LEGAL PRACTITIONERS' LIABILITY COMMITTEE

ANNUAL REPORT 2017/18

Delivering insurance and risk services in partnership with the profession for the better practice of law

LPLC LEGAL PRACTITIONERS' LIABILITY COMMITTEE

The Legal Practitioners' Liability Committee (LPLC) has been insuring the legal practitioners of Victoria since 1986. To engage in legal practice in Victoria, law practices must take out insurance with LPLC.

Pursuant to the *Legal Profession Uniform Law Application Act 2014* (Vic) 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 LPLC.

The functions of LPLC 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 Uniform Law Application Act 2014* (Vic).

LPLC also provides risk management services to law practices.

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

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

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FROM THE CHAIR

LPLC has successfully completed its 32nd continuous year insuring Australian legal practitioners. In 2017/18 LPLC insured more than 16,700 solicitors and 2,100 barristers.

Insurance through the Legal Practitioners' Liability Fund is a fundamental pillar of the regulatory framework for legal practitioners under the *Legal Profession Uniform Law Application Act 2014* (Vic). The fund ensures the continued availability of affordably priced compulsory insurance for Victorian law practices and many national law firms.

No other profession has access to professional indemnity insurance of the breadth and quality delivered through LPLC's stable and secure statutory scheme. Our model not only serves the long-term interests of the legal profession, but also their clients as consumers of legal services by providing access to an insurance fund enabling meaningful redress for professional negligence claims against practitioners.

The reporting year has seen the fund consolidate its financial strength. This has been achieved through strong governance and oversight, prudent underwriting, diligent claims management and a disciplined fund investment strategy. We are well positioned to maintain stable insurance premiums for practitioners as the commercial insurance market starts to swing through a 'hardening' cycle in the coming years.

The number of practising lawyers continues to grow at pace. Legal practice also continues to change rapidly in response to disruptive external forces and the expanding digitisation of the society in which we live and work. Traditional law firm structures are adapting to these challenges and 'NewLaw' business models are well and truly now established in the legal landscape. LPLC's insurance scheme has always embraced changes in legal practice and facilitated practitioners moving into new areas of legal practice and delivering legal services to clients in new ways. We will continue to do so.

2017/18 was also a year of change for LPLC with the retirement of Miranda Milne, our CEO of 21 years. During her tenure as CEO Miranda steered LPLC out of the aftermath of the recession of the 1990s and oversaw the transformation in LPLC's business as largely state-based firms became national firms and subsequently part of even larger global law firm structures. Aside from our sound financial position, Miranda's legacy to LPLC is undoubtedly her passion for developing and promoting management of professional risk as a recognised discipline within law firm structures and the pioneering work she led in this area for small and large firms alike. A well-attended celebration of Miranda's career was held in November 2017, and once again I publicly thank Miranda for her wonderful commitment and dedication to LPLC and to the profession.

Justin Toohey took up the position as CEO from 1 January 2018 and is leading a refreshed leadership team embarking on several new initiatives and approaches to the delivery of LPLC's claims and risk management services for the profession. Cyber risks have emerged during the reporting year as significant risks, particularly in relation to data security and email fraud in connection with electronic funds transfers. LPLC has initiated and continues to roll out a multi-faceted risk management campaign addressing these risks within the profession.

On a sad note, we acknowledge the passing of a former long-standing and deeply respected Committee member, Mary Radisich who died in June 2018. Mary served on the Committee as the representative of consumer interests from 1999 to 2014 and was a wonderful contributor to LPLC and the profession in that time ensuring LPLC was ever-conscious of our broader public purpose.

In addition to her work with LPLC, Mary had a remarkable professional career as a nurse, advocate of women's rights, local government councillor, inaugural manager of the Dispute Settlement Centre of Victoria, financial counsellor, and voluntary worker for many disadvantaged people and community groups. Mary's strong sense of social justice permeated her whole life.

It is very much part of our ethos to work with and for the benefit of our insured members. Ultimately, the success of the insurance scheme depends on a continuing partnership with the profession to minimise the incidence of claims and support practitioners to better serve their clients.

I thank my fellow Committee members for their support and work. I also recognise and thank the Committee's dedicated staff for their contribution to LPLC's ongoing success.

John Corcoran AM
Chair

FROM THE CEO

I am pleased to present my first annual report as CEO of LPLC.

LPLC's core work is to manage the day-to-day liability exposures of 19,000 barristers and solicitors across 6,500 law practices, but our bigger purpose is working hand-in-glove with practitioners and other industry stakeholders to maintain public confidence in the profession by proactively resolving liability claims and preserving client relationships whenever that can be achieved.

LPLC plays an important role in the life of the legal profession, protecting the interests of legal practitioners and the consumers of legal services with our statutory professional indemnity insurance scheme.

The past year has been a period of significant transition for LPLC with the retirement of our longstanding and highly respected CEO, Miranda Milne. Our business is in good shape and I thank Miranda, the Chair and all Committee members for their support.

Miranda's final report last year noted that LPLC's longevity and success has been built on a foundation of excellent people working in, and for, the organisation over long periods. That continuity of service has enabled the profession to gain significant trust in what we do. There is no better exemplar of that than Miranda whose unwavering belief in LPLC's statutory model combined with her legal acumen, ethical compass and capacity to maintain excellent relationships with insured practitioners and service providers has been central to LPLC maintaining a high public standing.

With change comes opportunity and the transition has enabled Committee members, our executive leadership team and staff to review and reset LPLC's strategic plan for 2018 and beyond. Serving the profession's needs in an adaptive way to meet changing demographics, changing technology, new laws and evolving client demands is a key strategic objective and guides how we work in all areas of our business.

Aside from this strategic reset, key operational achievements over the past 12 months include:

> finalisation of 536 claims and notifications (488 solicitor and 48 barrister) including nine matters which were required to be taken to trial and verdict, all of which were successful

> aggregate reserve releases across earlier underwriting years of $7.28 million as matters were resolved

> continuation of the trend over recent years of reducing the number of claim files referred to external panel solicitors for resolution – more matters are being resolved in-house, helping to contain claims costs

> maintenance of our desired target asset allocation in line with LPLC's risk preference and achieving a return on investment of 7.97 per cent

- commencement of our 'Contact and Connect' program of visits to law practices who have not engaged with any of our risk programs over recent years
- a new cyber-risk campaign warning practitioners about the growing threat of business email compromise leading to the theft of client funds by fraudulently altered payment directions in email communications
- commencement of LPLC's engagement with the Law Institute, Leo Cussen Institute and College of Law in delivering the risk management module of the Practice Management Course approved by the Legal Services Board for new principals of law firms – augmenting the Building Solid Foundations workshops initiated by LPLC two years ago for practitioners opening new firms
- extensive and ongoing engagement with law firms and with PEXA as the Land Registry's timetable for the phased implementation of electronic conveyancing transactions gradually eliminates paper-based lodgement and registration
- recruitment of our new Head of Claims, Jodie Potts, who commenced employment with LPLC in January 2018.

Premiums for solicitors measured on a 'per practitioner' basis remain stable, with a modest inflation-adjusted increase this year. This compares favourably with the experience of many firms this year whose top-up premiums in the commercial market have increased dramatically.

Premiums for barristers continue to fall both in nominal and real terms and were reduced by a further 10 per cent across the board this year in recognition of barristers' good claims experience. In nominal terms, premiums today are less than half those charged by commercial market insurers prior to barristers joining the LPLC scheme in 2005.

I want to flag some of the challenges lying ahead in different areas of our business.

In relation to premiums, increasing casualisation of the workforce and a rise in the number of short term contract lawyers engaged within firms is presenting a challenge to LPLC's traditional method of premium assessment for those firms where premiums are still assessed under the traditional headcount model for employee practitioners. Use of a single premium assessment date for the number of employees working in a firm can lead to premium anomalies between firms. The Committee is ever-conscious of the need for the premium burden to be spread equitably and transparently across differently structured firms and will continue to explore all options to ensure this occurs.

On the claims front, it is clear there is work ahead of us to make inroads into the incidence of property and conveyancing claims. The number and cost of these claims has been significantly above the long-term annual average for three of the past five underwriting years.

Reducing conveyancing claims is a major strategic focus for 2018/19 and beyond. These exposures continue to arise from routine errors and omissions in pre-contract advice, mistakes in the preparation of contracts and vendor statements, and failures to adequately investigate title and make relevant property enquiries prior to settlement. There are multiple underlying reasons for this elevated incidence of claims but high on the list is the commoditisation of conveyancing work at the expense of tailored advice in the conveyancing space. Much of this may be driven by price competition with registered conveyancers but it also relates to shortcomings with practitioner work systems and the supervision of junior staff and paralegals within firms.

Another challenge is ensuring our risk management advice and resources for the profession are reaching the widest possible audience and continuing to command practitioner attention. LPLC's risk messages and alerts now compete for attention in a crowded digital marketplace with many practitioners suffering from information overload at the same time as being under pressure from clients to do more for less and to do it faster. Different generations of practitioners also absorb content in different ways, requiring risk messages and risk management advice to be delivered in a more agile manner and through multiple channels. Our communication strategy is addressing these challenges.

I extend thanks to the Chair, Committee members, executive leadership team, staff and all our outsourced service providers for their contribution to LPLC's work this year.

Justin Toohey
Chief Executive Officer

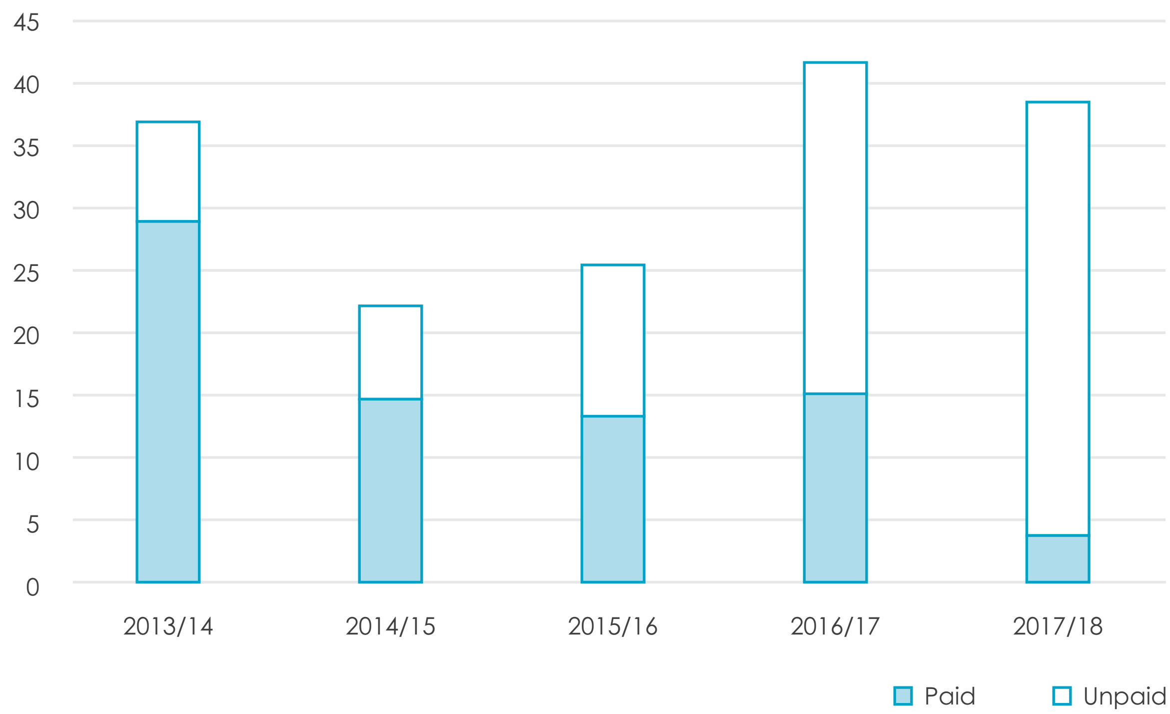
CLAIMS – SOLICITORS

LPLC's claims management philosophy is for early notification by practitioners, with prompt assessment of potential exposures once notified and pro-active management to resolve claims expeditiously and cost effectively.

Many notifications to LPLC are precautionary. In quite a number of these situations, the underlying problem is resolved by the practitioner with some advice from LPLC and no claim eventuates.

Approximately 60 per cent of matters notified to LPLC are actual claims where a client seeks compensation. Half these matters are inexpensively resolved or do not proceed. The other half constitute matters that cannot be resolved between the parties through private negotiations or where the service of proceedings by a claimant is the practitioner's first awareness of any claim being made. The vast majority of litigated claims are resolved within 12 months of the commencement of litigation, leaving the more complex (often multi-party) larger claims which can take longer to resolve and need formal pleadings and interlocutory processes to help with assessment of liability and damages questions.

Cost of paid and unpaid claims per underwriting year 2013–2018 ($m)



A minority of claims are intractable disputes where the claim is assessed to have no merit and is defended in the interests of the insured firm or practitioner.

During the reporting period, claims solicitors finalised 488 claims and notifications from solicitors across the current and earlier underwriting years.

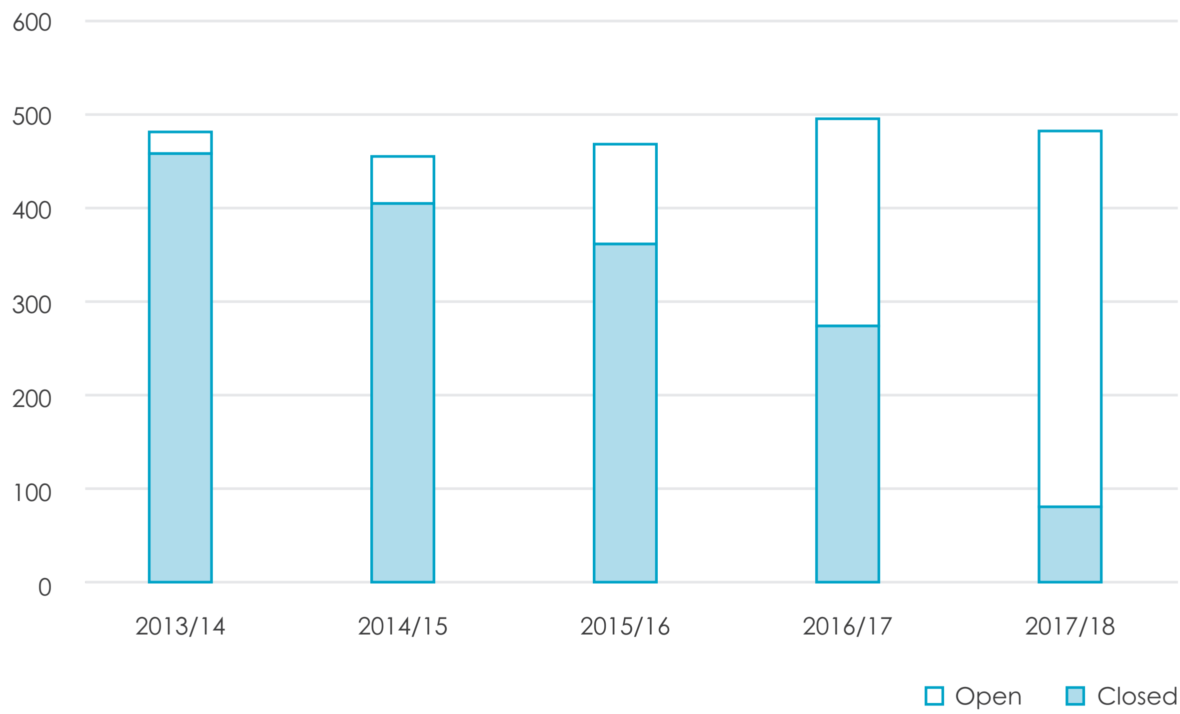
Many of these matters were handled in-house by LPLC's experienced claims team, with litigated matters referred to external panel solicitors. During the year 126 solicitors' claims were out-sourced to panel solicitors.

There were 479 claims and notifications received from solicitors during 2017/18 with incurred estimates of $39.61 million. This is similar to 2016/17.

