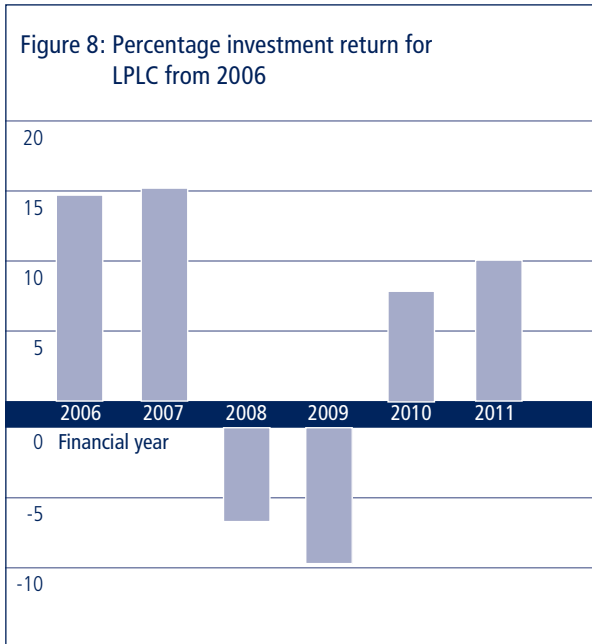
During the year LPLC met with the Bar's Professional Standards Education Committee to provide feedback on the Bar's claims experience for the purpose of assisting the Bar with the design of its ongoing education programme – the Bar is to be commended on the quality of its CLE program.

We acknowledge the assistance of the Victorian Bar, in particular Jeffrey Gleeson SC (Insurance Committee Chairman), Stephen Hare (General Manager) and Alison Rock (Manager, Compliance) for their work with LPLC in relation to policy renewal for 2011/2012 and on other insurance queries raised by members of the Bar during the year.

Investments

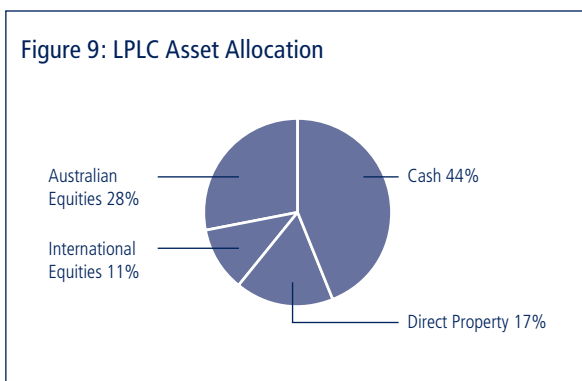
The Legal Practitioners Liability Fund has enjoyed positive returns for a second consecutive year, following negative returns which were a consequence of the global financial crisis.

Once again, the return on investment at 10.06% was positive – well above the Committee’s benchmark of 6.1%. Figure 8 shows investment returns since 2005 on a year by year basis.



There were strong returns across all asset classes in which the fund is invested. Asset allocation has remained conservative, while equity markets remain volatile.

Figure 9 demonstrates the fund’s asset allocation, which by the end of the year, had a strong weighting to cash.



The fund benefitted from improvements in equity markets, as well as from strong returns from an improving commercial property market, reflected in the Committee’s investment in direct property through the Dexus Wholesale Property Fund.

During the reporting period, the Committee’s managers were:

Australian Equities

Solaris Investment Management
Integrity Investment Management

International Equities

MFS (Massachusetts Financial Services) Investment Management

Property

Dexus Wholesale Property Fund

Cash

Cash was invested by way of term deposits with the ANZ Bank, Commonwealth Bank of Australia and Westpac. JANA Investment Advisers were the investment advisers to the Committee.

Legal Practitioners' Liability Committee and Management

The LPLC:

- Manages and conducts the affairs of and is responsible for the organisation and business of the LPLC.
- Provides professional indemnity insurance for law practices.
- Determines the terms of and submits policies of professional indemnity insurance for legal practitioners in Victoria for approval by the Legal Practice Board.
- Oversees investment of the Legal Practitioners' Liability Fund.
- Develops policy in relation to national practice issues and professional indemnity insurance.
- Oversees implementation of effective risk management for legal practitioners.

The **Audit Committee** comprised of Patricia Kelly (Chairman), Mary Radisich and Peter Fox

The Audit Committee oversees:

- financial reporting
- internal risk and control procedures
- actuarial and reserving functions
- audit
- reporting compliance
- corporate governance
- conduct of audits, both internal and external finances and budgeting procedures

The **Fund Investment Sub Committee**, comprised of Peter Daly (Chairman), Matt Walsh, Geoff Rees and Miranda Milne.

The Sub Committee:

- makes recommendations to the LPLC as to benchmarks, asset classes and asset allocation
- monitors the fund's investment strategies
- makes recommendations to the Committee as to the appointment of fund managers and investment advisers.

	COMMITTEE MEETINGS		AUDIT COMMITTEE		FUND INVESTMENT SUB COMMITTEE	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Peter Daly	10	9			4	4
Peter Fox	10	9	4	4		
Patricia Kelly	10	10	4	4		
Miranda Milne	10	10			4	4
Mary Radisich	10	10	4	4		
Matt Walsh	10	10			4	4
Geoffrey Rees	10	10			4	4

Matt Walsh*Chairman*

Matt Walsh was formerly a partner of Mallesons Stephen Jaques and was chairman of that firm from 1988 to 1990. On retirement in July 2000, he was appointed as Special Tax Counsel to Gadens Lawyers, specialising in commercial and taxation law.

Matt is a past president and life member of the Law Institute of Victoria and a past chairman of the Taxation Institute of Australia (Victorian Division). He is a director of several private companies and a member of the board of a public charitable fund.

Peter E Daly, AM*Committee Member*

Peter E Daly has a wealth of experience in the financial industry. He has been President as well as CEO of the Insurance Council of Australia. He is Chair of the Financial Services Compensation Scheme and formerly Chairman of Financial Ombudsman Service, AAMI Limited and was Managing Director of Norwich Winterthur Group Limited. Peter continues to hold a number of Directorships with private companies. He is also Chairman of Aioi Nissay Dowa Management Australia Pty Ltd and Aioi Nissay Dowa Insurance Co Limited. He is a former Deputy Chairman of the Zoological Parks & Gardens Board and the Federal Government Self Regulation Task Force and currently Chairman of Australian Landscape Trust.

In 2004, he was awarded the Order of Australia for services to the insurance industry and to the community, particularly through the advancement of alternative dispute resolution and consumer protection.

Peter Fox*Committee Member*

Peter Fox is a practising Barrister and a part time Senior Fellow of the Melbourne Law School. He has practised as a commercial lawyer for more than 30 years as a barrister, as a partner of Mallesons Stephen Jaques, as a senior counsel of the World Bank in Washington DC, and as an overseas service fellow of the Law Council of Australia assigned to the Monetary Authority of Singapore.

Patricia Kelly*Committee Member*

Tricia Kelly has extensive experience in the Financial Services Industry. Most recently she worked for Suncorp/AAMI where her role included Executive General Manager Strategy & Business Development Personal Insurance and General Manager AAMI New South Wales. Prior to that she was a Director & Executive General Manager Life & Superannuation of Norwich Union Life Australia.

Tricia is a past president and honorary life member of the Insurance Institute of Victoria and a former Director of the Australian Insurance Institute. She is currently a Director of RACV Limited and subsidiary companies.

Miranda Milne*Executive Member*

Miranda Milne was solicitor to the Committee until 1986 and has been CEO since 1996.

Prior to her appointment to the Committee, Miranda engaged in private practice, specialising in litigation and professional indemnity insurance.

She is a member of the executive committee of the Trinity College Foundation.

Geoffrey Rees*Committee Member*

Geoff is a graduate from Melbourne University in law and commerce and is a Law Institute of Victoria accredited business law specialist. He is one of the two founding partners of Brian Ward & Partners.

With a broad commercial and litigation experience, Geoff regularly advises and presents to institutions and their controlled entities on operational risk management strategies.

He is a member of the Uniseed Board, a \$60M pre-seed fund of Westscheme and three of the leading research universities. The fund invests in research outcomes from the institutes, and manages the early stages of the commercialisation of that research.

Mary Radisich*Committee Member*

Mary Radisich is a Financial Councillor with Southern Peninsula Community Information Centre, and previously at Casey Cardinia Legal Service.

She is an experienced mediator and has extensive experience advocating for consumers in the financial services industry, and in community affairs.

She has been manager of the Dispute Settlement Centre of Victoria. Her community involvement has included being a Councillor of the City of Knox and a Member of the Board of the Angliss Hospital.

She has also been a member of the Financial and Consumer Rights Council of Victoria for many years.

LPLC Management

Miranda Milne

Chief Executive Officer

The Committee began its operations in January of 1986. Miranda Milne was solicitor to the Committee from May 1986 until October 1996 and has been the chief executive officer since that time.

She previously worked in private practice in the area of insurance litigation, particularly professional indemnity insurance.

Justin Toohey

Deputy Chief Executive Officer

Justin joined the Committee in 2005 from IBL Ltd where he was employed for four years as National Claims & Risk Manager with the professional indemnity scheme run by the Royal Australian Institute of Architects.

Prior to 2001, Justin was a partner with Tress Cocks & Maddox specialising in professional indemnity litigation, and was a panel solicitor to the Committee conducting the defence of claims against members of the profession for more than 10 years.

Alex Macmillan

Claims Solicitor

After 17 years in private practice, specialising in insurance litigation, Alex Macmillan joined the Committee on secondment as a partner from Lander & Rogers. She subsequently joined the Committee staff permanently in 1994.

Bronwyn Hine

Claims Solicitor

Bronwyn joined the Committee in 2006 from the Melbourne office of specialist insurance firm Moray & Agnew.

In the 10 years prior to joining the LPLC, Bronwyn worked in private practice in Victoria and South Australia as a professional indemnity solicitor.

Heather Hibberd

Risk Manager

Heather practiced as a solicitor for 8 years in Insurance Litigation at Minter Ellison specialising in professional indemnity litigation before joining the Committee on secondment in 1999. She became a permanent member of staff in 2001.

Catherine Hannebery

Risk Manager Manager (until 6th September, 2010)

Catherine joined the Committee in July 2006. Her career started in private practice and moved to legal publishing. Prior to coming to the Committee, Catherine worked for 9 years on publications and continuing legal education for the insurance practice at Phillips Fox.

Richard Antill

Risk Manager (from 20th September, 2010)

Prior to joining the LPLC, Richard was a barrister at the Victorian Bar for seven years. He practised in general commercial litigation with specialities in property matters and solicitor-client disputes.

Matthew Rose

Risk Manager (from 20th September, 2010)

Matthew joined the LPLC after working in risk management roles with the London office of global law firms Clifford Chance and Mayer Brown. Previously, Matthew practised as a Senior Associate in Minter Ellison's commercial litigation group.

Peter Richards

Chief Financial Officer

Peter joined the Committee as Chief Financial Officer in December, 2003. He previously worked in the Retail Industry where he held senior accounting positions with Myer and more recently Daimaru.

Peter manages the Accounting, Finance and Payroll functions.

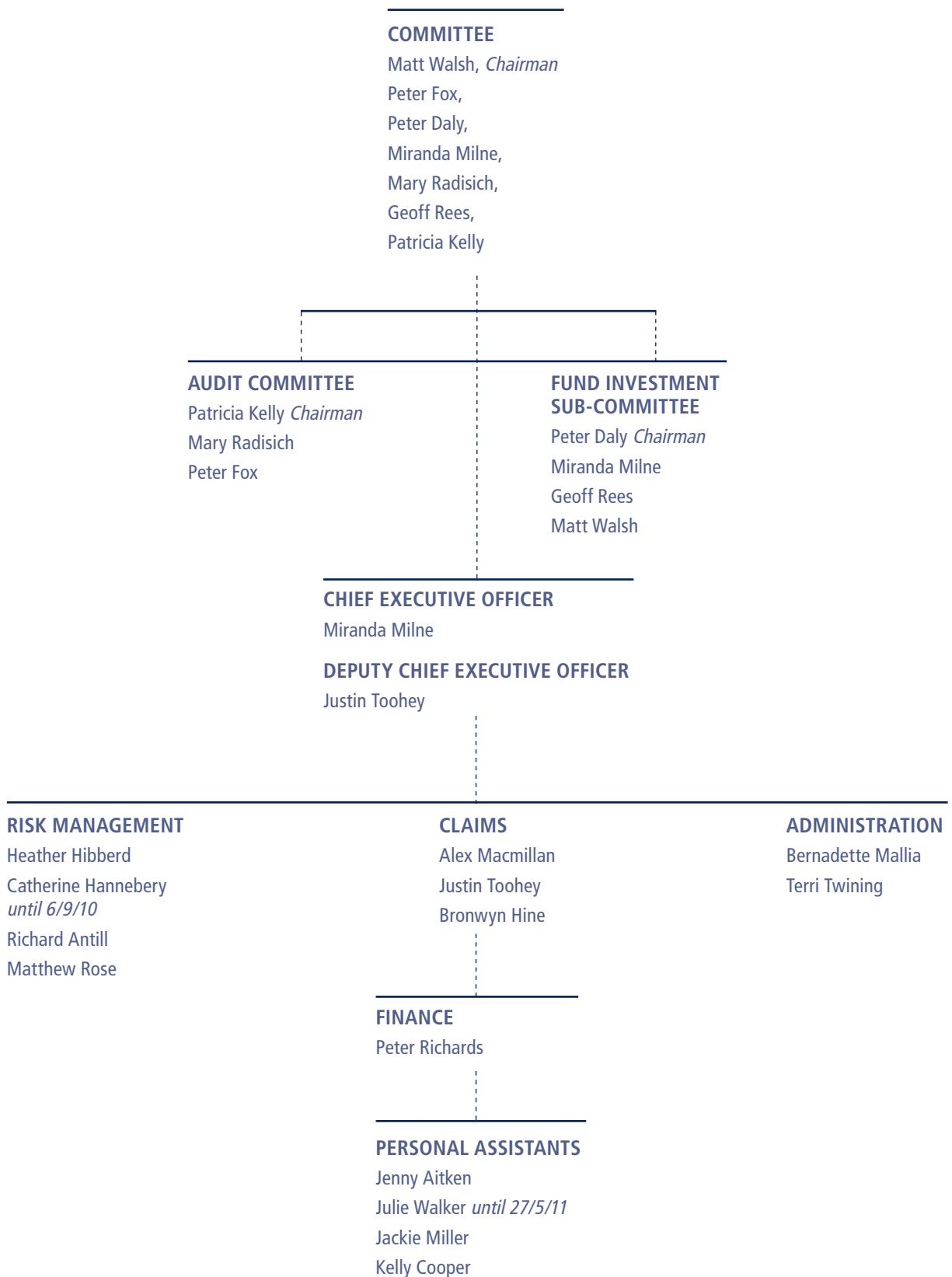
Bernadette Mallia

Office Manager

After working in solicitors firms both as a personal assistant and a conveyancing clerk, Bernadette joined the Committee in 1988.

The Committee also employs three personal assistants and a data manager. The Committee outsources its information technology and actuarial services.

Organisational chart



Supplementary information

Legislation administered by the Committee

The *Legal Practice Act 1996* – 1st July, 2005 – 11th December, 2005

The *Legal Profession Act 2004* – 12th December, 2005 to 30th June, 2011.

Financial management regulations

The information specified in the Financial Management Regulations has been prepared and is available on request to the Attorney General, Members of Parliament and the public.

Whistleblowers policy statement

Policy

The LPLC is committed to the objectives of the *Whistleblowers Protection Act 2001* (the WP Act). The LPLC recognizes the value of transparency and accountability and will support the making of any disclosures pursuant to the guidelines set out in the WP Act, but subject to section 246 of the *Legal Practice Act 1996* and section 6.6.13 of the *Legal Profession Act 2004*.

Compliance with the Building Act 1993

The LPLC does not own any buildings and consequently is exempt from notifying its compliance with the building and maintenance provisions of the *Building Act 1993*.

Categories of documents held by the LPLC

- applications by legal practitioners for insurance
- assessment notices
- notifications by legal practitioners of claims or circumstances likely to give rise to claims
- board papers minutes for LPLC and LPLC sub committees
- management records
- administration records
- accounting records
- library material

Freedom of Information

The LPLC has received no requests pursuant to the *Freedom of Information Act 1982* for the reporting period,

Publications

The LPLC continues to publish relevant information on its website www.lplc.com.au

Occupational health & safety

The Committee has continued its commitment to OH&S compliance during the reporting period.

A staff member has been trained as a first aid officer.

All issues relating to safe work place practices are considered and reported at staff meetings.

There were no reported OH&S related incidents in the reporting year.

Workforce Data

The Committee undertakes an annual performance appraisal and salary review of the Chief Executive Officer. The Chief Executive Officer conducts an annual performance review of all other staff members.

Staff members are able to raise issues privately with the CEO and Office Manager at any time. Alternatively, matters can be raised with the Committee.