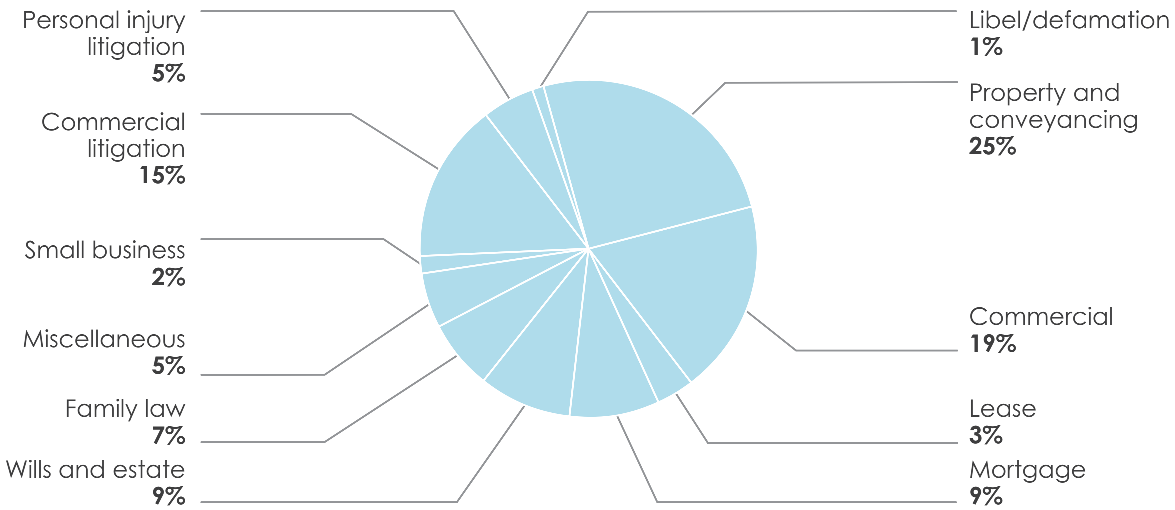
Areas of unusually high claims experience in 2017/18 were:

> property and conveyancing – defective vendor statements; drafting errors in contracts of sale; erroneous stamp duty advice; inadequate advice about property restrictions; and inadequate advice contract terms

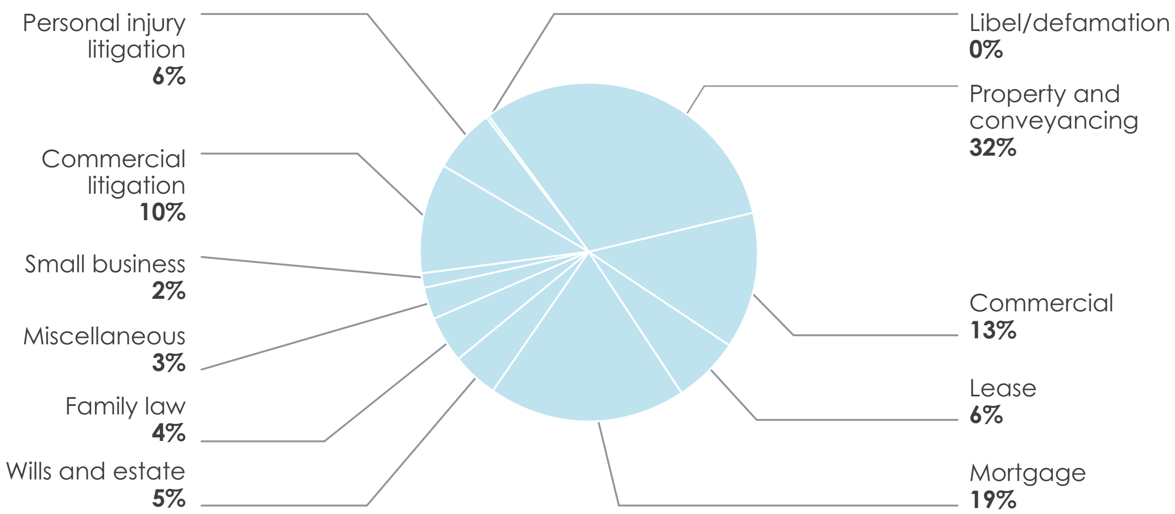
Number of open and closed files per underwriting year 2013–2018



Percentage number of claims by area of practice 2017/18



Percentage cost of claims by area of practice 2017/18



- mortgage – many claims arising from inadequately secured private lending arrangements; a resurgence in *Amadio* cases involving third party surety providers; and solicitors failing to detect forged mortgage transactions – mortgage claims often follow a credit-rationing cycle and are triggered by defaults consequent upon a borrower's inability to refinance loans
- commercial law – drafting errors in commercial agreements; missing time limits for responses to construction payment claims; invalid personal property security registrations; and disputes arising in relation to sale of business and joint venture transactions
- commercial litigation – poorly conducted litigation resulting in personal costs orders against practitioners; problems with settlement agreements (revisited settlements and inappropriate releases); and claims by dissatisfied litigants.

During the reporting period there was also a noticeable increase in the number of claims and notifications arising from cyber-related incidents, most notably business email compromise where practitioner and/or client email accounts were hacked by fraudsters who then despatched bogus email instructions altering payment directions for settlement funds from property, estate, family law or litigation.

The current year claims costs were partly ameliorated by $5.86 million in reserve releases from earlier underwriting years as claims were resolved within reserve estimates.

CLAIMS – BARRISTERS

The LPLC model for barristers is one of simplicity and equity.

> A simple administrative framework with a brief online declaration on renewal.

> A premium pool which reflects the claims experience of Victorian barristers.

> Reduced premiums for lower fee earners and barristers deriving more than 90 per cent of their fee income from criminal advocacy.

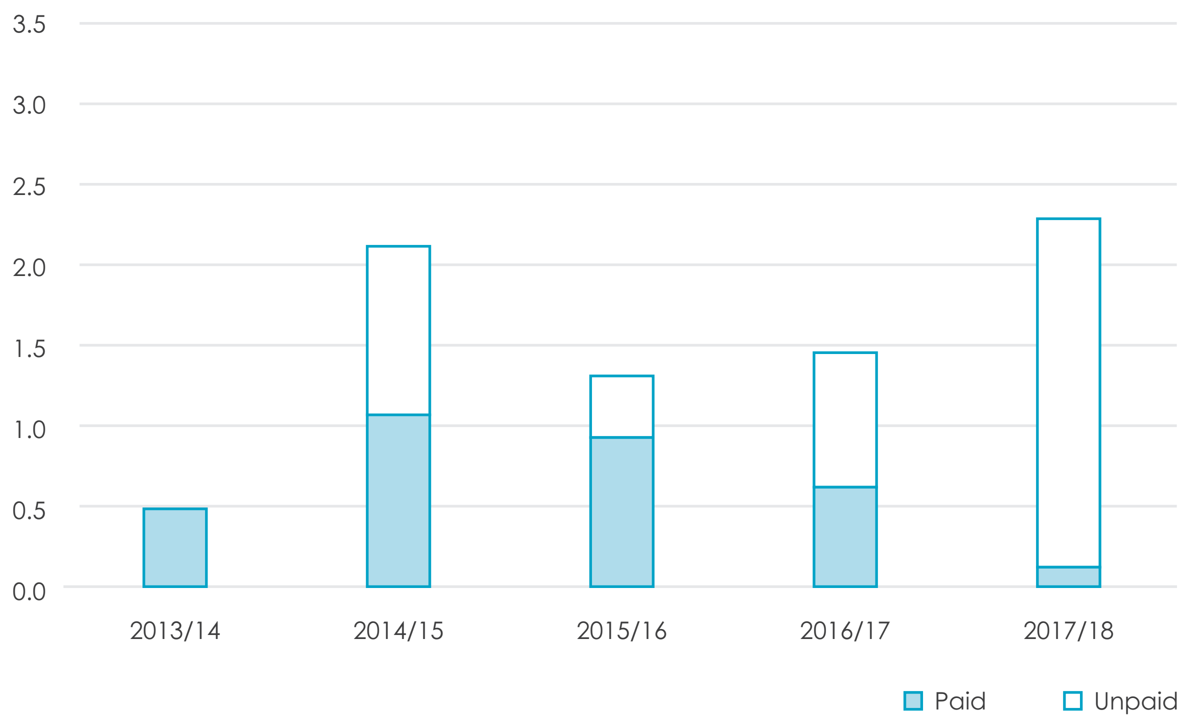
> Claims handling by experienced lawyers.

Premiums for barristers continue to fall both in nominal and real terms. Premiums for 2017/18 were maintained at the same level as 2016/17 and during the year the decision was taken to reduce them by 10 per cent for 2018/19 in recognition of the sustained good claims experience of this cohort.

Forty-five claims and notifications were received from barristers during the 2017/18 reporting year with an incurred estimate of $2.27 million. Twenty-one matters were notifications and 24 were claims.

The cost of claims in 2017/18 is slightly higher than recent years, but this is largely attributable to a single matter. In a relatively small pool there is always a risk of increased volatility due to only one or two bigger claims.

Cost of paid and unpaid claims per underwriting year 2013–2018 ($m)



Barristers' claims are predominantly managed in-house by LPLC's experienced claims solicitors and in 2017/18 only seven litigated matters were referred to external panel solicitors.

The major themes in matters notified by barristers this year were:

> missing limitation periods for the commencement of causes of action

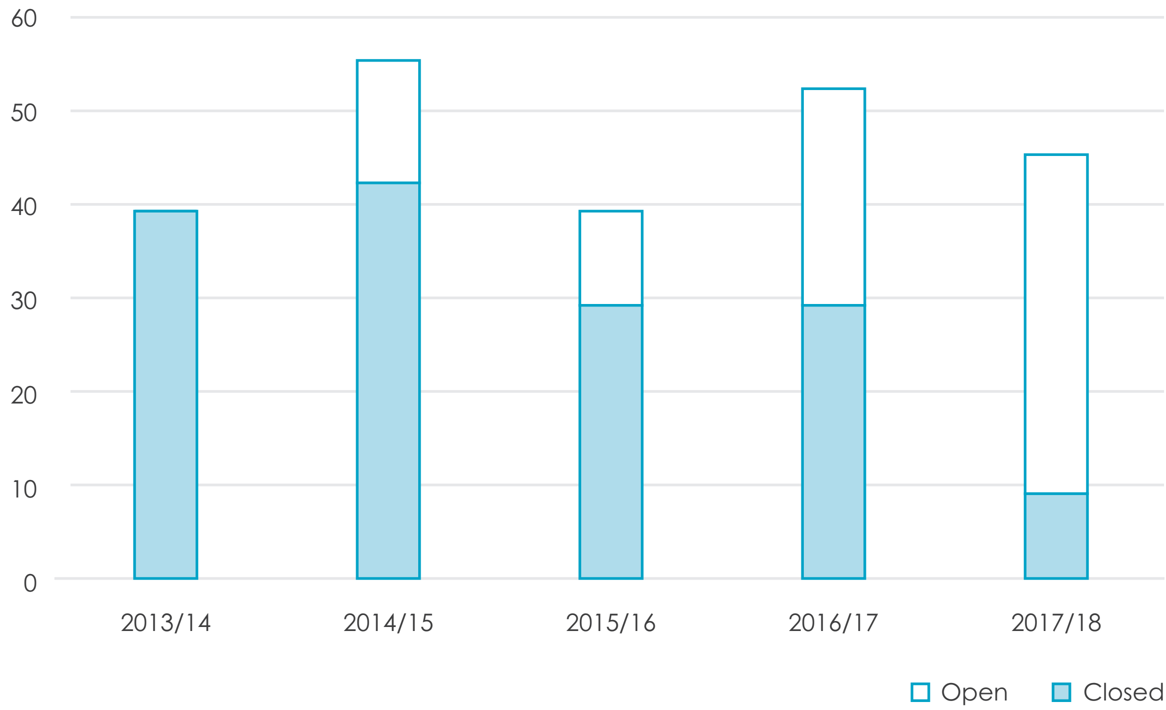
> revisited settlement of commercial or property disputes attributable to misunderstandings between clients and practitioners about the negotiated terms; allegations that settlements were for inadequate amounts; or shortcomings with terms drawn by counsel which resulted in further dispute between the parties

> applications for costs (usually brought under the *Civil Procedure Act 2010* (Vic)) against practitioners arising from deficient pleadings or from allegations by successful litigants that counsel for the opposing party commenced proceedings or persisted in running defences with no realistic prospects of success

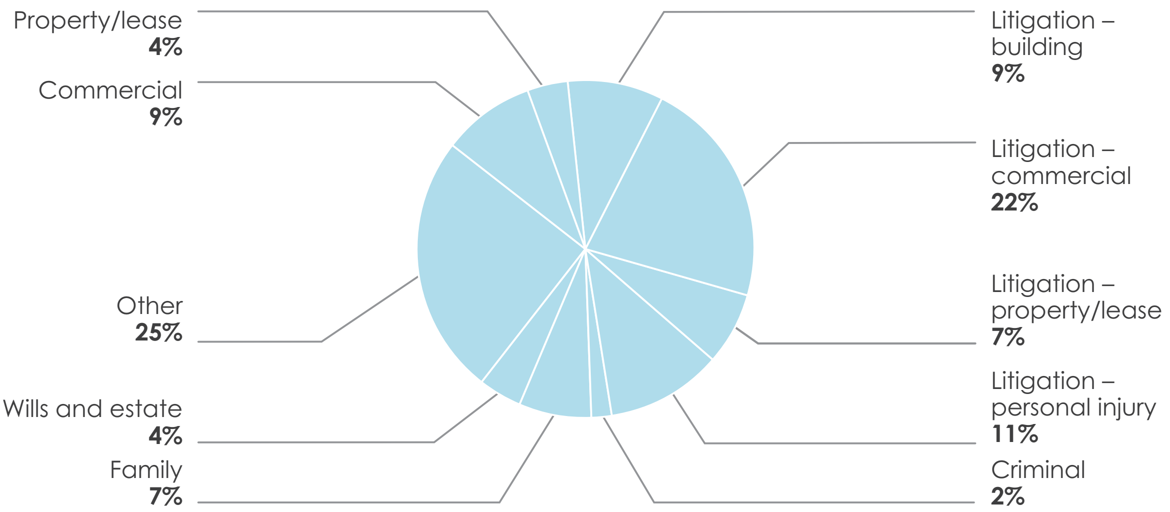
> litigants dissatisfied with the manner counsel conducted their underlying case.

One matter against counsel proceeded to trial during the reporting period, with judgment in the matter still awaited.

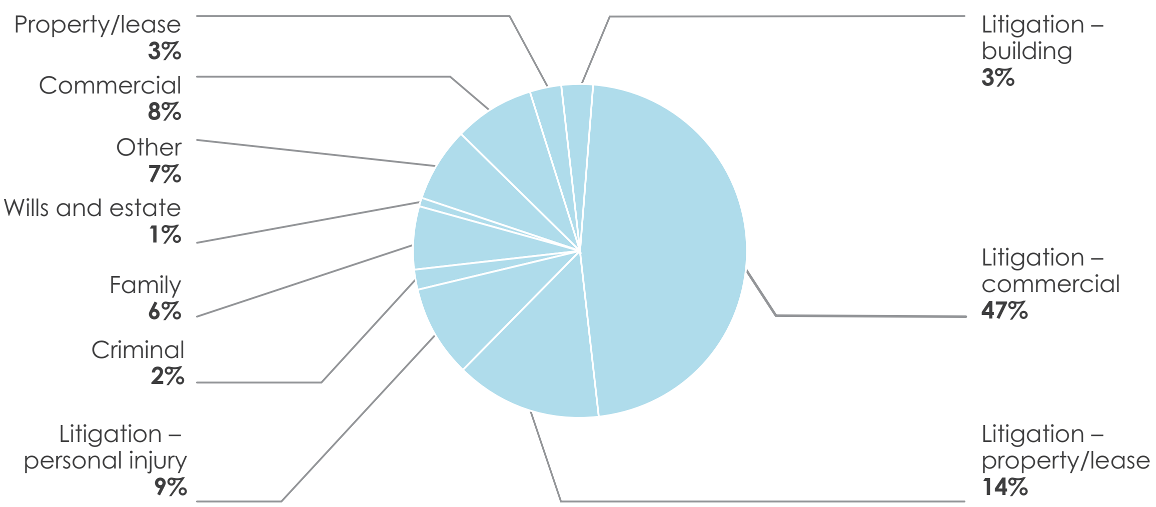
Number of open and closed files per underwriting year 2013–2018



Percentage number of claims and notifications by area of practice 2017/18



Percentage cost of claims and notifications by area of practice 2017/18



RISK MANAGEMENT

To assist practitioners avoid risks and minimise their exposure to claims the LPLC Risk Management Team provided the profession with a range of educational resources and forums as well as mitigating strategies on claims prevention.