09/10

Position	Male	Female	Total
Chief Executive Officer		1	1
Chief Financial Officer	1		1
Claims Manager	1	2	3
Risk Manager		2	2
Office Manager		1	1
Data Manager		1	1
Receptionist/PA/ Accounts Officer		4	4
TOTAL	2	11	13

10/11

Position	Male	Female	Total
Chief Executive Officer		1	1
Chief Financial Officer	1		1
Claims Manager	1	2	3
Risk Manager	2	1	3
Office Manager		1	1
Data Manager		1	1
Receptionist/PA/ Accounts Officer		4	4
TOTAL	4	10	14

Environmental issues

In July 2009 the Legal Practitioners Liability Committee registered with Sustainability Victoria to develop an environmental management plan. This plan assists the LPLC to manage the environmental impact from its day to day business activities.

Committee staff attended a series of workshops held through Sustainability Victoria's Resource Smart Government program.

Each area of the Committee's business was assessed to see where energy was used and resources consumed and how this could be reduced. The task of monitoring this EMP has been allocated to a team within the office.

The plan covers the 2010-2011 reporting year.

Energy consumption

The energy usage for 2010-2011 decreased by approximately 10% on the previous year. This reduction is due to the policies implemented by the LPLC such as using natural light in offices where possible, shutting down computers and printers after hours and only having lights on in the parts of the office where necessary.

The LPLC made a commitment to purchase no less than 20% green power for office requirements which contributed to a reduction in greenhouse gas emissions of more than 8 tonnes of carbon over the 2010-2011 reporting period.

Total energy usage 42,980 kWh. kWh of energy used per unit of office area 69.32. kWh of energy used per FTE 3070.

2011-2012 Target

Reduce our greenhouse gas emissions by 20% by June 2012 compared with the 2009-2010 baseline data.

Waste generation

The LPLC continues to monitor the levels of waste generated by its operations and staff. Building management introduced a commingled recycling service which has assisted greatly in the reduction of waste generated by the LPLC sent to landfill.

The LPLC continues to reduce waste generation through recycling of all computer components, CDs, DVDs, used printer cartridges, old dictating equipment, old mobile phones, old landline phones and any other computer peripherals by using a not for profit recycling service, Byte Back.

2011-2012 Targets

Reduce waste to landfill by 10% by June 2012 compared with the 2009-2010 base data.

Increase proportion of waste recycled to 90% by June 2012.

Paper consumption

The LPLC has reduced its paper consumption significantly. There has been a reduction of more than 15% in the reporting period compared with the 2009-2010 baseline. This reduction has occurred due to the policies adopted by the LPLC in purchasing only printers that are capable of double sided copying, defaulting all communal printers to double sided and using electronic documents instead of paper whenever possible.

A very high percentage of the LPLC's paper and cardboard waste is recycled through a secure paper recycling contractor. The LPLC recycled 0.665 tonnes of paper in the reporting period which contributed to a reduction in greenhouse gas emissions of more than 0.94 tonnes of carbon over the 2010-2011 reporting period.

Total units of copy paper used (A4 reams) 275. Units of paper used per FTE (A4 reams/FTE) 19.64.

2011-2012 Targets

To reduce paper consumption by 20% by June 2012 compared with the 2009-2010 baseline.

Transport

The LPLC does not operate a fleet of vehicles for business use.

The LPLC has a travel policy which includes the purchase of carbon credits for all air travel undertaken.

Competition policy

Until 11th December, 2005 Section 227A of the *Legal Practice Act* provided -

"For the purposes of the *Trade Practices Act* 1974 of the Commonwealth and Competition Code, the entering into and performance of a contract of professional indemnity insurance by a person or firm and the Liability Committee under section 224, 225, 226 or 227 is authorised by this Act"

From 12th December, 2005 section 3.5.5 of the *Legal Profession Act* 2004 provides -

"For the purposes of the *Trade Practices Act* 1974 of the Commonwealth and Competition Code, the entering into and performance of a contract of professional indemnity insurance by a law practice and the Liability Committee under this Part is authorised by this Act"

Consultants

The Committee engages a number of external consultants each year to provide specialist advice to assist the Committee with decision making and risk management programs. During 2010/2011 total consultancy expenditure (as defined by the *Financial Management Act* 1994) was approximately \$91,464.

Taylor Fry – Actuaries

Taylor Fry is the Committee's actuary. The project fee approved for the reporting period was \$120,000. The expenditure for the reporting period was \$122,000. Taylor Fry has been retained as the Committee's actuary for the 11/12 reporting period.

JANA Investment Advisors

Jana is the Committee's Fund Administrator. The project fee approved for the reporting period was \$120,000. The expenditure for the reporting period was \$120,000. Jana has been retained as the Fund Administrator for the 11/12 reporting period.

Contact details

Legal Practitioners' Liability Committee
Level 31

570 Bourke Street
MELBOURNE VIC 3000

ABN: 45 838 419 536

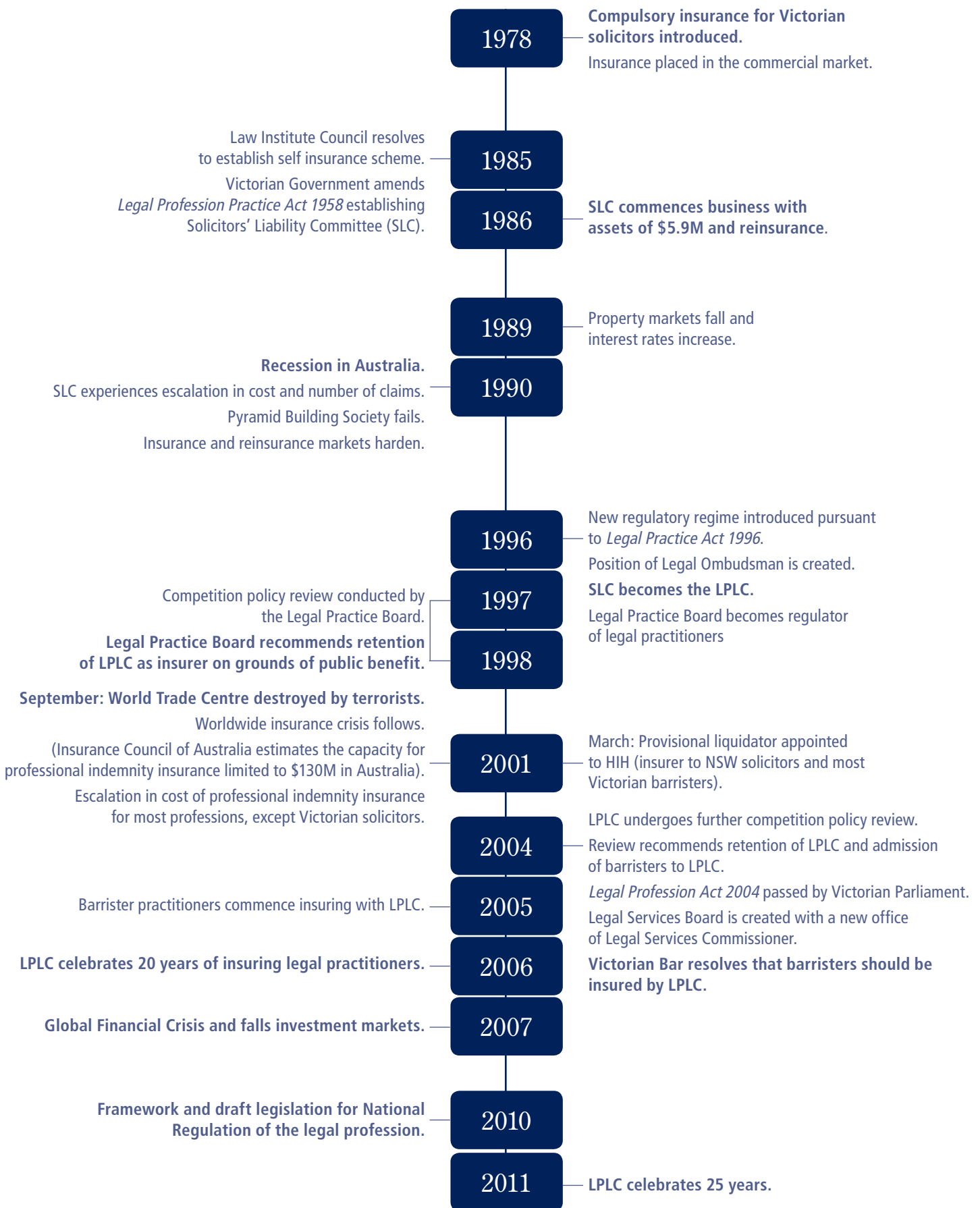
Telephone: (03) 9672 3800

Fax (03) 9670 5538

DX 431

Website: www.lplc.com.au

25 years insuring legal practitioners



FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2011
LEGAL PRACTITIONERS' LIABILITY FUND

ABN 45 838 419 536

Statement of Comprehensive Income

for the Financial Year ending 30 June 2011

	Note	2011 \$	2010 \$
UNDERWRITING			
Premium revenue	25	25,133,992	28,773,362
Outwards reinsurance expense		(1,147,258)	(1,147,258)
Net earned premiums		23,986,734	27,626,104
Claims expense		(27,433,282)	(30,055,021)
Net claims incurred	26	(27,433,282)	(30,055,021)
Movement in unexpired risk liability	27	1,990,042	(5,698,723)
UNDERWRITING RESULT		(1,456,506)	(8,127,640)
Investment income	3	17,489,874	9,615,882
Profit/(Loss) on Sale of Property, Plant & Equipment		-	-
Other income		172,876	141,323
Other expenses	7	(4,297,144)	(3,865,099)
Profit / (Loss) attributable to the Legal Practitioners Liability Fund		11,909,100	(2,235,534)
Other Comprehensive Income		Nil	Nil
Total Comprehensive Income		11,909,100	(2,235,534)

Notes to and forming part of these financial statements are set out on pages 24 to 42

Balance Sheet

as at 30 June 2011

	Note	2011 \$	2010 \$
Current Assets			
Cash and cash equivalents		24,500,343	23,781,321
Receivables	4	1,812,558	1,460,505
Other financial assets	5	64,600,933	61,471,809
Prepayments		104,610	164,014
Total Current Assets		91,018,444	86,877,649
Non-Current Assets			
Other financial assets	5	107,084,408	95,628,073
Property, plant & equipment	6a	115,603	121,978
Intangibles	6b	5,699	39,833
Total Non-Current Assets		107,205,710	95,789,884
TOTAL ASSETS		198,224,154	182,667,533
Current Liabilities			
Outstanding claims liability	28	30,516,000	29,134,000
Payables	8a	727,353	848,944
Unearned premium liability	8b	35,377,000	35,617,000
Provisions	9	322,780	253,912
Total Current Liabilities		66,943,133	65,853,856
Non-Current Liabilities			
Outstanding claims liability	28	54,383,000	51,812,000
Provisions	9	11,732	24,488
Total Non-Current Liabilities		54,394,732	51,836,488
TOTAL LIABILITIES		121,337,865	117,690,344
NET ASSETS		76,886,289	64,977,189
EQUITY			
Accumulated funds	10	76,886,289	64,977,189
TOTAL EQUITY		76,886,289	64,977,189

Notes to and forming part of these financial statements are set out on pages 24 to 42

Cash Flow Statement

for the Financial Year ending 30 June 2011

	Note	2011 \$ Inflows/(Outflows)	2010 \$ Inflows/(Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium revenue received		29,594,526	28,147,550
Other Income		238,078	82,566
Dividend Received		1,849,669	1,151,240
Interest Received		4,071,104	2,328,572
Other Income from Investments		5,090,535	2,852,121
Claims paid		(24,611,964)	(27,403,652)
Outwards reinsurance premium paid		(1,147,258)	(1,147,258)
Payments to suppliers and employees		(5,774,022)	(5,637,465)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2(b)	9,310,668	373,674
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant & equipment		-	455
Purchase of property, plant & equipment		(44,512)	(41,129)
Proceeds from sale of investments		-	42,371,600
Purchase of investments		(5,418,010)	(56,653,610)
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES		(5,462,522)	(14,322,684)
NET INCREASE IN CASH HELD		3,848,146	(13,949,010)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		85,253,130	99,202,140
CASH AND CASH EQUIVALENTS AT END OF PERIOD	2(a)	89,101,276	85,253,130

Notes to and forming part of these financial statements are set out on pages 24 to 42

Statement of Changes In Equity

for the financial year ended 30 June 2011

	Note	Accumulated Funds \$	Total \$
At 30 June 2009		67,212,723	67,212,723
Comprehensive result for the year		(2,235,534)	(2,235,534)
At 30 June 2010		64,977,189	64,977,189
Comprehensive result for the year		11,909,100	11,909,100
At 30 June 2011		76,886,289	76,886,289

Notes to and forming part of these financial statements are set out on pages 24 to 42

Notes to the Financial Statements

for the year ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Australian Accounting Standards and the Financial Management Act (1994).

The financial report is prepared in accordance with the fair value basis of accounting with certain exceptions as described in the accounting policies below.

The financial report is presented in Australian dollars.

(b) Statement of Compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board.

A number of Australian Accounting Standards with different application dates, which have been issued or amended and are not yet effective have not been adopted for the annual reporting period end 30 June 2011. Apart from the AASB 1053 whose details are disclosed below, the Standards are not expected to have a significant impact, if any at all, on the Fund's financial statements.

Standard Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector financial statements
AASB 1053 Application of Tiers of Australian Accounting Standards	This Standard establishes a differential framework consisting of two tiers of reporting requirements for preparing general purpose financial statements	Beginning 1 July 2013	The Victorian Government is currently considering the impacts of Reduced Disclosure Requirements (RDRs) for certain public sector entities and has not decided if RDRs will be implemented to the Victorian Public Service

(c) Premium

Premium revenue comprises amounts charged to solicitors and barristers, excluding amounts collected on behalf of third parties, principally stamp duties and goods and services tax.

Premium revenue is recognised in the Statement of Comprehensive Income when it has been earned. Premium revenue is recognised in the Statement of Comprehensive Income from the attachment date over the period of the contract.

The proportion of premium received or receivable not earned in the Statement of Comprehensive Income at the reporting date is recognised in the Balance Sheet as an unearned premium liability.

(d) Outwards Reinsurance

Premium paid to reinsurers is recognised as an expense in accordance with the expected pattern of risk. Where applicable, a portion of outwards reinsurance premium is treated at the reporting date as a prepayment. Reinsurance recoveries are recognised as revenue for claims incurred.

The Legal Practitioners Liability Fund carries a stop loss insurance policy to cover the payment of total claims made during the year ended 30 June 2011 in excess of \$42.5m (2010:\$42.5m).

(e) Outstanding Claims Liability

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims made at the reporting date under general insurance contracts issued by the fund, with an additional risk margin to allow for the uncertainty in the central estimate.

Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees and other costs that can only be indirectly associated with individual claims, such as claims administration expense.

The expected future payments are discounted to present value using a risk free rate.

A risk margin is applied to the outstanding claims liability, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate of the outstanding claims liability.

Notes to the Financial Statements

for the year ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(f) Unexpired Risk Liability

At each reporting date the fund assessed whether the unearned premium liability is sufficient to cover all the expected future cash flows relating to the future claims against current insurance contracts. This assessment is referred to as the liability adequacy test.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less any related intangible assets and deferred acquisition costs then the unearned premium liability is deemed to be deficient. The fund applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the outstanding claims liability, see note 1(e).

The entire deficiency, gross and net of insurance, is recognised immediately in the Statement of Comprehensive Income. The deficiency is recognised first by writing down any related intangible assets and then related deferred acquisition costs, with any excess being recorded in the balance sheet as an unexpired risk liability.

(g) Property, Plant and Equipment & Intangibles

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Intangibles -This is the cost of production of training films recorded onto DVDs for use in presentations to management of legal firms. Their anticipated useful life is three years.

Impairment

The carrying value of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If such an indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in the Statement of Comprehensive Income.

Depreciation and Amortisation

Furniture and equipment is depreciated on a straight line or diminishing value basis over their useful life to the Fund commencing from the time the assets are held ready for use.

Intangibles are amortised on a straight line or diminishing value basis over their useful life to the Fund commencing from the time the assets are held ready for use.

The depreciation rates used are:

Class of Asset	Prime Cost Depreciation Rate	Diminishing Value Depreciation Rate
Furniture and equipment	20-40%	15-33%
Leasehold Improvements	20%-25%	n/a
Intangibles	33%	n/a

(h) Employee Benefits

Provision is made for the Fund's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries and annual leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Other employee benefits have been measured at the present value of the estimated future cash outflows to be made for those entitlements.

Contributions are made by the Fund to an employee superannuation fund and are charged as expenses when incurred.

Notes to the Financial Statements

for the year ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(i) Cash and cash equivalents

For the purpose of the cash flow statement, cash includes cash on hand, bank bills, at call deposits with banks or financial institutions and investments in money instruments maturing within less than ten months, net of bank overdrafts.

(j) Goods and Services Tax (GST)

Revenues and expenses are recognised net of the amount of GST, except where the amount of GST is not recoverable from the Australian Taxation Office.

In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the item of expense. Receivables and payables in the Balance Sheet are shown inclusive of GST.

(k) Other Financial Assets

For financial assets that are held for trading or designated at fair value through the profit or loss, the net gain or loss is calculated by taking the movement in the fair value of the financial gain and this gain or loss is recognised in the profit or loss.