Summary of 2017/18

Seminars and speaking engagements

LPLC seminars	Events – 50	Attendees – 1,877
Victorian Bar Readers' Course	Sessions – 2	Attendees – 90
External speaking engagements	75	

Publications

Newsletters and articles	18	
New videos	8	
Publications	New – 15	Revised – 10
Blogs	36	
Social media posts	109	

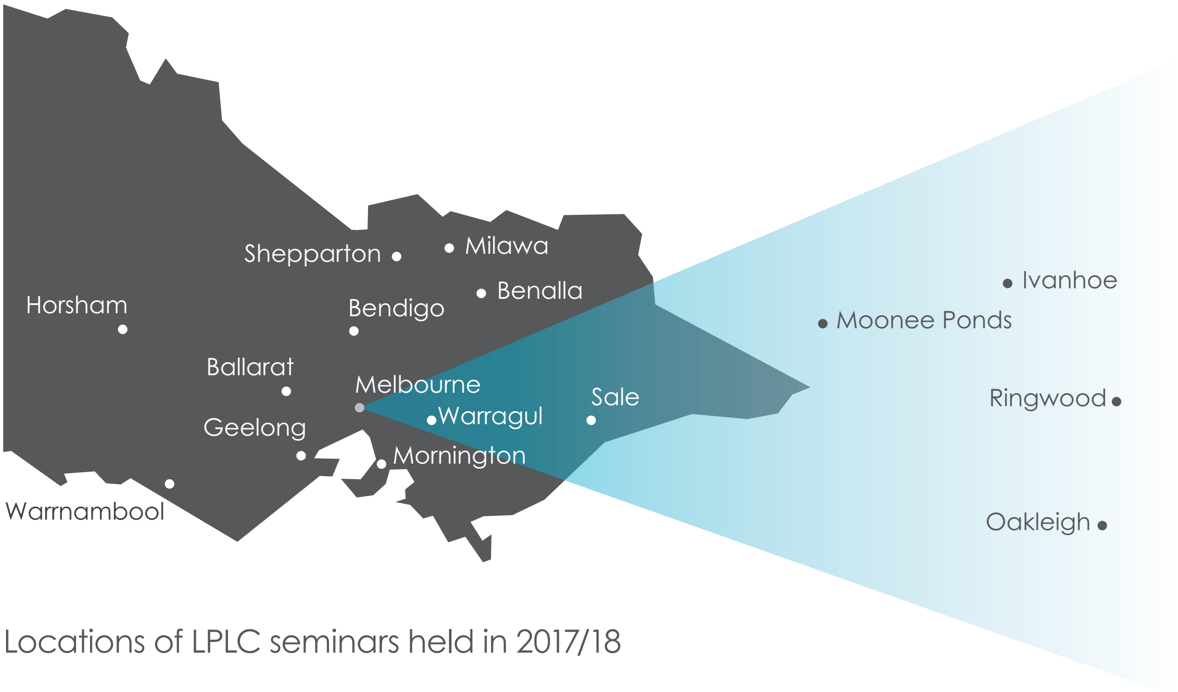
Website

Unique LPLC website pages viewed	26,369

Communications with firms and practitioners

Hotline enquiries	208	
New established firms contacted	409 emails	306 via phone
Practitioner telephone and email enquiries	1,537	
Risk management-associated firm visits	135 firm visits	
Claims follow-up project	135 closed claims reviewed	17 firms followed up

Seminars and speaking engagements



Locations of LPLC seminars held in 2017/18

LPLC Boardroom Series

Attendees – 262 **Sessions – 10**

These topical 60 to 90-minute seminars covered section 32 statements, work intake and file management, and how to use your people as a risk management asset.

Building Solid Foundations workshops

Attendees – 114 **Sessions – 15**

Tailored for practitioners setting up new firms, these small group workshops gave practitioners access to an experienced manager to ask questions, share information and learn the fundamentals for establishing a legal practice. Topics covered included management systems for law practices, the LPLC insurance policy as well as planning and strategy.

2017 Risk Management Intensive

Attendees – 641 **Sessions – 3**

This flagship seminar series was well attended again on all three days. The sessions presented by both LPLC and external speakers covered how to thrive in the changing legal landscape, the importance of a firm business strategy, settlement negotiations skills, new tools to combat cyber-risk, the value of your reputation, conveyancing and mistakes in wills.

2017 Legal Business Essentials

Attendees – 69 **Sessions – 5**

The half-day workshops, a repetition of the successful series run in the previous three years, assists practitioners build and manage a successful legal practice. The topics included estimating costs effectively, how to strengthen relationships, managing work intake and developing your people.

2017 Regional costs workshops

Attendees – 73 Sessions – 3

The workshops, held in Ballarat, Benalla and Warragul and presented by Liz Harris of Harris Cost Lawyers, were designed to help practitioners identify the risks and manage their clients' expectations more effectively.

2017 Metro Series

Attendees – 199 Sessions – 4

Held in Oakleigh, Ivanhoe, Ringwood and Moonee Ponds, the topics presented were wills claims and why they occur, when to pay money from trust accounts and how to avoid claims in conveyancing.

2018 Regional Risk Management Tour

Attendees – 519 Sessions – 10

This year Justin Toohey, CEO, Jodie Potts, Head of Claims and Alex Macmillan, Claims Solicitor made the presentations around regional Victoria. The topics covered were mistakes in preparing wills and distributing estates, when to pay moneys from trust accounts and claims-prone areas in conveyancing.

The Victorian Bar Readers' Course

Attendees – 90 Sessions – 2

The Bar Readers' Course, which is run twice annually, assists with a successful transition to life at the Bar. The presentations, made this reporting period by Justin Toohey, CEO, Jodie Potts, Head of Claims and Bronwyn Hine, Claims Solicitor, covered how LPLC services the profession, the professional indemnity insurance and policy, barristers' claims and key LPLC contacts.

Other speaking engagements

Engagements – 75

LPLC experts delivered presentations on wide-ranging topics from the conflicts issues, conveyancing claims and cyber security risks to professional responsibility in court and settlement negotiations. The locations and events included The College of Law, Leo Cussen Institute, Law Institute of Victoria, law firms as well as other legal forums, conferences and interest groups.

Publications

LPLC website

Unique page views – 26,369

Practitioners again visited the website to access claims and risk management information as well as renew their insurance online.

Besides the homepage, the most viewed pages were:

> GST FAQs – farm land

> The blog what's the difference between a default notice and a rescission notice?

> Policies and premiums

> GST FAQs – vacant land

The most popular email campaigns were:

> 2017 Risk Management Intensive

> September 2017 In Check newsletter issue 76

> October 2017 Boardroom Series

The most popular downloads were:

> A guide for beneficiaries

> A guide for executors

- Claim free conveyancing
- Working Together brochure
- Application for Cover

Risk video bites

New videos – 8

The topics presented included cyber security, delegation and supervision, personal injury litigation, conveyancing, family law financial agreements and personal costs orders.

Practice risk guides

Revised guides – 8

LPLC's revised practice risk guides identify and explain key risks for specific areas of practice including superannuation, personal injury litigation, family law and conveyancing.

Client brochures

New brochures – 2

LPLC published two brochures to explain to clients about costs estimates and cyber security risks.

File note

File note – 1

LPLC published a proforma file note to assist practitioners when meeting to advise about a guarantee.

Checklists

New checklists – 5
Revised checklists – 2

The new checklists published during 2017/18 covered GST, electronic transactions, conveyancing resources and receiving a file from another firm.

Bulletins

New bulletins – 2

The bulletins LPLC published alerted practitioners about the security warning for PEXA users and the new GST withholding regime applying to some settlements from 1 July 2018.

In Check newsletter

Newsletters – 4

LPLC's quarterly online newsletter covered topics including cyber security, GST, PEXA and changes to the *Administration and Probate Act 1958* (Vic) and the *Corporations Act 2001* (Cwlth).

Law Institute Journal

Articles – 11 standard articles
Feature articles – 1
Profile piece – 1
Support piece – 1

In addition to the 11 risk management articles LPLC publishes in the Victorian Law Institute Journal, a profile piece about LPLC's new CEO, a feature article about minimising risk and a support piece about insurance cover for cyber-attacks were published in 2017/18.

Blogs

Blog posts – 36

LPLC's weekly blog discussed current or recurring risk management themes on a wide range of issues including conflicts of interest, cyber security, conveyancing, the vulnerability of financial agreements and the importance of clear communications with clients and colleagues.

Snapshots

Snapshots – 3

Snapshots provide data and the main causes of claims in a specific area of law as well as risk management strategies at a glance. Areas covered in the reporting period were family law, personal injury litigation, and wills and estates.

Poster

Cyber security poster – 1

A poster alerting practitioners to how cyber fraudsters are targeting lawyers as they transfer money was published on the LPLC website as well as a hard copy being sent to practitioners with their insurance renewal letters.

Social media

Linked In posts – 21
Twitter posts – 48
Facebook posts – 40

LPLC commenced using social media channels of LinkedIn and Twitter in 2017 and Facebook in 2018 to announce new publications and events.

Direct communication with firms

LPLC hotlines

GST – 192 PPSA – 15 Water – 1

LPLC's three hotline services on goods and services tax, personal property securities and water continued to provide practitioners with advice on these complex issues.

Contact and connect visits

61 firm visits

This is a new on-going program started in February involving visits to firms that have had little contact with our risk management program in the last five years. The aims of the program are to hear from firms about what is working for them, what they think their risks are and to raise LPLC's profile with them so they consider reaching out to us if they have a problem.

Conveyancing best practice program

6 firm visits
17 contracts of sale and section 32 statements assessed

The new Conveyancing Best Practice Program assists firms identify improvements in the preparation of contracts of sale and section 32 statements.

Risk assistance program

25 firm visits and 25 reports written

LPLC visited firms of all sizes to assist them with their risk management strategies. Two whole-of-firm risk training sessions were held to support this program.

Other firm visits

23 firms visited or met face to face

These firms do not rate as a significant risk but are visited on request or for various reasons such as health issues of the sole practitioner. In most instances a letter or short form report is sent to these firms.

Large/mid-tier firm visits

20 visits

LPLC visits these firms to discuss recent claims, emerging issues and risk management strategies.

New firm contact

409 emails

New firms received a welcome email containing essential links and contact details.

Telephone contact with new firms

306 calls

Principals of new firms received an introductory telephone call.

Phone and email enquiries

1,527 enquiries

Enquiries are via telephone or email from practitioners on client-related matters as well as practice management issues were answered.

Claims follow-up

135 claims reviewed
17 discussions with firms

To assist LPLC understand the underlying causes of claims as well as help firms avoid similar claims in the future, this new project involved reviewing closed claims and speaking to relevant firms.

Other activities

Supervision practices

LPLC has been discussing with the Victorian Legal Services Board + Commissioner (VLSB+C) the need for clearer guidelines and education about practitioners' responsibilities to adequately supervise their staff both for the purposes of supervised legal practice certification and generally.

Meeting with LIV and VLSB+C

LPLC attended six bi-monthly meetings with the Law Institute of Victoria and VLSB+C. These meetings provide a forum of discussing issues of mutual concern, activities or projects each organisation is undertaking and opportunities for collaboration.

INVESTMENTS

LPLC's primary investment purpose is to achieve long term real growth in the investment portfolio to ensure sufficient funds are available to meet liabilities when they fall due, and to maintain competitive and stable premiums and an appropriate solvency level.

The fund seeks to achieve a return of CPI + three per cent over a rolling five-year period.

The Legal Practitioners' Liability Fund continued as a balanced fund with an average allocation of 60 per cent to growth assets and 40 per cent to defensive assets. Within its growth portfolio, LPLC maintains a diverse portfolio of investments.

Investment return for the reporting period was 7.97 per cent, exceeding budget expectations and in line with the fund's average return over the last five years of 7.75 per cent.

Australian and international equities recorded strong returns during the reporting year. Equities were weighted in favour of international investments, with a lower exposure to Australian equities. There was an exposure to hedged and unhedged funds within international equities to address currency fluctuation risk.

During the reporting year investments were also made into two new funds – the GQG Global Equity Fund and the Palisade Diversified Infrastructure Fund. The infrastructure investment has come after a long waiting period to enter our chosen fund.

LPLC retained its investment in unlisted wholesale commercial property, which has provided diversity in the growth portfolio. This investment has, over time, provided steady returns through fluctuations in markets for equities.

Willis Towers Watson Australia Pty Ltd were investment advisers to the Committee.

Funds were held with the following managers.

Australian Equities

> Vanguard Australian Shares Index Fund.

International Equities

> MFS (Massachusetts Financial Services) Investment Fund.

> Real Index Global Share Fund.

> Schroder Emerging Markets Fund.

> Schroder Real Return Fund.

> Vanguard International Shares Index Fund.

> GQG Global Equity Fund.

Property

> Dexus Wholesale Property Fund.

Infrastructure

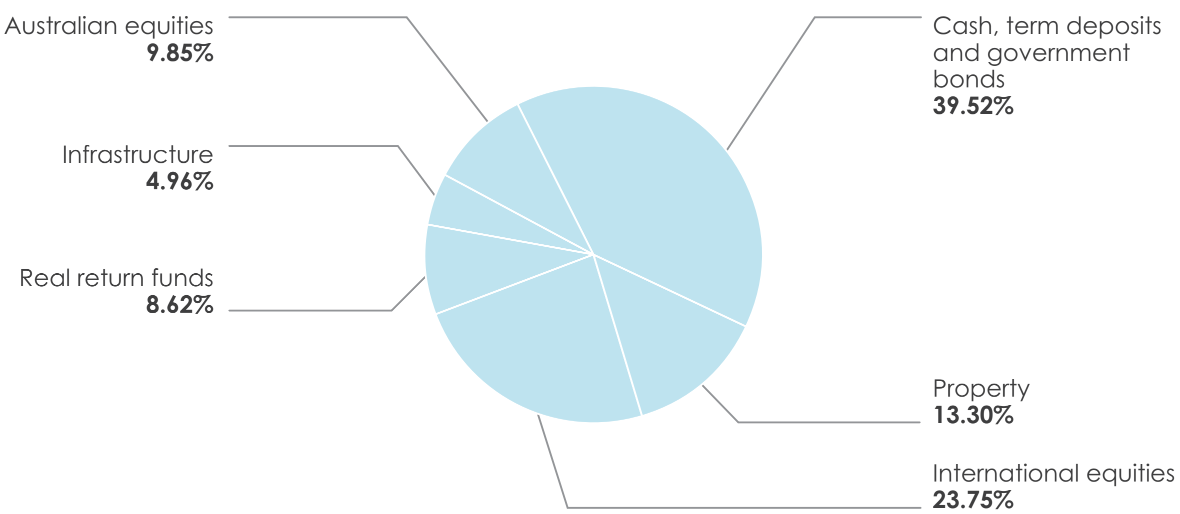
> Palisade Diversified Infrastructure Fund.

Cash

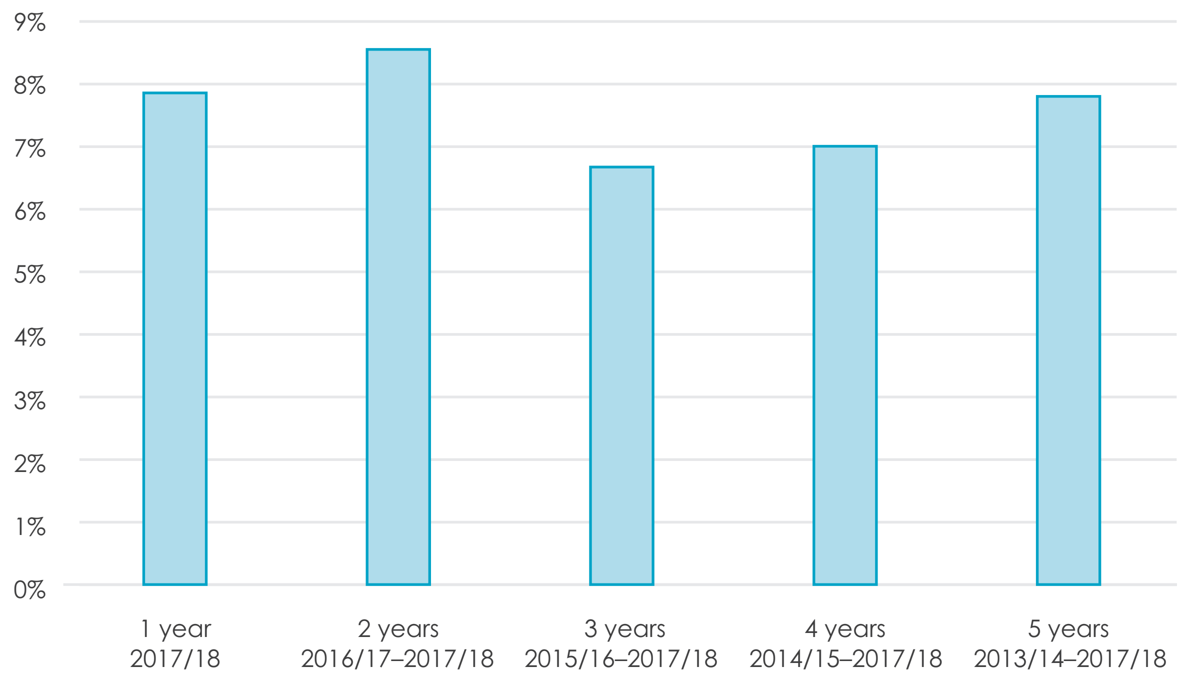
> Cash was invested by way of term deposits with Westpac, NAB and the Commonwealth Bank.