Net market values have been determined as follows:

1. Units in managed equity funds by reference to the unit redemption price at the end of the reporting period.
2. Units in a managed property fund by reference to unit redemption price at the end of the reporting period which is 98% of the current asset value which has been the basis of recent sales.

(l) Asset backing general insurance liabilities

As part of its investment strategy the fund actively manages its investment portfolio to ensure that the investments mature in accordance with the expected pattern of future cash flows arising from general insurance liabilities.

With the exception of property plant and equipment, the fund has determined that other financial assets are held to back general insurance liabilities and their accounting treatment is described in note 1(k). As these assets are managed under the fund's Risk Management Statement on a fair value basis and are reported to the Committee on this basis, they have been valued at fair value through profit or loss.

(m) Derecognition of financial assets and financial liabilities

(i) Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group or similar assets) is derecognised when:

- the right to receive cash flows from the asset have expired;
- the fund retains the right to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the fund has transferred its rights to receive cash from the asset and either (a) has transferred substantially all the risk and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

(n) Income Tax

The Fund is exempt income tax pursuant to item 5.2 of section 50-25 of the Income Tax assessment Act 1997.

(o) Claims Expense

Claims expense recognises the estimated cost of claims incurred for the current year, less or plus any adjustment for the improvements/ deterioration in prior policy/accounting years.

(p) Investment Income

Investment income is accrued and includes capital movements, distributions and interest income. Any investment income relating to the current period that is not received during the accounting year is accrued to that accounting year.

(q) Receivables

Income accrued on term deposits during the accounting year but not paid until after the accounting year are treated as receivables. Excesses payable, by insureds on terms, and costs recoveries are also included.

Notes to the Financial Statements

for the year ended 30 June 2011

	2011 \$	2010 \$
2. RECONCILIATION OF CASH AND CASH EQUIVALENTS		
For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks, bank bills and investments in term deposits. Cash and cash equivalents at end of the financial year as shown in the cash flow statement is reconciled to items in the Balance Sheet as follows:		
2 (a) Cash and Cash Equivalents	24,500,343	23,781,321
Cash Trusts & Deposits	64,600,933	61,471,809
	89,101,276	85,253,130
2 (b) Reconciliation of Operating profit for the year to the net cash flows from operations.		
Operating profit	11,909,100	(2,235,534)
Depreciation	85,021	77,769
(Profit)/Loss on sale of property, plant & equipment	-	-
(Profit)/Loss on investments realised during year	-	(6,896,472)
Changes in net market value of investments	(6,038,325)	4,677,977
Net present value adjustment to outstanding claims	(846,000)	(761,000)
Insurance Recovery recognised	-	-
Unexpired Risk Liability	(1,990,042)	5,698,723
Change in assets and liabilities		
Increase/(Decrease) in provision for long service and annual leave	56,112	51,520
(Increase)/Decrease in receivables & prepayments	(292,649)	(383,997)
Increase/(Decrease) in creditors	(121,591)	(459,589)
Increase/(Decrease) in premiums received in advance	1,750,042	(3,209,723)
Increase/(Decrease) in claims outstanding	4,799,000	3,814,000
Net cash and cash equivalents provided by operating activities	9,310,668	373,674
2 (c) The fund has no credit standby arrangements or loan facilities (2010: Nil)		
3. INVESTMENT INCOME		
Net fair value gains on financial assets at fair value through profit or loss	6,038,325	2,218,492
Other Income	5,136,695	2,738,879
Dividend Income	1,849,669	1,151,240
Interest Income	4,465,185	3,507,271
	17,489,874	9,615,882
4. RECEIVABLES		
CURRENT		
Deductibles Receivable & Cost Recovery	22,480	88,001
Accrued Income	1,790,078	1,372,504
	1,812,558	1,460,505

Notes to the Financial Statements

for the year ended 30 June 2011

	2011 \$	2010 \$
5. OTHER FINANCIAL ASSETS		
CURRENT		
Cash Trusts, Bank bills & Term Deposits	64,600,933	61,471,809
	64,600,933	61,471,809
NON CURRENT		
Unquoted Unit Trusts		
- Overseas Equities	20,173,278	15,871,104
- Property Fund	32,731,698	31,064,394
- Australian Equities	54,179,432	48,692,575
	107,084,408	95,628,073
NON - FINANCIAL ASSETS		
6a PROPERTY, PLANT AND EQUIPMENT		
Furniture & equipment:		
At Cost	285,304	274,958
Accumulated depreciation	(210,832)	(210,686)
	74,472	64,272
Leasehold Improvements:		
At Cost	75,849	75,849
Accumulated depreciation	(34,718)	(18,143)
	41,131	57,706
Total	115,603	121,978
6b INTANGIBLES		
Training Materials:		
At Cost	102,412	102,412
Accumulated Depreciation	(96,713)	(62,579)
Total	5,699	39,833
DEPRECIATION		
Furniture & equipment	34,312	30,572
Leasehold improvements	16,575	13,063
Intangibles	34,134	34,134
	85,021	77,769

Notes to the Financial Statements

for the year ended 30 June 2011

Movements in Carrying Amounts:

Movement in the carrying amounts for each class of non-current assets between the beginning and end of the current financial year

2011	Furniture & Equipment	Leasehold Improvements	Intangibles	Total
	\$	\$	\$	\$
Balance at the Beginning of the year	64,272	57,706	39,833	161,811
Additions	44,512	-	-	44,512
Disposals	-	-	-	-
Depreciation Expense	(34,312)	(16,575)	(34,134)	(85,021)
Carrying amount at the end of the year	74,472	41,131	5,699	121,302
2010	Furniture & Equipment	Leasehold Improvements	Intangibles	Total
	\$	\$	\$	\$
Balance at the Beginning of the year	82,269	42,669	73,967	198,905
Additions	13,030	28,100	-	41,130
Disposals	(455)	-	-	(455)
Depreciation Expense	(30,572)	(13,063)	(34,134)	(77,769)
Carrying amount at the end of the year	64,272	57,706	39,833	161,811

	2011	2010
	\$	\$
7. OTHER EXPENSES		
Included in other expenses are:		
Depreciation and amortisation	85,021	77,769
Employee benefits	2,120,415	1,817,030
Operating lease payments	347,990	337,607
8a PAYABLES		
Creditors	688,425	848,944
Deferred investment & other income	38,928	-
	727,353	848,944
8b UNEARNED PREMIUM LIABILITY		
Unearned premium liability 1 July	35,617,000	33,128,000
Earning of premiums written in previous periods	(24,364,102)	(27,573,825)
Deferral of premium contracts written in period	26,114,144	24,364,102
Unexpired risk liability recognised for year ending 30 June (note 27 (a))	(1,990,042)	5,698,723
Unearned premium liability 30 June	35,377,000	35,617,000

Notes to the Financial Statements

for the year ended 30 June 2011

	2011 \$	2010 \$
9. PROVISIONS		
CURRENT		
Employee Benefits	322,780	253,912
NON-CURRENT		
Employee Benefits	11,732	24,488
Aggregate Employee Benefit Liability	334,512	278,400
Number of employees at year end	14	14
10. ACCUMULATED FUNDS		
Accumulated Funds at the beginning of the year	64,977,189	67,212,723
Operating Profit/(loss) for the year	11,909,100	(2,235,534)
Accumulated Funds at the end of the year	76,886,289	64,977,189
11. AUDITORS' REMUNERATION		
Remuneration of the auditor for:		
- auditing or reviewing the financial report	39,200	38,530
- other services	-	-
	39,200	38,530
Audit fees paid or payable to the Victorian Auditor-General's Office for audit of the Fund's financial report:		
Paid as at 30 June	-	-
Payable as at 30 June	39,200	38,530
	39,200	38,530

Notes to the Financial Statements

for the year ended 30 June 2011

	2011 \$	2010 \$
12(a). RESPONSIBLE PERSONS		
In accordance with the Ministerial Directions issued by the Minister for Finance under the Financial Management Act 1994, the following disclosures are made regarding responsible persons for the reporting period.		
Names		
The persons who held the positions of Ministers and Accountable officers in the Fund are as follows:		
Attorney General The Hon. Rob Hulls MP 1 July 2009 to 26 November 2010		
Attorney General The Hon. Robert Clark MLA 27 November 2010 to 30 June 2011		
Remuneration		
Amounts relating to Ministers are reported in the financial statements of the Department of Premier and Cabinet.		
12(b). COMMITTEE AND EXECUTIVE DISCLOSURE		
COMMITTEE		
Income paid or payable to all Committee Members and any related parties	488,633	463,327
Number of Committee Member's whose income from the Fund was within the following bands		
\$	No.	No.
10-20,000		
20-30,000	-	2
30-40,000	5	4
40-50,000	1	1
300-310,000	-	1
320-330,000	1	-
The names of Committee Members who held office during the year were:		
Peter Daly	Mary Radisich	
Peter Fox	Geoffrey Rees	
Patricia Kelly	Matthew Walsh	
Miranda Milne		
The remuneration of the Chief Executive Officer is also included in the executive remuneration disclosure		

Notes to the Financial Statements

for the year ended 30 June 2011

	2011 \$	2010 \$
12 (b) COMMITTEE AND EXECUTIVE DISCLOSURE CONTINUED		
EXECUTIVE		
Income Band	No.	No.
\$		
100-110,000	-	1
120-130,000	-	1
130-140,000	2	-
140-150,000	3	1
150-160,000	-	1
180-190,000	2	1
200-210,000	-	1
290-300,000	1	-
300-310,000	-	1
320-330,000	1	-
Total Numbers	9	7
Total Amount	\$1,673,004	\$1,224,674
13. COMMITMENTS AND CONTINGENCIES	\$	\$
Operating Lease Commitments:		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable:		
- not later than 1 year	369,308	351,201
- later than 1 year but not later than 5 years	562,966	922,344
- later than 5 years	-	-
	932,274	1,273,545
The property lease is a non-cancellable lease. The lease is for a 5 year term. There are no options. Rental increases are fixed annually on the anniversary of the commencement date. The lease contains a "make good" clause effective at the end of the term of the lease.		
Other Commitments:		
The Fund has entered into an agreement with Jana Investment Advisers Pty Ltd. for the provision of investment advice.		
This agreement is for a 12 month period. The agreement expires on the 31st December 2010.		
Payable:		
- not later than 1 year	60,000	60,000

Notes to the Financial Statements

for the year ended 30 June 2011

14. CONTINGENT ASSETS

Currently the Fund has an interest in Real Estate as a result of the provision of funds relating to the settlement of a claim.

The Fund is entitled to a proportion of the net proceeds less certain expenses after the death of the proprietor. As the realisable value of the property cannot be known at this point in time the future economic benefit cannot be quantified.

This entitlement is secured by a mortgage over the property.

15. INDEMNIFYING OFFICERS AND AUDITOR

During or since the end of the financial year the Legal Practitioner's Liability Fund has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

The fund has paid premiums to insure the Committee Members against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Committee Member of the Fund, other than conduct involving a wilful breach of duty in relation to the Fund. The total amount of the premium paid on an annualised basis was \$22,200

Individual Committee members have entered into Deeds of Indemnity with all other members to indemnify them to the extent permitted by law against certain liabilities and legal costs incurred by them as members of the Committee.

16. SEGMENT REPORTING

The Fund operates in a single industry and geographical segment, being a professional indemnity insurer to legal practitioners in Australia.

17. FINANCIAL INSTRUMENTS

(a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised, with respect to each class of financial asset, and equity instrument are disclosed in Note 1(k) to the financial statements.

(b) Fair Values

The financial instruments recognised at fair value in the Balance Sheet have been analysed and classified using a fair value hierarchy reflecting the significance of inputs used in making the measurements. The fair value hierarchy consists of the following level:

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

30-Jun-11	Level 1	Level 2	Level 3	Total
Financial Assets				
- Unit in managed funds	74,352,710	32,731,698	-	107,084,408
30-Jun-10	-	-	-	-
Financial Assets				
- Unit in managed funds	64,563,679	31,064,394	-	95,628,073

Included in Level 1 are the managed equity funds and in Level 2 is the managed property fund. Their market value has been determined as per note 1(k).

Notes to the Financial Statements

for the year ended 30 June 2011

17. FINANCIAL INSTRUMENTS CONTINUED

(c) Interest Rate Risk

The fund's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

30 June 2011		Fixed Interest maturing in:					Non Interest Bearing	Total
	Weighted Average Interest Rate	Floating Interest Rate	Within Year	1 to 5 Years	Over 5 Years			
Financial Assets:								
Cash	3.75%	24,500,343	-	-	-	-	24,500,343	
Receivables	n/a	-	-	-	-	1,812,558	1,812,558	
Investments	n/a	-	-	-	-	107,084,408	107,084,408	
Bank Bills	n/a	-	-	-	-	-	-	
Term Deposits	6.1%	64,600,933	-	-	-	-	64,600,933	
Total Financial Assets		89,101,276	-	-	-	108,896,966	197,998,242	
Financial Liabilities:								
Creditors	n/a	-	-	-	-	727,353	727,353	
Outstanding claims	n/a	-	-	-	-	84,899,000	84,899,000	
Total Financial Liabilities		-	-	-	-	85,626,353	85,626,353	
30 June 2010								
	Weighted Average Interest Rate	Floating Interest Rate	Within Year	1 to 5 Years	Over 5 Years	Non Interest Bearing	Total	
Financial Assets:								
Cash	3.5%	23,781,321	-	-	-	-	23,781,321	
Receivables	6.7%	55,000	-	-	-	1,405,505	1,460,505	
Investments	n/a	-	-	-	-	95,628,073	95,628,073	
Bank Bills	n/a	-	-	-	-	-	-	
Term Deposits	5.6%	61,471,809	-	-	-	-	61,471,809	
Total Financial Assets		85,308,130	-	-	-	97,033,578	182,341,708	
Financial Liabilities:								
Creditors	n/a	-	-	-	-	848,944	848,944	
Outstanding claims	n/a	-	-	-	-	80,946,000	80,946,000	
Total Financial Liabilities		-	-	-	-	81,794,944	81,794,944	

Notes to the Financial Statements

for the year ended 30 June 2011

17. FINANCIAL INSTRUMENTS CONTINUED

(c) Interest Rate Risk continued

The fund's exposure to the risk of change in market interest rates relate primarily to the fund's investments in cash and cash equivalents. The fund's policy is to invest cash and cash equivalents with a recognised bank. Banks are selected on recommendation of our external advisors and their performance is monitored.

(d) Credit Risk

The maximum exposure to credit risk at Balance Date to recognised financial assets is the carrying amount of those assets as disclosed in the Balance Sheet and notes to the financial statements. It is the fund's policy to only deal with entities with high credit ratings. In addition the fund does not engage in high risk hedging for its financial assets.

(e) Liquidity Risk

To ensure adequate liquidity to meet cash outflows the fund maintains the necessary funds in cash and short term bank bills or term deposits. While the receipt of the annual premium provides sufficient cash to meet most if not all of the fund's requirements during the year, additional cash is held in reserve.

(f) Market Risk

The fund is exposed to the risk of market movements in the local and overseas equity markets through its investment in unquoted unit trusts in these asset classes.

Equity Market Risk

The fund's exposure to the risk of change in equity markets relate primarily to the fund's investments in local and overseas equities.

The fund's policy is to use independent investment managers to manage our exposure to local and overseas equities. Managers are selected on recommendation of our external advisors and their performance is monitored.

Foreign Currency Risk

The fund's exposure to the risk of change in exchange rates relate primarily to the fund's investments in overseas equities. A combination of partially and fully hedged funds are used.

Managers are selected on recommendation of our external advisors and their performance is monitored.

Sensitivity Disclosure Analysis

Taking into account past performance, future expectations and management's knowledge and experience of the financial markets, the fund believes the following movements are 'reasonably possible' over the next 12 months

- A shift of +1% or -1% in market interest rates from year end rates of 4.75%
- A shift of + 15% or - 20% in the average weighted market value of local equities, overseas equities and local property unquoted unit trusts.

Market Risk Exposure

2011 Financial Assets	Carrying Amount	Interest Rate Risk				Other Price Risk			
		-1.0%		+1%		-20%		+15%	
		Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
Cash and cash equivalents	89,101,276	(891,013)	(891,013)	891,013	891,013				
Unquoted unit trusts	107,084,408					(21,416,882)	(21,416,882)	16,062,661	16,062,661

2010 Financial Assets	Carrying Amount	Interest Rate Risk				Other Price Risk			
		-0.5%		+0.5%		-10%		+10%	
		Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
Cash and cash equivalents	85,308,130	(426,541)	(426,541)	426,541	426,541				
Unquoted unit trusts	95,628,073					(9,562,807)	(9,562,807)	9,562,807	9,562,807

Notes to the Financial Statements

for the year ended 30 June 2011

18. DESIGNATION OF FINANCIAL ASSETS

The financial assets are measured at fair value through the profit and loss.

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The fund's principal financial instruments comprise of unquoted unit trusts and cash and cash equivalents.

The main purpose of these financial instruments is to ensure that there is sufficient ability to meet the obligations under the policies of insurance that have been issued.

These instruments are managed by the Investment Committee who utilize the services of our external advisor - Jana Investments Pty Ltd.

The main risk arising from the fund's financial instruments are interest rate risk, equity market risk, foreign currency risk and credit risk which are discussed in note 17 above.

There are no significant concentrations of credit risk within the fund.