> Vanguard Australian Government Bond Index Fund.

Asset allocation as at 30 June 2018



Average investment returns over the last five years (%)



LEGAL PRACTITIONERS' LIABILITY COMMITTEE

John Corcoran AM
Chairman

John Corcoran AM is Principal at the law practice of Russell Kennedy and was Chair of that firm for 10 years until 30 June 2017. He is a member of the board of Mercy Health.

He has been a board member of the Legal Services Board as well as the International Bar Association. John is also a past President of the Law Institute of Victoria and was President of the Law Council of Australia in 2009.

His experience as a commercial lawyer is in the areas of commercial property, retirement and aged care, as well as sale and purchase of business, and securities.

Patricia Kelly
Committee Member

Tricia has extensive experience in the financial services industry. She worked for Suncorp/AAMI where her roles included Executive General Manager Strategy & Business Development Personal Insurance and General Manager AAMI New South Wales. Prior to that she was a Director and 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 non-executive Director of Ansvar Insurance and of RACV Limited and subsidiary companies.

Helen Thornton
Committee Member

Helen is a Chartered Accountant with over 30 years' experience across a wide range of industries including financial services. Helen has extensive experience in governance, audit and risk management and she has held senior leadership roles at Deloittes, KPMG, BHP Ltd and BlueScope Steel Ltd, where she was responsible for the global risk management and insurance program.

Helen has over 18 years' experience as a non-executive director and is an experienced Chair of Audit and Risk Committees. She is currently on the boards of ISPT Pty Ltd, Treasury Corporation of Victoria, Yarra Valley Water, Ansvar Insurance, Austin Health and is retiring from the Zoos Victoria board on 30 June 2018. Helen is an independent member of the Risk & Audit Committees of the Departments of Environment, Land, Water and Planning, Health and Human Services and Education and Training.

Catriona Lowe
Committee Member

Catriona is a lawyer with extensive experience in the consumer sector including directorships at the Australian Financial Complaints Authority, the Financial Adviser Standards and Ethics Authority and the Telecommunications Industry Ombudsman. Catriona is also Co-Chair of the Australian Competition and Consumer Commission Consumer Consultative Committee. Catriona is a former Chair of the Consumers' Federation of Australia and former Co-CEO of the Consumer Action Law Centre.

Catriona's skills and expertise include policy analysis and corporate governance, strategic legal practice management and consumer and competition law as well as dispute resolution and regulation.

John Cain
Committee Member

John has extensive legal experience in both the public and private sectors. He was the Managing Partner at Herbert Geer from 2011 to 2014 and the consultant overseeing the merger of that firm with Thomson Lawyers to create Thomson Geer. During John's five years as Victorian Government Solicitor starting in 2006, he oversaw the restructuring of that office as well as the creation of a whole of government legal services panel. While in that position John also represented the Victorian Government and its departments and agencies at the 2009 Bushfire Royal Commission. Prior to these roles John was the CEO at the Law Institute of Victoria (2002-2006) and Managing Partner at Maurice Blackburn from 1991 to 2002.

John is the Chair of the Centre for Innovative Justice, RMIT University, an advisory board member in the School of Business and Law, Victoria University and an advisory board member of the Sir Zelman Cowen Centre.

Adrian Finanzio SC
Committee Member

Adrian signed the Victorian Bar Roll in 1998, was appointed Silk in 2012 and is a leading Victorian barrister practising in the areas of planning and environment, local government, and major projects. He brings to LPLC a broad range of skills arising from the various committees on which he serves, including Barristers Chambers Limited, the Bar Readers Course Committee (as Vice Chair) and the Victorian Planning and Environment Law Association (as Vice President) and as a past member of the Victorian Bar Council.

ORGANISATIONAL STRUCTURE

Legal Practitioners' Liability Committee

Committee

John Corcoran AM | Chairman
Helen Thornton
Patricia Kelly
John Cain
Catriona Lowe
Adrian Finanzio SC
Miranda Milne (until 31/12/17)

Audit and Risk Committee

Helen Thornton | Chair
Patricia Kelly | Member
Adrian Finanzio SC | Member

Remuneration and Appointments Committee

Patricia Kelly | Chair
John Corcoran AM | Member
Helen Thornton | Member

Investment Committee

John Cain | Chair
John Corcoran AM| Member
Catriona Lowe | Member
Miranda Milne (until 31/12/17)

Legal Practitioners' Liability Committee Staff

Chief Executive Officer

Miranda Milne (until 31/12/17)
Justin Toohey (from 01/01/18)

Risk Management

Heather Hibberd
Matthew Rose
Phillip Nolan
Stephen Bubb

Communications Manager

Sophie Patten

Projects and Events Manager

Kristy Fuga

Digital Content Manager

Kelly Cooper

Claims

Justin Toohey (until 31/12/17)
Jodie Potts (from 22/01/18)
Alex Macmillan
Bronwyn Hine
Josh Clutterbuck
Prue Campton

Claims Administration

Jenny Aitken
Jackie Miller

Administration

Barbara McKay (PA to CEO)
Inge Gallery (Reception)
Kathy Gourley (until 05/06/18)

Chief Financial Officer

Martin Dohnt

Corporate Services Manager

Bernadette Mallia

Premium

Terri Hedt

GOVERNANCE

LPLC:

> manages and conducts the affairs of and is responsible for the organisation and business of 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 Victorian Legal Services Board

> oversees investment of the Legal Practitioners' Liability Fund

> develops policy relating to national practice issues and professional indemnity insurance

> oversees implementation of effective risk management for legal practitioners.

The Audit and Risk Committee comprised of Helen Thornton (Chair), Patricia Kelly and Adrian Finanzio SC.

The Audit and Risk Committee oversees:

> financial reporting

> internal risk and control procedures

> actuarial and reserving functions

> corporate governance and compliance

> conduct of audits, both internal and external

> finances and budgeting procedures.

The Investment Committee comprised of John Cain (Chair), John Corcoran AM, Catriona Lowe and Miranda Milne (until 31/12/17).

The Investment Committee:

> makes recommendations to 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.

The Remuneration and Appointments Committee comprised of Patricia Kelly (Chair), John Corcoran AM and Helen Thornton.

The Remuneration and Appointments Committee considers matters pertaining to appointments and remuneration.

	COMMITTEE MEETINGS		AUDIT AND RISK COMMITTEE		INVESTMENT COMMITTEE		REMUNERATION AND APPOINTMENTS COMMITTEE	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
John Corcoran AM	10	10			4	4	5	5
Patricia Kelly	10	9	4	4			5	5
Helen Thornton	10	10	4	4			1	1
Catriona Lowe	10	9			4	3		
John Cain	10	9			4	4		
Adrian Finanzio SC	10	8	4	3				
Miranda Milne	7	7			2	2		

LPLC STAFF

Justin Toohey
Chief Executive Officer

Justin was appointed as Chief Executive Officer from 1 January 2018. He was Deputy CEO at LPLC from 2005 with primary responsibility as Head of Claims. Prior to joining LPLC, Justin's career spanned five years in a senior executive position with the Institute of Architects' professional indemnity scheme and 15 years in private legal practice including time as a partner with Tress Cocks & Maddox specialising in professional indemnity litigation acting as a panel solicitor to LPLC.

Jodie Potts
Head of Claims

Prior to joining LPLC in January 2018 Jodie was a partner in the professional indemnity team of Moray & Agnew, Melbourne, having joined that firm in 2006 from Herbert Geer & Rundle. Jodie is an experienced insurance litigator who has worked for Australian and international insurers across a range of businesses (professional indemnity, directors' and officers' liability, management liability, financial lines, employment practices liability and construction risks). Jodie has strong property and commercial dispute resolution experience.

Alex Macmillan
Claims Solicitor

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

Bronwyn Hine
Claims Solicitor

In the 10 years prior to joining LPLC, Bronwyn worked in private practice in Victoria and South Australia as a professional indemnity solicitor. She joined LPLC in 2006 from the Melbourne office of then specialist insurance firm Moray & Agnew. Bronwyn also spent five years at a Law Claims panel firm in South Australia.

Prue Campton
Claims Solicitor

Prue specialised in commercial litigation with Allens for 24 years prior to joining LPLC in 2014. She also practised as a general common law and insurance litigator with Ashurst.

Josh Clutterbuck
Claims Solicitor

Josh joined LPLC in October 2013 after 11 years of experience as a Victorian solicitor in private practice. Prior to commencing as a claims solicitor, Josh worked in the General Insurance group at Lander & Rogers as a senior associate defending personal injury claims, liability claims generally and class actions.

Heather Hibberd
Chief Risk Manager

Heather practised as a solicitor for eight years in insurance litigation at Minter Ellison specialising in professional indemnity litigation before joining LPLC on secondment in 1999. She became a permanent member of staff in 2001.

Matthew Rose
Risk Manager

Matthew joined LPLC in 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.

Phillip Nolan
Risk Manager

Phillip joined LPLC in February 2013 and was formerly a principal at SBA Law. He is a member of the Property Law Committee and a member of the Dispute Resolution Committee at the LIV. He is a Senior Fellow of the University of Melbourne where he lectures in property law to postgraduates in the Faculty of Architecture, Building and Planning. On 18 November 2011 Phil received the Law Institute of Victoria Certificate of Service Award.

Stephen Bubb
Risk Manager

Stephen joined LPLC as a risk manager in January 2016 after 18 months at the Law Institute of Victoria and over 30 years in private practice. He has 20 years of practical experience as a legal practice manager and a focus on practice management issues.

Martin Dohnt
Chief Financial Officer

Martin joined LPLC as Chief Financial Officer in 2013 and manages the accounting, finance and payroll functions. Prior to commencing at LPLC, Martin has worked in the financial services industry for over 20 years. During this time he held senior finance management positions at Defence Force Credit Union and ASG Friendly Society.

Bernadette Mallia
Corporate Services Manager

After working in the property/leasing department of several city law firms, Bernadette joined LPLC in 1988. In addition to supervising the annual renewal of insurance and overseeing the maintenance of the LPLC database, Bernadette is the reference point for insured practitioners, LPLC service providers and other stakeholders.

SUPPLEMENTARY INFORMATION

Legislation administered by the Committee

The *Legal Practice Act 1996* – 1 July 2005 to 11 December 2005.

The *Legal Profession Act 2004* – 12 December 2005 to 30 June 2015.

The *Legal Profession Uniform Law Application Act 2014* (Vic) – 1 July 2015 to 30 June 2018.

Whistleblowers policy statement

LPLC is committed to the objectives of the *Whistleblowers Protection Act 2001* (Vic) (WP Act). LPLC recognises 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 112 of the *Legal Profession Uniform Law Application Act 2014* (Vic).

Compliance with the *Building Act 1993* (Vic)

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* (Vic).

Categories of documents held by 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 and minutes for LPLC and LPLC sub committees.

> Management records.

> Administration records.

> Accounting records.

> Library material.

Freedom of information

LPLC has received one request pursuant to the *Freedom of Information Act 1982* (Vic) for the reporting period.

Publications

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

Occupational health and safety

LPLC continued its commitment to OH&S compliance during the reporting period. Four staff members are trained as first aid officers. 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 CEO. Department managers conduct an annual performance review of their respective direct reports.

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

2016/17

Position	Male	Female	Total
Chief Executive Officer		1	1
Chief Financial Officer	1		1
Claims Manager	2	3	5
Risk Manager	3	1	4
Corporate Services Manager		1	1
Communications Manager		1	1
Premiums Manager		1	1
Digital Content and Reporting Manager		1	1
Receptionist/PA/Administration		6	6
Total	**6**	**15**	**21**

2017/18

Position	Male	Female	Total
Chief Executive Officer	1 (from 01/01/18)	1(until 31/12/17)	1
Chief Financial Officer	1		1
Head of Claims	1(until 31/12/17)	1 (from 22/01/18)	1
Claims Manager	1	3	4
Risk Manager	3	1	4
Corporate Services Manager		1	1
Communications Manager		1	1
Premiums Manager		1	1
Digital Content and Reporting Manager		1	1
Receptionist/PA/Administration		6 (until 05/06/18) 5 (from 06/06/18)	6
Total	**6**	**15**	**21**

Environmental issues

In July 2009, LPLC registered with Sustainability Victoria to develop an environmental management plan (EMP). This plan assists LPLC to manage the environmental impact from its day to day business activities.

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

Each area of LPLC's business was assessed to see where energy was used, 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 2017/18 reporting year.

Energy consumption

LPLC will continue with its energy saving initiatives 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. LPLC again made a commitment to purchase no less than 20 per cent green power for office requirements.

Total energy usage was approximately 58,480 kWh compared to 59,220 kWh in 2016/17 and the energy used per unit of office area 82.95 compared to 83.40 in 2016/17. kWh of energy used per FTE was 3483.

The 2018/19 target is to reduce energy usage by at least 10 per cent.

Waste generation

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

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.

LPLC continued to recycle close to 90 per cent of its waste for the reporting period.

Paper consumption

The policies adopted by 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 are still policies which are very much adhered to.

A very high percentage of LPLC's paper and cardboard waste is recycled through a secure paper recycling contractor. LPLC recycled approximately 1.47 tonnes of paper in the reporting period which contributed to a reduction in greenhouse gas emissions of more than 1.9 tonnes of carbon over 2017/18.

Units of paper used per FTE (A4 reams/FTE) was 23.53 which was an increase from the previous year due to more printing being produced in-house.

The target for the 2018/19 year is to reduce the paper consumption by at least 10 per cent compared to 2017/18, taking into account the increase in producing risk management material in-house.

Transport

LPLC does not operate a fleet of vehicles for business use and has a travel policy which includes the purchase of carbon credits for all air travel undertaken.

Competition policy

Until 11 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 sections 224, 225, 226 or 227 is authorised by this Act.'

From 12 December 2005 until 30 June 2015 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.'

From 1 July 2015 section 119 of the Legal *Profession Uniform Law Application Act 2014* (Vic) provides:

'For the purposes of the Competition and Consumer Act 2010 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 is authorised by this Act'.

Consultants

Consultants each year provide specialist advice to assist with decision making and risk management programs. During 2017/18 total consultancy expenditure as defined by the *Financial Management Act 1994* (Vic) was approximately $233,782.

Taylor Fry – Actuaries

Taylor Fry is LPLC's actuary. The expenditure for the reporting period was $120,804.

Cumpston Sarjeant – Actuaries

LPLC also obtains actuarial advice from Cumpston Sarjeant. The consulting fee paid to this firm for the reporting period was $46,418. Cumpston Sarjeant has been retained for the 2018/19 reporting period.

Kiandra IT

Kiandra IT was LPLC's website development and digital strategy consultant. The expenditure for the reporting period was $52,711.

Corvus Group

LPLC obtained human resources advice from Corvus Group and the consulting fee for the reporting period was $14,263.

Legal Practitioners' Liability Committee Financial Management Compliance Attestation Statement

I, John Corcoran AM, on behalf of the Responsible Body, certify that the Legal Practitioners' Liability Committee has complied with the applicable Standing Directions of the Minister for Finance under the Financial Management Act 1994 and Instructions.

Contact details

Legal Practitioners' Liability Committee
Level 31, 570 Bourke Street
MELBOURNE VIC 3000
DX 431
ABN: 45 838 419 536
Telephone: (03) 9672 3800
Facsimile: (03) 9670 5538
Website: www.lplc.com.au

LEGAL PRACTITIONERS' LIABILITY COMMITTEE

FINANCIAL REPORT

For the Financial Year Ended 30 June 2018

DECLARATION BY MEMBERS OF THE COMMITTEE

LEGAL PRACTITIONERS' LIABILITY COMMITTEE

DECLARATION BY COMMITTEE MEMBERS, CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

The attached financial statements for the Legal Practitioners' Liability Committee have been prepared in accordance with Direction 5.2 of the Standing Directions of the Minister for Finance under the Financial Management Act 1994 (FMA), applicable Financial Reporting Directions, Australian Accounting Standards, including Interpretations, and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes forming part of the financial statements, presents fairly the financial transactions during the year ended 30 June 2018 and financial position of the Legal Practitioners' Liability Committee at 30 June 2018.

At the time of signing, we are not aware of any circumstance which would render any particulars included in the financial report to be misleading or inaccurate.

We authorise the attached financial statements for issue on 15 August 2018.