20. RELATED PARTY TRANSACTIONS

The fund had no related party transactions other than those referred to in Note 12 - Committee and Executive Disclosure.

21. EVENTS AFTER THE BALANCE SHEET DATE

There were no material events after balance sheet date that require disclosure.

22. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The fund makes estimates and assumptions in respect of certain key assets and liabilities. 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. The key areas in which critical estimates are applied are described below.

It has been determined that no critical accounting judgements have been made in the year.

The ultimate liability arising from claims made under insurance contracts.

Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance date. The estimated cost of claims include direct expenses to be incurred in settling claims. The fund takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions it is likely that the final outcome will prove to be different from the original liability established. For assumptions and methods used refer Note 23.

23. ASSUMPTIONS AND METHODS

Under 17.6.1c of AASB 1023, the following describes the method and main assumptions that have the greatest effect on the calculated insurance liabilities provisions.

The Legal Practitioners' Liability Fund has provided professional indemnity insurance to solicitors since 1/1/86, and to barristers since 30/06/05. Incurred development and payment patterns derived from the average experience for solicitors over the last 7 complete policy years were assumed to apply to solicitor and barrister claims outstanding at 30/6/11

Development Year	Ultimate claims incurred as % of current estimate	Payments to end of year, as % of ultimate
0	87.8%	7.4%
1	92.4%	35.4%
2	96.2%	57.2%
3	98.2%	71.5%
4	97.0%	80.9%
5	99.3%	87.9%
6	100.5%	93.5%
7	100.0%	96.1%
8	100.0%	97.6%
9	100.0%	98.6%

Other main assumptions used in calculating insurance provisions and their sources are:

- A discount rate of 4.75% based on medium term Commonwealth bond yields
- Claims administration expense of 5.5% of net claim payments based on actual expenses of LPLC
- Wage inflation of 3.80% pa based on state government forecasts

Notes to the Financial Statements

for the year ended 30 June 2011

23. ACTUARIAL ASSUMPTIONS AND METHODS CONTINUED

Claims incurred estimates were made by applying the above claims incurred development ratios to current claim incurred data and applying wage inflation and payment patterns. Outstanding claims at 30 June 2011 were estimated by deducting payments to date.

Gross payments in 2011-2012 for solicitors are estimated by determining an average, inflation adjusted claim incurred estimate per principal equivalent from the last 7 complete policy years and applying to expected incurred principals in 2011-2012.

Gross payments in 2011-2012 for barristers are estimated by inflating 2010-2011 claims incurred estimated to allow for inflation and barrister growth.

Premium liabilities are then determined by applying wage inflation and payment patterns and allowing for reinsurance and overhead claim administration expense

The calculations used to estimate outstanding claim and unexpired premium liabilities were repeated as at each prior balance date back to 31/12/87, and compared with the actual outcomes estimated at 30/6/11. Log normal distributions were fitted to the resulting percentages, and used to estimate the risk margins needed to provide varying probabilities of adequacy.

The outstanding claims were assumed to have a standard deviation of 13% and the premium liabilities a standard deviation of 36%.

Sensitivity analysis as at 30/6/11

Risk Variable	Assumed	Increased	Profit Change \$M
Discount Rate (%pa)	4.75%	5.75%	2.673
Claims administration expense as a % of payments	5.50%	6.50%	(1.193)
Wage inflation % pa	3.80%	4.80%	(1.176)
Claim Development*	Negative	Nil	(6.932)
11-12 claims per principal equivalent	5,104	5,605	(6.284)

* Nil claim development scenario was applied only to central estimate. Risk margins were not reduced.

Under AASB 1023 17.7.1(b)(i), the insurer has to disclose sensitivity to insurance risk. The above table gives the changes in total provisions (outstanding claims plus premium liabilities, including risk margins) from changes in the relevant risk variable.

24. INSURANCE CONTRACTS - RISK MANAGEMENT AND PROCEDURES

The financial condition and operation of the fund are affected by a number of key risks including insurance risk, interest rate risk and credit risk.

Notes on the fund's policies and procedures in respect of managing these risks are set out in this note.

(a) Objectives in managing risks arising from insurance contracts and policies for mitigating those risks

The fund has an objective to control insurance risk thus reducing the volatility of operating profit. In addition to the inherent uncertainty of insurance risk, which can lead to significant variability in the loss experience, profit from insurance business is affected by market factors, particularly the movement in asset values.

The Committee and senior management of the Fund have developed, implemented and maintain a sound and prudent Risk Management Strategy (RMS)

Key aspects of the processes established in the RMS to mitigate risk include:

- The maintenance and use of sophisticated management information systems, which provide up to date, reliable data on the risks to which the business is exposed at any point in time
- Actuarial models, using information from the management information systems, are used to calculate premiums and monitor claim patterns.
Past experience and statistical methods are used as part of the process.
- Reinsurance is used to limit the fund's exposure to catastrophes
- The mix of assets in which the fund invests is driven by the nature and term of its insurance liabilities

(b) Terms and conditions of insurance

- The terms and conditions attached to insurance contracts affect the level of insurance risk accepted by the fund. The majority of direct insurance contracts are entered into on a standard form basis.

Notes to the Financial Statements

for the year ended 30 June 2011

24. INSURANCE CONTRACTS - RISK MANAGEMENT AND PROCEDURES CONTINUED

(c) Concentration of risk insurance

- In the event of a catastrophe, the Legal Practitioners Liability Fund carries a stop loss insurance policy to cover the payment of total claims made during the year ended 30 June 2011 in excess of \$42.5m

(d) Development of claims

- There is a possibility that changes may occur in the estimate of our obligations at the end of a contract period. The table in note 28 shows the estimate of total claims outstanding for each underwriting year at successive year ends with the current year being an estimate provided by our external actuarial consultant.

(e) Interest rate risk

- None of the financial assets or liabilities arising from insurance or reinsurance contracts entered into by the fund are directly exposed to interest rate risk.
- Insurance and reinsurance contracts are entered into annually. At the time of entering into the contract all terms and conditions are negotiable or, in the case of renewals, renegotiable.

(f) Credit risk

- Financial assets and liabilities arising from insurance and reinsurance contracts are stated in the balance sheet at the amount that best represents the maximum credit risk exposure at balance date.

There are no significant concentrations of credit risk.

25. NET PREMIUM REVENUE

	2011 \$	2010 \$
Gross Written Premiums	26,884,034	25,563,638
Movement in Unearned Premium	(1,750,042)	3,209,724
Net Premium Revenue	25,133,992	28,773,362

26. NET CLAIMS INCURRED

	2011			2010		
	Current Year \$	Prior Years \$	Total \$	Current Year \$	Prior Years \$	Total \$
Gross claims expense	37,330,000	(9,050,718)	28,279,282	32,428,000	(1,611,979)	30,816,021
Discount movement	(3,214,000)	2,368,000	(846,000)	(2,671,000)	1,910,000	(761,000)
	34,116,000	(6,682,718)	27,433,282	29,757,000	298,021	30,055,021
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue	-	-	-	-	-	-
- undiscounted	-	-	-	-	-	-
Discount movement	-	-	-	-	-	-
	-	-	-	-	-	-
Net claims incurred	34,116,000	(6,682,718)	27,433,282	29,757,000	298,021	30,055,021

Current year amounts relate to risks borne in the current financial year. Prior periods amount relate to a reassessment of the risks borne in all previous financial years.

Notes to the Financial Statements

for the year ended 30 June 2011

27. UNEXPIRED RISK LIABILITY

When the premium is set each year it is 'subsidised' on the basis that the accumulated funds are sufficient to the extent that a proportion can be returned to policy holders by way of lower premium than otherwise would have been. As a result the unearned premium liability is deficient as at 30 June 2011.

(a) Unexpired risk liability

	2011 \$	2010 \$
Unexpired risk liability as at 1 July	11,252,898	5,554,175
Recognition of additional unexpired risk liability in the period	(1,990,042)	5,698,723
Unexpired risk liability as at 30 June	9,262,856	11,252,898

(b) Calculation of deficiency

Unearned premium liability relating to insurance contracts	26,114,144	24,364,102
Central estimate of present value of expected future cashflows arising from future claims	29,533,000	29,281,000
Risk Margin of 19.8%	5,844,000	6,336,000
	35,377,000	35,617,000
Net deficiency	9,262,856	11,252,898

The process of determining the overall risk margin is discussed in Note 23. As with outstanding claims the overall risk margin is intended to achieve a 75% probability of adequacy.