John Corcoran – Chairman

Nicholas J Toohey – Chief Executive Officer

Martin Dohnt – Chief Financial Officer

Dated this 15th day of August 2018

AUDITOR-GENERAL'S REPORT

Independent Auditor's Report

VAGO
Victorian Auditor-General's Office

To the Committee of the Legal Practitioners' Liability Committee

Opinion	I have audited the financial report of the Legal Practitioners' Liability Committee (the committee) which comprises the: • balance sheet as at 30 June 2018 • statement of comprehensive income for the year then ended • cash flow statement for the year then ended • statement of changes in equity for the year then ended • notes to the financial statements, including significant accounting policies • declaration by committee members, chief executive officer and chief financial officer. In my opinion the financial report presents fairly, in all material respects, the financial position of the committee as at 30 June 2018 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Part 7 of the *Financial Management Act 1994* and applicable Australian Accounting Standards.
Basis for Opinion	I have conducted my audit in accordance with the *Audit Act 1994* which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report. My independence is established by the *Constitution Act 1975.* My staff and I are independent of the committee in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.
Committee's responsibilities for the financial report	The Committee members of the committee are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Financial Management Act 1994*, and for such internal control as the Committee members determine is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error. In preparing the financial report, the Committee members are responsible for assessing the committee's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.

Level 31 / 35 Collins Street, Melbourne Vic 3000
T 03 8601 7000 enquiries@audit.vic.gov.au www.audit.vic.gov.au

AUDITOR-GENERAL'S REPORT (continued)

Auditor's responsibilities for the audit of the financial report

As required by the *Audit Act 1994,* my responsibility is to express an opinion on the financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit 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 committee's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Committee members
- conclude on the appropriateness of the Committee members use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the committee's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the committee to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Committee members regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

T. Dt

MELBOURNE
21 August 2018

Travis Derricott
as delegate for the Auditor-General of Victoria

Statement of Comprehensive Income
for the Financial Year Ended 30 June 2018

	Note	2018 $	2017 $
UNDERWRITING			
Premium revenue	2.2	32,891,142	31,529,174
Outwards reinsurance expense	3.2	(1,000,000)	(1,000,000)
Net earned premiums		31,891,142	30,529,174
Claims expense	3.3	(31,507,298)	(19,248,645)
Net claims incurred		(31,507,298)	(19,248,645)
Movement in unexpired risk liability	5.4	(1,858,251)	5,110,382
UNDERWRITING RESULT		**(1,474,407)**	**16,390,911**
Investment income	2.3	18,950,984	19,207,122
Other income	2.4	184,476	221,794
Employment Expenses	3.1.1	(3,492,800)	(3,358,125)
Depreciation	4.1.1	(71,679)	(28,857)
Other expenses	3.4	(2,884,608)	(2,789,594)
Net Result		**11,211,966**	**29,643,251**
Other Comprehensive Income		–	–
Total Comprehensive Income		**11,211,966**	**29,643,251**

Notes to and forming part of these financial statements are set out in pages 44 to 112.

Balance Sheet
as at 30 June 2018

	Note	2018 $	2017 $
CURRENT ASSETS			
Cash and cash equivalents	6.1	16,169,376	12,757,739
Receivables	5.1	1,407,739	1,435,062
Other financial assets	4.3	63,090,411	66,015,288
Other non-financial assets	5.3	158,026	191,207
Total Current Assets		**80,825,552**	**80,399,296**
NON-CURRENT ASSETS			
Other financial assets	4.3	184,817,519	169,092,732
Property, plant & equipment	4.1	101,777	90,602
Intangible assets	4.2	63,193	54,810
Total Non-Current Assets		184,982,489	169,238,144
TOTAL ASSETS		**265,808,041**	**249,637,440**
CURRENT LIABILITIES			
Outstanding claims liability	5.5	34,405,000	32,695,000
Payables	5.2	1,383,980	1,093,761
Unearned premium liability	5.4	45,253,000	42,275,000
Provisions	3.1.2	678,281	671,599
Total Current Liabilities		**81,720,261**	**76,735,360**
NON-CURRENT LIABILITIES			
Outstanding claims liability	5.5	77,596,000	77,642,000
Provisions	3.1.2	56,130	36,396
Total Non-Current Liabilities		**77,652,130**	**77,678,396**
TOTAL LIABILITIES		**159,372,391**	**154,413,756**
NET ASSETS		**106,435,650**	**95,223,684**
EQUITY			
Accumulated funds	8.1	106,435,650	95,223,684
TOTAL EQUITY		**106,435,650**	**95,223,684**

Notes to and forming part of these financial statements are set out in pages 44 to 112.

Cash Flow Statement
for the Financial Year Ended 30 June 2018

	Note	2018 $	2017 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium revenue received		37,489,487	36,405,350
Other Income		200,771	215,180
Dividend Received		753,816	791,723
Interest Received		2,384,560	2,676,855
Other Income from Investments		5,845,549	8,263,636
Claims paid		(31,423,258)	(27,590,066)
Outward reinsurance premium paid		(1,000,000)	-
Payments to suppliers and employees		(7,753,449)	(8,071,775)
Net cash provided by/(used in) operating activities	6.1.1	6,497,476	12,690,903
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale of property, plant and equipment		-	-
Purchase of property, plant and equipment		(91,237)	(118,461)
(Purchase)/sale of investments		(5,919,479)	(11,570,688)
Net cash provided by/(used in) investing activities		(6,010,716)	(11,689,149)
Net increase/(decrease) in cash held		486,760	1,001,754
Cash and cash equivalents at beginning of period		78,773,027	77,771,273
Cash and cash equivalents at end of period	6.1	**79,259,787**	**78,773,027**

Notes to and forming part of these financial statements are set out in pages 44 to 112.

Statement of Changes In Equity
for the Financial Year ended 30 June 2018

	Note	Accumulated Funds $	Total $
At 1 July 2016		65,580,433	65,580,433
Net result for the year		29,643,251	29,643,251
Other comprehensive income for the year		–	–
At 30 June 2017		95,223,684	95,223,684
Net result for the year		11,211,966	11,211,966
Other comprehensive income for the year		–	–
At 30 June 2018	8.1	**106,435,650**	**106,435,650**

Notes to and forming part of these financial statements are set out in pages 44 to 112.

Notes to the Financial Statements
for the year ended 30 June 2018

1. ABOUT THIS REPORT

The reporting entity is the Legal Practitioners' Liability Committee (LPLC). The Legal Practitioners' Liability Committee is a statutory authority established under the Legal Profession Act 2004 (from 1 July 2015 The Legal Profession Uniform Law Application Act 2014). The Committee administers the transactions of the Legal Practitioners' Liability Fund. The Legal Practitioners' Liability Committee is specifically regulated out of the Commonwealth Insurance Act and is not regulated by the Australian Prudential Regulatory Authority. The LPLC has the power to impose a levy in the event of insolvency. The assets, liabilities and financial transactions of the Legal Practitioners' Liability Fund are reported in this financial report.

Its principal address is: Legal Practitioners' Liability Committee
Level 31, 570 Bourke Street
Melbourne, Vic 3000

Basis of Preparation

These financial statements are in Australian dollars and the historical cost convention is used unless a different measurement basis is specifically disclosed in the note associated with the item measured on a different basis.

The accrual basis of accounting has been applied in the preparation of these financial statements whereby assets, liabilities, equity, income and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid.

The fund makes estimates and assumptions in respect of certain key assets and liabilities. The significant judgements made in the preparation of these financial statements are disclosed in the notes where amounts affected by those judgements are disclosed. 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.

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 8.7.

Notes to the Financial Statements
for the year ended 30 June 2018

1. ABOUT THIS REPORT (CONTINUED)

Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected by the revision. Judgements and assumptions made by management in applying AAS that have significant effects on the financial statements and estimates are disclosed in the notes under the heading: 'Significant judgement or estimates'.

These financial statements cover the Legal Practitioners' Liability Committee as an individual reporting entity and included all the controlled activities of the Committee.

Amounts in the financial statements have been rounded to the nearest dollar unless otherwise stated. Notes to the Financial Statements

Compliance Information

These general purpose financial reports have been prepared in accordance with the FMA and applicable Australian Accounting Standards (AASs) which includes interpretations, issued by the Australia Accounting Standards Board (AASB). In particular, they are presented in a manner consistent with the requirements of *AASB 1049 Whole of Government and General Government Sector Financial Reporting (AASB 1049).*

Where appropriate, those AASs paragraphs applicable to not-for-profit entities have been applied. Accounting policies selected and applied in these financial statements ensure that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or events is reported.

Income Tax

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

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.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from or payable to the taxation authority, are presented as operating cash flow.

Notes to the Financial Statements
for the year ended 30 June 2018

2. FUNDING DELIVERY OF OUR SERVICES

Introduction

LPLC is the professional indemnity insurer to Victorian legal practices and the insurer to many national law firms. In addition, LPLC provides a comprehensive program of risk management services to legal practices that insure with us. LPLC's long-held values are; equity and fairness, transparency, probity, stability.

To enable LPLC to fulfil its values and provide outputs as described in section 4, it receives income (predominantly premium revenue).

Structure

2.1 Summary of income that funds the delivery of our services

	Note	2018 $	2017 $
Premium revenue	2.2	32,891,142	31,529,174
Investment income	2.3	18,950,984	19,207,122
Other income	2.4	184,476	221,794
Total Income		52,026,602	50,958,090

Income is recognised to the extent it is probable the economic benefits will flow to the LPLC and the income can be reliably measured at fair value. Where applicable, amounts disclosed as income are net of returns, allowances, duties and taxes.

Notes to the Financial Statements
for the year ended 30 June 2018

2. FUNDING DELIVERY OF OUR SERVICES (CONTINUED)

2.2 Premium Revenue

	2018 $	2017 $
Gross Written Premiums	34,010,890	33,057,557
Movement in Unearned Premium	(1,119,748)	(1,528,383)
Net Premium Revenue	32,891,142	31,529,174

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.

Notes to the Financial Statements
for the year ended 30 June 2018

2. FUNDING DELIVERY OF OUR SERVICES (CONTINUED)

2.3 Investment Income

	2018 $	2017 $
Net fair value gains on financial assets at fair value through profit or loss	9,805,309	7,448,621
Other Income	6,101,964	8,241,208
Dividend Income	753,816	791,723
Interest Income	2,289,895	2,725,570
Total Investment Income	18,950,984	19,207,122

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.

Interest income includes interest received on bank term deposits and other investments and the unwinding over time of the discount on financial assets.

Interest income is recognised using the effective interest method, which allocates the interest over the relevant period.

Other income includes distributions received from managed investment funds.

2.4 Other Income

	2018 $	2017 $
Seminar Income	184,476	221,794
Total Income	184,476	221,794

Seminar income is income received for seminars and workshops held during the financial year. Seminars and workshops are aimed at assisting practitioners to avoid risks and minimise their exposure to claims. Income is recognised when the seminar or workshop has been completed.

Notes to the Financial Statements
for the year ended 30 June 2018

3. THE COST OF DELIVERING SERVICES

Introduction

This section provides an account of the expenses incurred by Legal Practitioners' Liability Committee in delivering services and outputs. In section 2, the funds that enable the provision of services were disclosed and in this note the cost associated with provision of services are recorded. Section 4 discloses aggregated information in relation to the income and expenses by output.

Structure

3.1 Expenses incurred in delivery of services

	Notes	2018 $	2017 $
Employee benefit expenses	3.1.1	3,492,800	3,358,125
Outwards reinsurance expense	3.2	1,000,000	1,000,000
Claims expense	3.3	31,507,298	19,248,645
Other Operating expenses	3.4	2,884,608	2,789,594
Total expenses incurred in delivery of services		**38,884,706**	**26,396,364**

3.1.1 Employee benefits expense in the comprehensive operating statement

	2018 $	2017 $
Defined contribution superannuation expense	274,990	259,274
Salaries and wages, annual leave and long service leave	3,217,810	3,098,851
Total Employee expenses	**3,492,800**	**3,358,125**

Employee expenses include all costs related to employment including wages and salaries, fringe benefits tax, leave entitlements, termination payments and WorkCover premiums.

Notes to the Financial Statements
for the year ended 30 June 2018

3. THE COST OF DELIVERING SERVICES (CONTINUED)

The amount recognised in the comprehensive operating statement in relation to superannuation is employer contributions for members of defined contribution superannuation plans that are paid or payable during the reporting period.

3.1.2 Employee benefits in the balance sheet

Provision is made for the Fund's liability for employee benefits arising from services rendered by employees to balance date and recorded as an expense during the period the services are delivered.

	2018 $	2017 $
CURRENT PROVISIONS		
Annual Leave		
unconditional and expected to settle within 12 months	156,690	157,695
unconditional and expected to settle after 12 months	82,320	67,433
Long Service Leave		
unconditional and expected to settle within 12 months	-	61,070
unconditional and expected to settle after 12 months	352,207	299,176
Provisions for on-costs		
unconditional and expected to settle within 12 months	23,065	32,224
unconditional and expected to settle after 12 months	63,999	54,001
Total current provisions	678,281	671,599
NON-CURRENT PROVISIONS		
Employee benefits	48,924	31,723
On-costs	7,206	4,673
Total non-current provisions	56,130	36,396
Total provisions for employee benefits	734,411	707,995

Notes to the Financial Statements
for the year ended 30 June 2018

3. THE COST OF DELIVERING SERVICES (CONTINUED)

3.1.2 Employee benefits in the balance sheet (continued)

Reconciliation of movement in on-cost provision

	2018 **$**
Opening Balance	90,898
Additional provisions recognised	33,331
Reductions arising from payments/other sacrifices of future economic benefits	(29,959)
Closing balance	**94,270**
Current	87,064
Non-current	7,206

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits annual leave and accumulating sick leave, are all recognised in the provision for employee benefits as current liabilities, because the Legal Practitioners' Liability Committee does not have an unconditional right to defer settlements of these liabilities.

The liability for wages and salaries are recognised in the balance sheet at remuneration rates which are current at the reporting date. As the Legal Practitioners' Liability Committee expects the liabilities to be wholly settled within 12 months of reporting date, they are measured at undiscounted amounts. The annual leave liability is classified as a current liability and measured at the undiscounted amount expected to be paid, as the Legal Practitioners' Liability Committee does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

No provision has been made for sick leave as all sick leave is non-vesting and it is not considered probable that the average sick leave taken in the future will be greater than the benefits accrued in the future. As sick leave is non-vesting, an expense is recognised in the Statement of Comprehensive income as it is taken.

Employment on-costs such as payroll tax, workers compensation and superannuation are not employee benefits. They are disclosed separately as a component of the provision for employee benefits when the employment to which they relate has occurred.

Notes to the Financial Statements
for the year ended 30 June 2018

3. THE COST OF DELIVERING SERVICES (CONTINUED)

3.1.2 Employee benefits in the balance sheet (continued)

Long Service Leave

Unconditional LSL is disclosed in the notes to the financial statements as a current liability, even where the Legal Practitioners' Liability Committee does not expect to settle the liability within 12 months because it will not have an unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months.

The components of this current LSL liability are measured at:

- undiscounted value – if expected to wholly settle within 12 months: or
- present value – if not expected to wholly settle within 12 months.

Conditional LSL is disclosed as a non-current liability. There is an unconditional right to defer settlement of the entitlement until the employee has completed the requisite years of service. This non-current LSL Liability is measured at present value.

Any gain or loss following revaluation of the present value of non-current LSL liability is recognised as a transaction.

Provisions for on-costs such as payroll tax, workers compensation and superannuation are recognised separately from the provision for employee benefits.

Notes to the Financial Statements
for the year ended 30 June 2018

3. THE COST OF DELIVERING SERVICES (CONTINUED)

3.1.3 Superannuation Contributions

Employees of LPLC are entitled to receive superannuation benefits and the LPLC contributes to defined contribution plans on their behalf.

Superannuation contributions paid or payable for the reporting period are included as part of employee benefits in the comprehensive operating statement of LPLC.

	Paid contribution for the year		Contribution outstanding at year end	
	2018	**2017**	**2018**	**2017**
DEFINED CONTRIBUTION PLANS				
Legal Super	143,265	147,655	-	-
Other	131,724	111,619	-	-
Total	**274,990**	**259,274**	**-**	**-**

3.2 Outwards reinsurance expense

	2018 $	2017 $
Outwards reinsurance expense	1,000,000	1,000,000
Total	**1,000,000**	**1,000,000**

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, with a defined sum insured, to cover the payment of claims made during the year ended 30 June 2018 in excess of $45.0m (2017:$45.0m).

Notes to the Financial Statements
for the year ended 30 June 2018

3. THE COST OF DELIVERING SERVICES (CONTINUED)

3.3 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.

NET CLAIMS INCURRED

	2018 Current Year $	Prior Years $	Total $	2017 Current Year $	Prior Years $	Total $
Gross claims expense	41,838,000	(9,977,702)	31,860,298	43,360,000	(23,372,355)	19,987,645
Discount movement	(1,916,000)	1,563,000	(353,000)	(1,960,000)	1,221,000	(739,000)
	39,922,000	(8,414,702)	31,507,298	41,400,000	(22,151,355)	19,248,645
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue – undiscounted	–	–	–	–	–	–
Discount movement	–	–	–	–	–	–
	–	–	–	–	–	–
Net claims incurred	39,922,000	(8,414,702)	31,507,298	41,400,000	(22,151,355)	19,248,645

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 2018

3. THE COST OF DELIVERING SERVICES (CONTINUED)

3.4 Other Operating Expenses

	2018 $	2017 $
Purchase of Services	2,522,400	2,442,138
Operating leases	362,208	347,456
Total other operating expenses	**2,884,608**	**2,789,594**

Other operating expenses generally represent the day-to-day running costs incurred in normal operations.

Supplies and services are recognised as an expense in the reporting period in which they are incurred. The carrying amounts of any inventories held for distribution are expensed when the inventories are distributed.

Operating lease payments (including contingent rentals) are recognised on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern of the benefits derived from the use of the leased asset.

Notes to the Financial Statements
for the year ended 30 June 2018

4. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY

Introduction

The Legal Practitioners' Liability Committee controls infrastructure and other investments that are utilised in fulfilling its objectives and conducting its activities. They represent the resources utilised by the LPLC for delivery of those outputs.

Significant judgement: Classification of investments as 'key assets'

The LPLC has made the judgement that investments are key assets utilised to support the LPLC's objectives and outputs.

Fair Value measurement

Where the assets included in this section are carried at fair value, additional information is disclosed in Note 7.3 in connection with how those fair values were determined.

Structure

4.1 Total property, plant and equipment

	2018 $	2017 $
Furniture & equipment:		
At Fair Value	254,293	252,389
Accumulated depreciation	(182,621)	(179,173)
	71,672	73,216
Leasehold Improvements:		
At Fair Value	125,017	105,607
Accumulated depreciation	(94,912)	(88,221)
	30,105	17,386
Total	101,777	90,602

Notes to the Financial Statements
for the year ended 30 June 2018

4. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY (CONTINUED)

4.1 Total property, plant and equipment (continued)

Initial Recognition

All non-current physical assets are measured initially at cost and subsequently revalued at fair value less accumulated depreciation and impairment. Where an asset is acquired for no or nominal cost, the cost is its fair value at the date of acquisition. Assets transferred as part of a merger/machinery of government are transferred at their carrying amount.

The cost of leasehold improvements is capitalised and depreciated over the shorter of the remaining term of the lease of their estimated useful lives.

Subsequent Measurement

Property, plant and equipment (PPE) are subsequently measured at fair values less accumulated depreciation and impairment. Fair value is determined with regard to the asset's highest and best use (considering legal or physical restrictions imposed on the asset, public announcements or commitments made in relation to the intended use of the asset) and is summarised below by asset category.

Refer to Note 7.3 for additional information on fair value determination of property, plant and equipment.

4.1.1 Depreciation and impairment

Charge for the period

	2018 $	2017 $
Furniture & equipment	29,620	20,737
Leasehold improvements	6,691	3,804
Intangibles	35,368	4,316
	71,679	28,857

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.

Notes to the Financial Statements
for the year ended 30 June 2018

4. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY (CONTINUED)

4.1.1 Depreciation and impairment (continued)

The depreciation rates used for current and prior years 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

Leasehold improvements are depreciated over the shorter of the lease term and their useful lives.

Impairment

Non-financial assets, including items of property, plant and equipment, are tested for impairment whenever there is an indication that the asset may be impaired.

The assets concerned are tested as to whether their carrying value exceeds the recoverable amount. Where an asset's carrying value exceeds its recoverable amount the difference is written off as an "other economic flow", except to the extent that it can be debited to an asset revaluation surplus amount applicable to that class of asset.

If there is an indication that there has been a reversal in impairment, the carrying amount shall be increased to its recoverable amount. However this reversal should not increase the asset's carrying amount above what would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in prior years.

The recoverable amount for most assets is measured at the higher of depreciated replacement cost and fair value less cost to sell. Recoverable amount for assets held primarily to generate cash inflows is measured at the higher of the present value of future cash inflows expected to be obtained from the asset and fair value less costs to sell.

Notes to the Financial Statements
for the year ended 30 June 2018

4. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY (CONTINUED)

4.1.2 Reconciliation of movements in carrying amount of property, plant and equipment

	Furniture Equipment $	Leasehold Improvements $	Total $
2018			
Balance at the Beginning of the year	73,216	17,386	90,602
Additions	28,076	19,410	47,486
Disposals	-	-	-
Depreciation Expense	(29,620)	(6,691)	(36,311)
Carrying amount at the end of the year	**71,672**	**30,105**	**101,777**
2017			
Balance at the Beginning of the year	34,618	21,190	55,808
Additions	59,335	-	59,335
Disposals	-	-	-
Depreciation Expense	(20,737)	(3,804)	(24,541)
Carrying amount at the end of the year	**73,216**	**17,386**	**90,602**

4.2 Intangible assets

Computer Software

	2018	2017
GROSS CARRYING AMOUNT		
Opening balance	59,126	59,126
Additions	43,751	-
Disposals or classified as held for sale	-	-
Closing balance	**102,877**	59,126
ACCUMULATED DEPRECIATION, AMORTISATION AND IMPAIRMENT		
Opening balance	(4,316)	-
Amortisation of intangible assets	(35,368)	(4,316)
Disposals or classified as held for sale	-	-
Closing balance	**(39,684)**	(4,316)
Net book value at end of financial year	**63,193**	54,810

Notes to the Financial Statements
for the year ended 30 June 2018

4. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY (CONTINUED)

4.2 Intangible assets (continued)

Initial recognition

Purchased intangible assets are initially recognised at cost. When the recognition criteria in AASB 138 Intangible assets is met, internally generated intangible assets are recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Depreciation and amortisation begins when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequent measurement

Intangible produced assets with finite useful lives, are depreciated as an "expense from transactions" on a straight line basis over their useful lives. Produced intangible assets have useful lives of between 2 and 5 years.

Impairment of intangible assets

Intangible assets with indefinite useful lives (and intangible assets not yet available for use) are tested annually for impairment and whenever there is an indication that the asset may be impaired. Intangible assets with finite useful lives are tested for impairment whenever an indication of impairment is identified.

The policy in connection with testing for impairment is outlined in section 4.1.1.

Notes to the Financial Statements
for the year ended 30 June 2018

4. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY (CONTINUED)

4.3 Investments and other financial assets

	2018 $	2017 $
CURRENT INVESTMENTS AND OTHER FINANCIAL ASSETS		
Term Deposits:		
Australian dollar term deposits > three months	63,090,411	66,015,288
Total current investments and other financial assets	63,090,411	66,015,288
NON-CURRENT INVESTMENTS AND OTHER FINANCIAL ASSETS		
Managed Unit Trusts		
- Overseas Equities	62,726,219	55,200,173
- Property Fund	35,134,088	32,355,598
- Infrastructure Fund	13,112,166	-
- Australian Equities	26,007,274	22,996,289
- Diversified Funds	22,762,851	34,161,243
- Government Securities	25,074,921	24,379,429
Total Non-current investments and other financial assets	184,817,519	169,092,732
Total investments and other financial assets	247,907,930	235,108,020

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 asset 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 as determined by the respective constitutions governing each fund.
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.

Notes to the Financial Statements
for the year ended 30 June 2018

4. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY (CONTINUED)

4.3 Investments and other financial assets (continued)

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 above. 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.

Ageing analysis of investments and other financial assets

	Carrying amount	Not past due and not impaired	Past due but not impaired			
			Less than 1 month	1-3 months	3 months – 1 year	1-5 years
2018						
Managed unit trusts	184,817,519	184,817,519	–	–	–	–
Term Deposits	63,090,411	63,090,411	–	–	–	–
Total	**247,907,930**	**247,907,930**	**–**	**–**	**–**	**–**
2017						
Managed unit trusts	169,092,732	169,092,732	–	–	–	–
Term Deposits	66,015,288	66,015,288	–	–	–	–
Total	**235,108,020**	**235,108,020**	**–**	**–**	**–**	**–**

Notes to the Financial Statements
for the year ended 30 June 2018

5. OTHER ASSETS AND LIABILITIES

Introduction

This section sets out those assets and liabilities that arose from the LPLC's operations.

Structure

5.1 Receivables

	2018 $	2017 $
CONTRACTUAL		
Deductibles Receivable & Cost Recovery	512,967	592,041
Provision for Doubtful Receivables	(110,000)	-
Accrued Investment income	1,004,772	843,021
Total receivables	1,407,739	1,435,062

Contractual receivables are classified as financial instruments and categorised as "loans and receivables". They are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement they are measured at amortised cost using the effective interest rate method.

Deductibles receivable and cost recoveries include excesses payable and costs recoverable, on terms, by insured practitioners.

Notes to the Financial Statements
for the year ended 30 June 2018

5. OTHER ASSETS AND LIABILITIES (CONTINUED)

5.1 Receivables (continued)

Ageing Analysis of contractual receivables

	Carrying amount	Not past due and not impaired	Past due but not impaired			
			Less than 1 month	1-3 months	3 months – 1 year	1-5 years
2018						
Deductibles Receivable & Cost Recovery	402,967	402,967	-	-	-	-
Accrued Investment income	1,004,772	1,004,772	-	-	-	-
Total	**1,407,739**	**1,407,739**	**-**	**-**	**-**	**-**
2017						
Deductibles Receivable & Cost Recovery	592,041	586,041	2,000	4,000	-	-
Accrued Investment income	843,021	843,021	-	-	-	-
Total	**1,435,062**	**1,429,062**	**2,000**	**4,000**	**-**	**-**

Notes to the Financial Statements
for the year ended 30 June 2018

5. OTHER ASSETS AND LIABILITIES (CONTINUED)

5.2 Payables

	2018 $	2017 $
CONTRACTUAL		
Supplies and services	220,612	210,009
Deferred other income	67,991	51,695
STATUTORY		
GST Payable	408,991	303,910
Other taxes payable	686,386	528,147
	1,383,980	**1,093,761**
Represented by:		
Current Payables	1,383,980	1,093,761
Non-current payables	-	-

Payables consist of:

- contractual payables, classified as financial instruments and measured at amortised cost. Accounts payable represent liabilities for goods and services provided to Legal Practitioners' Liability Committee prior to the end of the financial year that are unpaid, and arise when Legal Practitioners' Liability Committee becomes obliged to make future payments in respect of the purchase of those goods and services; and
- statutory payables, that are recognised and measured similarly to contractual payables, but are not classified as financial instruments and not included in the category of financial liabilities at amortised cost, because they do not arise from contracts.

Notes to the Financial Statements
for the year ended 30 June 2018

5. OTHER ASSETS AND LIABILITIES (CONTINUED)

5.2 Payables (continued)

Maturity analysis of contractual payables

	Carrying amount	Nominal amount	Maturity dates			
			Less than 1 month	1-3 months	3 months – 1 year	1-5 years
2018						
Supplies and Services	220,612	220,612	220,612	-	-	-
Deferred other income	67,991	67,991	-	67,991	-	-
Total	**288,603**	**288,603**	**220,612**	**67,991**	**-**	**-**
2017						
Supplies and Services	210,010	210,010	210,010	-	-	-
Deferred other income	51,695	51,695	-	51,695	-	-
Total	**261,705**	**261,705**	**210,010**	**51,695**	**-**	**-**

5.3 Other non-financial assets

	2018 $	2017 $
CURRENT OTHER ASSETS		
Prepayments	158,026	191,207
Total Current other assets	**158,026**	**191,207**
NON-CURRENT OTHER ASSETS		
Other	-	-
Total Non-current other assets	-	-
Total Other assets	**158,026**	**191,207**

Prepayments represent payments in advance of receipt of goods or services or that part of expenditure made in one accounting period covering a term extending beyond that period.

Notes to the Financial Statements
for the year ended 30 June 2018

5. OTHER ASSETS AND LIABILITIES (CONTINUED)

5.4 Unearned premium liability

	2018 $	2017 $
Unearned premium liability 1 July	42,275,000	45,857,000
Earning of premiums written in previous periods	(32,051,253)	(30,522,871)
Deferral of premium contracts written in period	33,171,002	32,051,253
Unexpired risk liability recognised for year ending 30 June (note 7.5.1)	1,858,251	(5,110,382)
Unearned premium liability 30 June	45,253,000	42,275,000

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 5.5.

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.

Notes to the Financial Statements
for the year ended 30 June 2018

5. OTHER ASSETS AND LIABILITIES (CONTINUED)

5.5 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.

5.5.1 Outstanding Claims Liability

	2018 $	2017 $
Central estimate of claims still to be paid	100,346,000	98,589,000
Discount to present value	(5,824,000)	(5,471,000)
	94,522,000	93,118,000
Present value of claims handling costs	6,380,000	6,285,000
Risk Margin	11,099,000	10,934,000
Gross Outstanding claims liability	112,001,000	110,337,000
Gross Outstanding claims liability – undiscounted	117,825,000	115,807,000
Current	34,405,000	32,695,000
Non-current	77,596,000	77,642,000
Total	112,001,000	110,337,000

	2018	2017
5.5.2 Risk margin applied	11.000%	11.000%

Notes to the Financial Statements
for the year ended 30 June 2018

5. OTHER ASSETS AND LIABILITIES (CONTINUED)

5.5 Outstanding claims liability (continued)

5.5.3 Reconciliation of movement in discounted outstanding claims liability

	2018 $	2017 $
Brought forward	**110,337,000**	**117,379,000**
Increase in claims incurred/recoveries anticipated over the year	**(9,977,702)**	**(23,372,355)**
Incurred claims recognised in the Statement of Comprehensive Income	**41,838,000**	**43,360,000**
Claims payments/recoveries during the year	**(29,843,298)**	**(26,290,645)**
Movement in net present value adjustment	**(353,000)**	**(739,000)**
Carried forward	**112,001,000**	**110,337,000**

5.5.4 Claims Development table ($m)

Policy Year	2014	2015	2016	2017	2018	Total
Estimate of ultimate claim cost						
at end of policy year	39.248	37.066	34.389	35.414	34.129	
one year later	37.750	31.690	29.760	35.364		
two years later	38.716	26.454	27.337			
three years later	36.884	24.585				
four years later	36.880					
current estimate	36.880	24.585	27.337	35.364	34.129	158.294
cumulative payments	-28.233	-14.879	-13.620	-14.999	-3.663	-75.394
undiscounted central estimate	8.646	9.706	13.717	20.365	30.466	82.900
discount						-5.824
inflation to future values						6.219
present value of claims handling expenses						6.380
undiscounted central estimate prior years						11.227
risk margin						11.099
Total Outstanding Claims						**112.001**

Notes to the Financial Statements
for the year ended 30 June 2018

5. OTHER ASSETS AND LIABILITIES (CONTINUED)

5.5 Outstanding claims liability (continued)

5.5.5 Net present value adjustment to outstanding claims

	2018 $	2017 $
Opening Balance	5,471,000	4,732,000
Prior Year	(1,563,000)	(1,221,000)
Current Year	1,916,000	1,960,000
Closing Balance	5,824,000	5,471,000

Notes to the Financial Statements
for the year ended 30 June 2018

6. HOW WE FINANCED OUR OPERATIONS

Introduction

This section provides information on the sources of finance utilised by the Legal Practitioners' Liability Committee during its operations, along with interest expenses (the cost of borrowing) and other information related to financing activities of the LPLC.

Structure

6.1 Cash flow information and balances

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:

	2018 $	2017 $
Cash and Cash Equivalents	16,169,376	12,757,739
Cash Trusts & Deposits	63,090,411	66,015,288
	79,259,787	**78,773,027**

6.1.1 Reconciliation of Operating profit for the year to the net cash flows from operations:

	2018 $	2017 $
Operating profit	11,211,966	29,643,251
Depreciation	71,679	28,857
(Profit)/Loss on sale of property, plant & equipment	-	-
Changes in net market value of investments	(9,805,307)	(7,448,621)
Unexpired Risk Liability	1,858,251	(5,110,382)
Change in assets and liabilities		
Increase/(Decrease) in provision for long service and annual leave	26,416	61,928
(Increase)/Decrease in receivables & prepayments	60,504	1,213,655
Increase/(Decrease) in creditors	290,219	(184,167)
Increase/(Decrease) in premiums received in advance	1,119,748	1,528,382
Increase/(Decrease) in claims outstanding	1,664,000	(7,042,000)
Net cash and cash equivalents provided by operating activities	**6,497,476**	**12,690,903**

The fund has no credit standby arrangements or loan facilities (2017: Nil)

Notes to the Financial Statements
for the year ended 30 June 2018

6. HOW WE FINANCED OUR OPERATIONS (CONTINUED)

6.2 Commitments for expenditure

Commitments for future expenditure include operating capital commitments arising from contracts. These commitments are recorded below at their nominal value and inclusive of GST payable. In addition, where it is considered appropriate and provides additional relevant information to users, the net present values of significant individual projects are stated. These future expenditures cease to be disclosed as commitments once the related liabilities are recognised in the balance sheet.