28. OUTSTANDING CLAIMS LIABILITY

(a) Outstanding Claims Liability

Central estimate of claims still to be paid	82,950,000	78,436,000
Discount to present value	(8,103,000)	(7,257,000)
	74,847,000	71,179,000
Present value of claims handling costs	4,116,000	3,845,000
Risk Margin	5,936,000	5,922,000
Gross Outstanding claims liability	84,899,000	80,946,000
Gross claims incurred - undiscounted	93,002,000	88,203,000
Current	30,516,000	29,134,000
Non-current	54,383,000	51,812,000
Total	84,899,000	80,946,000

(b) Risk margin applied

7.517% 7.893%

Notes to the Financial Statements

for the year ended 30 June 2011

	2011 \$	2010 \$
(c) Reconciliation of movement in discounted outstanding claims liability		
Brought forward	80,946,000	77,893,000
Increase in claims incurred/recoveries anticipated over the year	(9,050,718)	(1,611,979)
Incurred claims recognised in the Statement of Comprehensive Income	37,330,000	32,428,000
Claims payments/recoveries during the year	(23,480,282)	(27,002,021)
Movement in net present value adjustment	(846,000)	(761,000)
Carried forward	84,899,000	80,946,000

(d) Claims Development table (\$m)

Policy Year	2007	2008	2009	2010	2011	Total
Estimate of ultimate claim cost at end of policy year	24.693	33.457	29.393	29.122	33.627	
one year later	25.008	27.221	28.684	27.956		
two years later	22.364	25.575	28.064			
three years later	23.071	24.803				
four years later	21.709					
current estimate	21.709	24.803	28.064	27.956	33.627	136.159
cumulative payments	(16.964)	(15.637)	(14.879)	(9.518)	(2.844)	(59.842)
undiscounted central estimate	4.745	9.166	13.185	18.438	30.783	76.317
discount						(8.103)
present value of claims handling expenses						4.116
undiscounted central estimate prior years						6.633
risk margin						5.936
Total Outstanding Claims						84.899

29 NET PRESENT VALUE ADJUSTMENT TO OUTSTANDING CLAIMS

	2011 \$	2010 \$
Opening Balance	7,257,000	6,496,000
Prior Year	(2,368,000)	(1,910,000)
Current Year	3,214,000	2,671,000
Closing Balance	8,103,000	7,257,000

Declaration by members of the Committee

LEGAL PRACTITIONERS LIABILITY FUND

DECLARATION BY MEMBERS OF THE COMMITTEE

In the opinion of the Committee the financial report as set out on the attached pages:

- 1. Presents a true and fair view of the financial position of Legal Practitioners Liability Fund as at 30 June 2011 and its performance for the year ended on that date in accordance with Australian Accounting Standards, mandatory professional reporting requirements and other authoritative pronouncements of the Australian Accounting Standards Board.*
- 2. At the date of this statement, there are reasonable grounds to believe that Legal Practitioners Liability Fund will be able to pay its debts as and when they fall due.*

This declaration is made in accordance with a resolution of the Committee and is signed for and on behalf of the Committee by:



Matthew Walsh - Chairman



Miranda Milne - Chief Executive Officer

Dated this Seventh day of September 2011

Auditor General's Report

VAGO

Victorian Auditor-General's Office

INDEPENDENT AUDITOR'S REPORT

To the Committee Members, Legal Practitioners' Liability Fund

The Financial Report

The accompanying financial report for the year ended 30 June 2011 of Legal Practitioners' Liability Fund which comprises the comprehensive operating statement, balance sheet, statement of changes in equity, cash flow statement, notes comprising a summary of significant accounting policies and other explanatory information, and the declaration by members of the committee has been audited.

The Committee Members' Responsibility for the Financial Report

The Committee Members of the Legal Practitioners' Liability Fund are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, including the Australian Accounting Interpretations, and the financial reporting requirements of the *Financial Management Act 1994*, and for such internal control as the Committee Members determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit, which has been conducted in accordance with Australian Auditing Standards. Those Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The audit procedures selected depend on judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, consideration is given to the internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Committee Members, as well as evaluating the overall presentation of the financial report.

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

Independence

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised. In conducting the audit, the Auditor-General, his staff and delegates complied with all applicable independence requirements of the Australian accounting profession.

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Auditing in the Public Interest

Auditor General's Report

VAGO

Victorian Auditor-General's Office

Independent Auditor's Report (continued)

Opinion

In my opinion, the financial report presents fairly, in all material respects, the financial position of the Legal Practitioners' Liability Fund as at 30 June 2011 and of its financial performance and its cash flows for the year then ended in accordance with applicable Australian Accounting Standards, including the Australian Accounting Interpretations, and the financial reporting requirements of the *Financial Management Act 1994*.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report of the Legal Practitioners' Liability Fund for the year ended 30 June 2011 included both in the Legal Practitioners' Liability Fund's annual report and on the website. The Committee Members of the Legal Practitioners' Liability Fund are responsible for the integrity of the Legal Practitioners' Liability Fund's website. I have not been engaged to report on the integrity of the Legal Practitioners' Liability Fund's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in the website version of the financial report.

MELBOURNE
8 September 2011


D D R Pearson
Auditor-General

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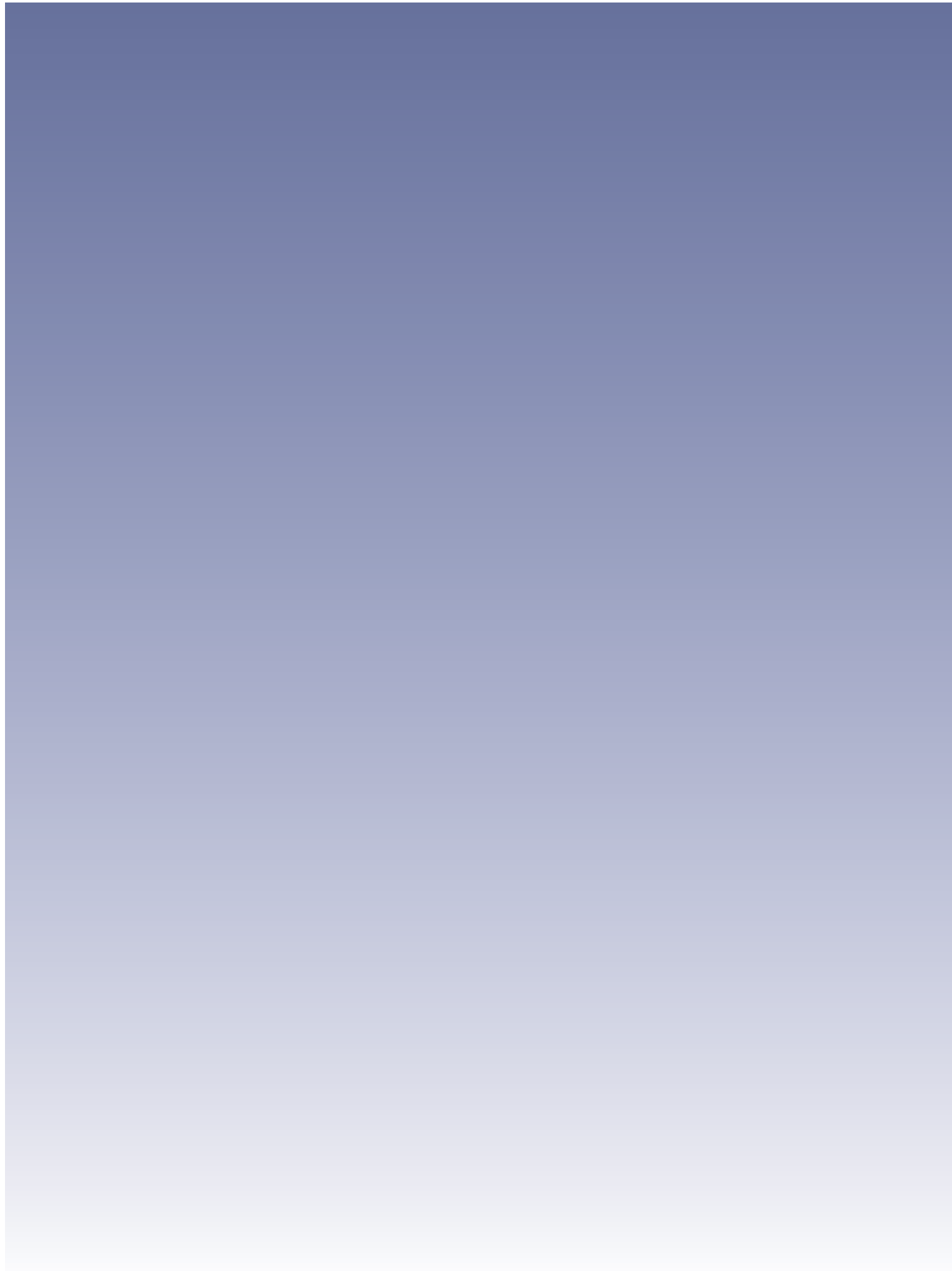
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Auditing in the Public Interest

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