6.2.1 Total commitments payable

Nominal Amounts	Less than 1 year	1 – 5 years	5+ years	Total
2018				
Operating and lease commitments payable	432,835	1,745,157	205,522	2,383,514
Other commitments payable	237,719	-	-	237,719
Total commitments (inclusive of GST)	**670,554**	**1,745,157**	**205,522**	**2,621,233**
Less GST recoverable				238,294
Total commitments (exclusive of GST)				**2,382,939**
2017				
Operating and lease commitments payable	400,067	1,689,700	647,766	2,737,533
Other commitments payable	229,016	-	-	229,016
Total commitments (inclusive of GST)	**629,083**	**1,689,700**	**647,766**	**2,966,549**
Less GST recoverable				269,686
Total commitments (exclusive of GST)				**2,696,863**

Operating and lease commitments include a property lease which is a non-cancellable lease. The lease is for a 10 year term, with an option for a further 5 years. Rental increases are fixed annually on the anniversary of the commencement date. Figures are inclusive of Goods and Services Tax (GST).

Other commitments payable include an ongoing agreement with Willis Towers Watson for the provision of investment advice.

Notes to the Financial Statements
for the year ended 30 June 2018

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Introduction

The LPLC is exposed to risk from its activities and outside factors. In addition it is necessary to make judgements and estimates associated with recognition and measurement of items in the financial statements. This section sets out financial instrument specific information, (including exposures to financial risks) as well as those items that are contingent in nature or require a higher level of judgement to be applied, which for the LPLC related mainly to fair value determination.

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 utilise the services of our external advisor – Willis Towers Watson. 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 7.1.3 below. There are no significant concentrations of credit risk within the fund.

Structure

7.1 Financial instruments specific disclosures

Introduction

Financial instruments arise out of contractual agreements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Due to the nature of the Fund's activities, certain financial assets and financial liabilities arise under statute rather than a contract. Such financial assets and financial liabilities do not meet the definition of financial instruments in AASB 132 Financial Instruments: Presentation. For example, statutory receivables arising from taxes, fines and penalties do not meet the definition of financial instruments as they do not arise under contract.

Where relevant, for note disclosure, a distinction is made between those financial assets and financial liabilities that meet the definition of financial instruments in accordance with AASB 132 and those that do not.

Notes to the Financial Statements
for the year ended 30 June 2018

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

Categories of financial instruments

Loans and receivables

Loans and receivables are financial instrument assets with fixed and determinable payments that are not quoted on an active market. These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment.

Loans and receivables category includes cash and deposits, term deposits with maturity greater than three months, trade receivables, loans and receivables, but not statutory receivables.

Financial assets and liabilities at fair value through profit and loss.

Financial assets are categorised as fair value through profit or loss at trade date if they are classified as held for trading or designated as such upon initial recognition. Financial instrument assets are designated at fair value through profit and loss on the basis that the financial assets form part of a group of financial assets that are managed by the entity concerned based on their fair values, and have their performance evaluated in accordance with documented risk management and investment strategies.

Financial instruments at fair value through profit and loss are initially measured at fair value and attributable transaction costs are expensed as incurred.

Subsequently, any changes in fair value are recognised in the net result as economic flows. Any dividend or interest on a financial asset is recognised in the net result from transactions.

Financial liabilities at amortised cost

Financial instrument liabilities are initially recognised on the date they are originated. They are initially measured at fair value plus directly attributable transaction costs. Subsequent to initial recognition, these financial instruments are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the interest-bearing liability, using the effective interest rate method.

Notes to the Financial Statements
for the year ended 30 June 2018

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

Derecognition of 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.

Derecognition of financial liabilities

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

Notes to the Financial Statements
for the year ended 30 June 2018

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

7.1.1 Financial Instruments: Categorisation

	Contractual financial assets/liabilities designated at fair value through profit/loss	Contractual financial assets/ liabilities held-for-trading at fair value through profit/loss	Contractual financial assets – loans and receivables and cash	Contractual financial assets – available for sale	Contractual financial liabilities at amortised cost	Total
2018						
CONTRACTUAL FINANCIAL ASSETS						
Cash and deposits	-	-	16,169,376	-	-	16,169,376
Receivables (a)						
Deductibles Receivable & Cost Recovery	-	-	402,967	-	-	402,967
Accrued investment income	-	-	1,004,772	-	-	1,004,772
Investments and other contractual assets						
Term deposits	–	–	63,090,411	-	-	63,090,411
Managed unit trusts	–	–	-	184,817,519	-	184,817,519
Total contractual financial assets	**–**	**–**	**80,667,526**	**184,817,519**	**-**	**265,485,045**
CONTRACTUAL FINANCIAL LIABILITIES						
Payables (a)						
Supplies and services	–	–	–	–	220,612	220,612
Deferred other income	–	–	–	–	67,991	67,991
Total contractual financial liabilities	**–**	**–**	**–**	**–**	**288,603**	**288,603**

Note: (a) The total amounts disclosed here exclude statutory amounts (e.g. amounts owing from Victorian government and GST input tax credit recoverable and taxes payable).

Notes to the Financial Statements

for the year ended 30 June 2018

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

7.1.1 Financial Instruments: Categorisation (continued)

	Contractual financial assets/ liabilities designated at fair value through profit/loss	Contractual financial assets/ liabilities held-for-trading at fair value through profit/loss	Contractual financial assets – loans and receivables and cash	Contractual financial assets – available for sale	Contractual financial liabilities at amortised cost	Total
2017						
CONTRACTUAL FINANCIAL ASSETS						
Cash and deposits	–	–	12,757,739	-	-	12,757,739
Receivables (a)						
Deductibles Receivable & Cost Recovery	–	–	592,041	-	-	592,041
Accrued investment income	–	–	843,021	-	-	843,021
Investments and other contractual assets						
Term deposits	–	–	66,015,288	-	-	66,015,288
Managed unit trusts	–	–		169,092,732	-	169,092,732
Total contractual financial assets	**–**	**–**	**80,208,089**	**169,092,732**	**-**	**249,300,821**
CONTRACTUAL FINANCIAL LIABILITIES						
Payables (a)						
Supplies and services	–	–	–	–	210,009	210,009
Deferred other income	–	–	–	–	51,695	51,695
Total contractual financial liabilities	**–**	**–**	**–**	**–**	**261,704**	**261,704**

Note: (a) The total amounts disclosed here exclude statutory amounts (e.g. amounts owing from Victorian government and GST input tax credit recoverable and taxes payable).

Notes to the Financial Statements
for the year ended 30 June 2018

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

7.1.2 Financial Instruments – Net holding gain/(loss) on financial instruments by category

	Net Holding gain/(loss)	Total interest income/ (expense)	Fee income/ (expense)	Impairment loss	Total
2018					
CONTRACTUAL FINANCIAL ASSETS					
Financial assets designated at fair value through profit/loss	-	-	-	-	-
Financial assets – loans and receivables	-	2,289,895	-	-	2,289,895
Financial assets available-for-sale recognised in net result	9,805,309	-	-	-	9,805,309
Financial assets available for sale recognised in other comprehensive result	-	-	-	-	-
Total Contractual financial assets	**9,805,309**	**2,289,895**	**-**	**-**	**12,095,204**
Contractual financial liabilities	-	-	-	-	-
Financial liabilities at amortised cost	-	-	-	-	-
Total Contractual financial liabilities	**-**	**-**	**-**	**-**	**-**

Notes to the Financial Statements
for the year ended 30 June 2018

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

7.1.2 Financial Instruments – Net holding gain/(loss) on financial instruments by category (continued)

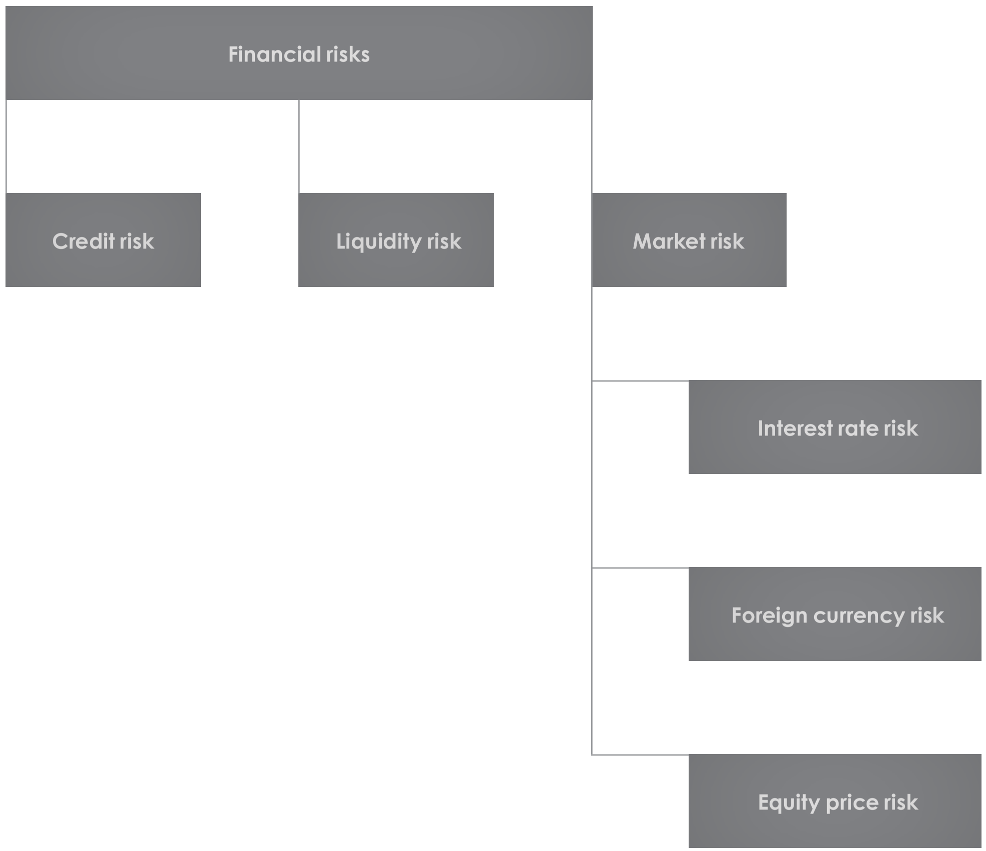
	Net Holding gain/(loss)	Total interest income/ (expense)	Fee income/ (expense)	Impairment loss	Total
2017					
CONTRACTUAL FINANCIAL ASSETS					
Financial assets designated at fair value through profit/loss	-	-	-	-	-
Financial assets – loans and receivables	-	2,725,570	-	-	2,725,570
Financial assets available-for-sale recognised in net result	7,448,621	-	-	-	7,448,621
Financial assets available for sale recognised in other comprehensive result	-	-	-	-	-
Total Contractual financial assets	**7,448,621**	**2,725,570**	**-**	**-**	**10,174,191**
Contractual financial liabilities	-	-	-	-	-
Financial liabilities at amortised cost	-	-	-	-	-
Total Contractual financial liabilities	**-**	**-**	**-**	**-**	**-**

Notes to the Financial Statements
for the year ended 30 June 2018

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

7.1.3 Financial risk management objectives and policies



As a whole the LPLC's financial risk management program seeks to manage these risks and the associated volatility of its financial performance.

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, financial liability and equity instrument above are disclosed in Note 7.3 to the financial statements.

Notes to the Financial Statements
for the year ended 30 June 2018

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

Financial instruments: Credit risk

Credit risk arises from the contractual financial assets of the Fund, which comprise cash and deposits and other financial assets. The Fund's exposure to credit risk arises from potential default of a counter party on their contractual obligations resulting in financial loss to the Fund. Credit risk is measured at fair value and is monitored on a regular basis.

Credit risk associated with the Fund's contractual financial assets is minimal because the main assets are cash at bank and other investments. It is the fund's policy to only deal with entities with high credit ratings.

The Fund has an investment policy detailing controls in regard to credit risk. Any investments in a financial institution must be approved by the Committee. Investments are monitored regularly by management and an external investment advisor and are reported to the Committee on a monthly basis. Any investment deposit or redemption is approved by the Committee.

In addition, the fund does not engage in hedging for its contractual financial assets and has contractual financial assets that are primarily cash at bank but also includes funds invested by the Committee in approved fund managers having considered advice from an independent expert investment advisor.

Financial instruments: Liquidity risk

Liquidity risk arises from being unable to meet financial obligations as they fall due.

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.

Notes to the Financial Statements
for the year ended 30 June 2018

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

Financial instruments: Market risk

The fund is exposed to the risk of market movements in the local and overseas equity markets through its investment in managed unit trusts in these asset classes and are primarily through interest rate risk, foreign currency risk and equity market risk.

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 +.5% or -.25% in market interest rates from year end rates of 1.50%
- A shift of +10% or -10% in the average weighted market value of local equities, overseas equities and local property unquoted unit trusts.

The tables that follow show the impact on the LPLC's net result and equity for each category of financial instrument held by the LPLC at the end of the reporting period, if the above movements were to occur.

Notes to the Financial Statements
for the year ended 30 June 2018

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

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 2018			Fixed Interest maturing in:				
	Weighted Average Interest Rate	Floating Interest Rate	Within Year	1 to 5 Years	Over 5 Years	Non Interest Bearing	Total
Financial Assets:							
Cash	0.59%	16,169,376	-	-	-	-	16,169,376
Receivables	n/a		-	-	-	1,407,739	1,407,739
Units in Managed Funds	n/a	-	-	-	-	184,817,519	184,817,519
Term Deposits	2.60%	-	63,090,411	-	-	-	63,090,411
Total Financial Assets		16,169,376	63,090,411	-	-	186,225,258	265,485,045
Financial Liabilities:							
Creditors – Contractual	n/a	-	-	-	-	220,612	220,612
Outstanding claims	n/a	-	-	-	-	112,001,000	112,001,000
Total Financial Liabilities		-	-	-	-	112,221,612	112,221,612

Notes to the Financial Statements
for the year ended 30 June 2018

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

Interest Rate Risk (continued)

30 June 2017			**Fixed Interest maturing in:**				
	Weighted Average Interest Rate	**Floating Interest Rate**	**Within Year**	**1 to 5 Years**	**Over 5 Years**	**Non Interest Bearing**	**Total**
Financial Assets:							
Cash	0.67%	12,757,739	-	-	-	-	12,757,739
Receivables	n/a		-	-	-	1,435,062	1,435,062
Units in Managed Funds	n/a	-	-	-	-	169,092,732	169,092,732
Term Deposits	2.87%	-	66,015,288	-	-	-	66,015,288
Total Financial Assets		12,757,739	66,015,288	-	-	170,527,794	249,300,821
Financial Liabilities:							
Creditors – Contractual	n/a	-	-	-	-	210,010	210,010
Outstanding claims	n/a	-	-	-	-	110,337,000	110,337,000
Total Financial Liabilities		-	-	-	-	110,547,010	110,547,010

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

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.

Interest rate risk sensitivity

		Interest Rate Risk				Other Price Risk			
2018	**Carrying**	**-0.25%**		**+.5%**		**-10%**		**+10%**	
Financial Assets	Amount	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
Cash and cash equivalents	79,259,787	(198,149)	(198,149)	396,299	396,299				
Units in Managed Funds	184,817,519					(18,481,752)	(18,481,752)	18,481,752	18,481,752
2017	**Carrying**	**-0.25%**		**+.5%**		**-10%**		**+10%**	
Financial Assets	Amount	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
Cash and cash equivalents	78,773,027	(196,933)	(196,933)	393,865	393,865				
Units in Managed Funds	169,092,732					(16,909,273)	(16,909,273)	16,909,273	16,909,273

Notes to the Financial Statements
for the year ended 30 June 2018

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.1 Financial instruments specific disclosures (continued)

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.

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.

7.2 Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the balance sheet but are disclosed and, if quantifiable, are measured at nominal value. at nominal value. Contingent assets and liabilities are presented inclusive of GST receivable or payable respectively.

Contingent Assets

Contingent assets are possible assets that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

There are no contingent assets.

Notes to the Financial Statements
for the year ended 30 June 2018

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.2 Contingent assets and contingent liabilities (continued)

Contingent Liabilities

Contingent liabilities are:

- possible obligations that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- present obligations that arise from past events but are not recognised because:
    - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligations; or
    - the amount of the obligations cannot be measured with sufficient reliability.

There are no contingent liabilities.

7.3 Fair value determination

This section sets out information on how the LPLC determined fair value for financial reporting purposes. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair Value hierarchy

In determining fair values a number of inputs are used. To increase consistency and comparability in the financial statements, these inputs are categorised into three levels, also known as the fair value hierarchy. The levels are as follows:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is observable.

For the purpose of fair value disclosures, Legal Practitioners' Liability Committee has determined classes of assets and liabilities on the basis of nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Notes to the Financial Statements
for the year ended 30 June 2018

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.3 Fair value determination (continued)

7.3.1 Fair value determination of financial assets and liabilities

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 levels:

Level 1 – the fair value of financial instrument with standard terms and conditions and traded in active markets are determined with reference to quoted market prices;

Level 2 – the fair value is determined using inputs other than quoted prices that are observable for the financial asset or liability, either directly or indirectly; and

Level 3 – the fair value is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using unobservable market inputs.

Financial assets measured at fair value

30-Jun-18	**Level 1 $**	**Level 2 $**	**Level 3 $**	**Total $**
FINANCIAL ASSETS				
- Unit in managed funds	149,683,431	35,134,088	-	184,817,519
30-Jun-17				
FINANCIAL ASSETS				
- Unit in managed funds	136,737,134	32,355,598	-	169,092,732

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 4.3.

There have been no transfers between levels during the period.

Notes to the Financial Statements
for the year ended 30 June 2018

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.3 Fair value determination (continued)

7.3.2 Fair value determination: Non-financial physical assets

Fair Value measurement hierarchy

	Fair value measurement at end of reporting period using:		
	Level 1 $	**Level 2 $**	**Level 3 $**
2018			
Furniture & Equipment	–	–	71,672
Leasehold improvements	–	–	30,105
Total assets at fair value			**101,777**
2017			
Furniture & Equipment	–	–	73,216
Leasehold improvements	–	–	17,386
Total assets at fair value			**90,602**

Plant and equipment is held at carrying value (depreciated cost). When plant and equipment is specialised in use, such that it is rarely sold other than as part of a going concern, fair value is determined using the depreciated replacement cost method. Unless there is market evidence that the current replacement costs are significantly different from the original acquisition cost, it is considered unlikely that depreciated replacement cost will be materially different from the carrying value.

There are no changes in valuation techniques throughout the period to 30 June 2018. For all assets measured at fair value, the current use is considered the highest and best use.

Description of significant unobservable inputs to Level 3 valuations

2018 and 2017	Valuation Technique	Significant unobservable
Plant and Equipment	Depreciated Replacement Cost	Useful life of plant and equipment

Notes to the Financial Statements
for the year ended 30 June 2018

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.3 Fair value determination (continued)

Reconciliation of Level 3 fair value movement

	Furniture & Equipment	Leasehold improvements
2018		
Opening balance	73,216	17,386
Purchases (Sales)	28,076	19,410
Depreciation	(29,620)	(6,691)
Revaluation	-	-
Closing Balance	**71,672**	**30,105**

There have been no transfers between levels during the period.

	Furniture & Equipment	Leasehold improvements
2017		
Opening balance	34,618	21,190
Purchases (Sales)	59,335	-
Depreciation	(20,737)	(3,804)
Revaluation	-	-
Closing Balance	**73,216**	**17,386**

Notes to the Financial Statements
for the year ended 30 June 2018

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.4 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.

(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 2018 in excess of $45.0m.

Notes to the Financial Statements
for the year ended 30 June 2018

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.4 Insurance contracts – risk management and procedures (continued)

(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 5.5.4 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.

7.5 Unexpired risk liability

When the amount of the premium pool to be collected for the next insurance year is set, it is 'subsidised' on the basis that a proportion of the accumulated funds are offset against the premium pool which would otherwise have been collected. As a result the unearned premium liability is deficient as at 30 June 2018.

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 5.5.

Notes to the Financial Statements
for the year ended 30 June 2018

7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

7.5 Unexpired risk liability (continued)

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.

7.5.1 Unexpired risk liability

	2018 $	2017 $
Unexpired risk liability as at 1 July	**10,223,747**	**15,334,129**
Recognition of additional unexpired risk liability in the period	**1,858,251**	**(5,110,382)**
Unexpired risk liability as at 30 June	**12,081,998**	**10,223,747**

7.5.2 Calculation of deficiency

	2018 $	2017 $
Unearned premium liability relating to insurance contracts	**33,171,001**	**32,051,253**
Central estimate of present value of expected future cash flows arising from future claims	**39,523,000**	**36,922,000**
Risk Margin of 14.5%	**5,730,000**	**5,353,000**
	45,253,000	**42,275,000**
Net deficiency	**12,081,998**	**10,223,747**

The process of determining the overall risk margin is discussed in Note 7.4. As with outstanding claims the overall risk margin is intended to achieve a 75% probability of adequacy.

Notes to the Financial Statements
for the year ended 30 June 2018

8. OTHER DISCLOSURES

Introduction

This section includes additional material disclosures required by accounting standards or otherwise, for the understanding of the financial report.

Structure

8.1 Reserves

	2018 $	2017 $
Accumulated Funds at the beginning of the year	95,223,684	65,580,433
Operating Profit/(loss) for the year	11,211,966	29,643,251
Accumulated Funds at the end of the year	**106,435,650**	**95,223,684**

8.2 Remuneration of auditors

	2018 $	2017 $
VICTORIAN AUDITOR-GENERAL'S OFFICE		
- auditing or reviewing the financial report	46,300	45,300
- other services	-	-
Total remuneration of auditors	**46,300**	**45,300**

Notes to the Financial Statements
for the year ended 30 June 2018

8. OTHER DISCLOSURES (CONTINUED)

8.2 Remuneration of auditors (continued)

Audit fees paid or payable to the Victorian Auditor-General's Office for audit of the Fund's financial report:

	2018 $	2017 $
Paid as at 30 June	20,000	10,000
Payable as at 30 June	26,300	35,300
	46,300	45,300

8.3 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 Responsible Minister, Committee Member and Accountable Officer in the Fund are as follows:

Attorney General	The Hon. Martin Pakula, MP	1 July 2017 to 30 June 2018
Accountable Officer/ Committee Member	Ms Miranda Milne	1 July 2017 to 31 December 2017
Accountable Officer	Mr Nicholas J Toohey	1 January 2018 to 30 June 2018
Committee Member	Ms Patricia Kelly	1 July 2017 to 30 June 2018
Committee Member	Ms Helen Thornton	1 July 2017 to 30 June 2018
Committee Member	Mr John Corcoran	1 July 2017 to 30 June 2018
Committee Member	Ms Catriona Lowe	1 July 2017 to 30 June 2018
Committee Member	Mr John Cain	1 July 2017 to 30 June 2018
Committee Member	Mr Adrian Finanzio	1 July 2017 to 30 June 2018

Notes to the Financial Statements
for the year ended 30 June 2018

8. OTHER DISCLOSURES (CONTINUED)

8.3 Responsible persons (continued)

Remuneration

Remuneration received or receivable by the Responsible Minister, Committee member and Accountable Officer in connection with the management of the Legal Practitioners' Liability Committee during the reporting period was in the range:

$	2018 No.	2017 No.
0 - 9,999 (a)	1	1
10,000 -19,999	-	-
20,000 - 29,999	-	-
30,000 - 39,999	4	4
40,000 - 49,999	-	-
50,000 - 59,999	1	1
390,000 - 399,999	1	-
400,000 - 410,000	1	1
Total numbers	**8**	**7**

(a) Remuneration received by John Cain for the year is $nil.

Amounts relating to Ministers are reported in the financial statements of the Department of Premier and Cabinet. For information regarding related party transactions of ministers, the register of members' interests is publicly available from: www.parliament.vic.gov.au/publications/register-of-interests.

Notes to the Financial Statements
for the year ended 30 June 2018

8. OTHER DISCLOSURES (CONTINUED)

8.4 Remuneration of executives

The number of executive officers, other than ministers, and their total remuneration during the reporting period are shown in the table below. Total annualised employee equivalents provides a measure of full time equivalent executive officers over the reporting period.

Remuneration comprises employee benefits in all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered, and is disclosed in the following categories:

Short-term employee benefits include amounts such as wages, salaries, annual leave or sick leave that are usually paid or payable on a regular basis, as well as non-monetary benefits such as allowances and free or subsidised goods and services.

Post-employment benefits include pensions and other retirement benefits paid or payable on a discrete basis when employment has ceased.

Other long-term benefits include long service leave, other long service benefits or deferred compensation.

Termination benefits include termination of employment payments, such as severance packages.

Remuneration of executive officers (including Key Management Personnel disclosed in Note 8.5)	**Total Remuneration** **2018** **$**	**2017** **$**
Short-term employee benefits	2,059,369	2,007,358
Post-employment benefits	165,182	159,344
Other long-term benefits	31,145	30,789
Termination benefits	-	-
Total Remuneration	**2,255,696**	**2,197,491**
Total number of executives	**15**	**14**
Total Annualised employee equivalents	**14.6**	**13.6**

Notes:

(a) The total number of executive officers includes persons who meet the definition of Key Management Personnel (KMP) of the entity under AASB 124 Related Party Disclosures and are also reported within the related parties note disclosure (Note 8.5).

(b) Annualised employee equivalent is based on the time fraction worked over the reporting period.

Notes to the Financial Statements
for the year ended 30 June 2018

8. OTHER DISCLOSURES (CONTINUED)

8.5 Related parties

The Legal Practitioners' Liability Committee (LPLC) is a statutory authority established under the Legal Profession Act 2004 (from 1 July 2015 The Legal Profession Uniform Law Application Act 2014).

Related parties of the Legal Practitioners' Liability Committee include:

- all key management personnel and their close family members and personal business interests (controlled entities, joint ventures and entities they have significant influence over); and
- all cabinet ministers and their close family members.

Key Management personnel of the Legal Practitioners' Liability Committee includes the Attorney General, the Hon. Martin Pakula MP and members of the LPLC and senior executive team, which includes:

Chief Executive Officer	Mr Nicholas J Toohey
Committee Member	Ms Patricia Kelly
Committee Member	Ms Helen Thornton
Committee Member	Mr John Corcoran
Committee Member	Ms Catriona Lowe
Committee Member	Mr John Cain
Committee Member	Mr Adrian Finanzio

The compensation detailed below excludes the salaries and benefits the Portfolio Minister receives. The Minister's remuneration and allowances is set by the Parliamentary Salaries and Superannuation Act 1968 and is reported within the Department of Parliamentary Services' financial report.

	Total Remuneration	
	2018	**2017**
Compensation of KMP's	**$**	**$**
Short-term employee benefits	615,849	545,572
Post-employment benefits	38,749	35,051
Other long-term benefits	6,582	6,394
Termination benefits	-	-
Total Compensation:	**661,181**	**587,017**

Notes: (a) Note that KMP's are also reported in the disclosure of remuneration of executive officers (note 8.4)

Notes to the Financial Statements
for the year ended 30 June 2018

8. OTHER DISCLOSURES (CONTINUED)

8.5 Related parties (continued)

Transactions and balances with key management personnel and other related parties

Transactions between related parties are on normal commercial terms and conditions unless otherwise stated.

Members of Key Management personnel and their related parties who are practising solicitors and barristers are required, pursuant to the Legal Profession Uniform Law Application Act 2014, to enter into a contract of insurance, on standard terms and conditions, with the Legal Practitioners' Liability Committee.

Ms Patricia Kelly is also a director of the RACV Limited. During the year the Legal Practitioners'Liability Committee hired conference facilities on normal commercial terms and conditions from the RACV Limited. The amount paid for conference facility hire was $32,600 including GST.

In the ordinary course of business LPLC provides Committee members with a Deed of Indemnity. The Deed indemnifies the Committee member against all liabilities, penalties, losses, damages, expenses and costs that the member may sustain or incur in the capacity of a member of the Committee.

8.6 Subsequent events

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

Notes to the Financial Statements
for the year ended 30 June 2018

8. OTHER DISCLOSURES (CONTINUED)

8.7 Actuarial 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 5 complete policy years were assumed to apply to solicitor and barrister claims outstanding at 30/6/18.

Development Year	Ultimate claims incurred as % ofcurrent estimate	Payments to end of year, as % of ultimate claims
0	77%*	11.0%
1	79.7%	39.0%
2	86.1%**	59.1%
3	93.1%**	72.6%
4	98.0%	81.6%
5	100.0%	87.7%
6	100.0%	91.8%
7	100.0%	94.5%
8	100.0%	96.3%
9	100.0%	97.5%

* Ratio of ultimate incurreds for development year 0 includes 25% weight given to average costs per practitioner equivalent.

** Ultimate incurreds for the 2015 and 2016 policy years have been set to 100% in light of the current low claims incurred in those years.

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

- Discount rates based explicitly on medium term Commonwealth bond yields
- Claim administration expenses of 6.75% of net claim payments based on forecasted expenses of LPLC
- Wage inflation based explicitly on Victorian AWE and state government forecasts.

Notes to the Financial Statements
for the year ended 30 June 2018

8. OTHER DISCLOSURES (CONTINUED)

8.7 Actuarial assumptions and methods (continued)

Claims incurred estimates are made by applying the above claims incurred development ratios to current claims incurred data and applying wage inflation and payment patterns. Outstanding claims at 30 June 2018 are estimated by deducting payments to date.

Gross payments in 2017-18 for solicitors are estimated by determining an average, inflation adjusted claim incurred estimate per principal equivalent from the last 5 complete policy years and applying to expected incurred principals in 2017-18.

Gross payments in 2017-18 for barristers are estimated as a ratio of solicitor incurreds.

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

The calculations used to estimate outstanding claim and unexpired premium liabilities for solicitors were repeated as at each prior balance date back to 31 December 1987 and compared with the actual outcomes estimated at 30 June 2018. 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 are assumed to have a standard deviation of 14% and the premium liabilities a standard deviation of 36%.

Sensitivity analysis as at 30/6/18

Risk Variable	Base	Altered	Outstanding claims ($m)	Premium liability ($m)
Discount rate (% pa)	2.00%	3.00%	-2.461	-1.120
	2.00%	1.00%	2.611	1.191
Claim administration expenses (% of claims)	6.75%	7.75%	0.945	
	6.75%	5.75%	-0.945	
Wage inflation (% pa)	3.00%	4.00%	4.574	2.060
	3.00%	2.00%	-4.327	-1.846
“Regular” solicitor claims per principal equivalent	3,710	3,640	0.645	2.426
	3,710	3,010	-0.645	-2.426
“Large” claims ($m)	$10.4m	$9.0m		-1.412

Notes to the Financial Statements
for the year ended 30 June 2018

8. OTHER DISCLOSURES (CONTINUED)

8.7 Actuarial assumptions and methods (continued)

Sensitivity analysis as at 30/6/17

Risk Variable	Base	Altered	Outstanding claims ($m)	Premium liability ($m)
Discount rate (% pa)	2.00%	3.00%	-2.462	-1.105
	2.00%	1.00%	2.612	1.176
Claim administration expenses (% of claims)	6.75%	7.75%	0.931	
	6.75%	5.75%	-0.931	
Wage inflation (% pa)	3.00%	4.00%	2.682	1.185
	3.00%	2.00%	-2.597	-1.198
"Regular" solicitor claims per principal equivalent	3,450	3,925	0.804	3.024
	3,450	3,100	-0.593	-2.229
"Large" claims ($m)	$11.2m	$9.0m		-2.316

Under AASB 1023 17.7.1(b)(i), the insurer has to disclose sensitivity to insurance risk. The above table gives the changes in central estimates for changes in various risk variables.

Notes to the Financial Statements
for the year ended 30 June 2018

8. OTHER DISCLOSURES (CONTINUED)

8.8 Australian Accounting Standards issued that are not yet effective

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

A number of Australian Accounting Standards, which have been issued or amended and are not yet effective have not been adopted for the annual reporting period ended 30 June 2018.Their details are disclosed below.

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector financial statements
AASB 4 Insurance Contracts	The key change is the requirement for the measurement of all insurance contracts on a discounted cash flow basis, using market based estimations.	1 Jan 2018	The assessment has indicated that there will be no significant impact from the changes to AASB 4.
AASB 9 Financial Instruments	The key changes include the simplified requirements for the classification and measurement of financial assets, a new hedging accounting model and a revised impairment losses model to recognise impairment losses earlier, as opposed to the current approach that recognises impairment only when incurred.	1 Jan 2018	The assessment has identified that the amendments are likely to result in earlier recognition of impairment losses and at more regular intervals. While there will be no significant impact arising from AASB 9, there will be a change to the way financial instruments are disclosed.

Notes to the Financial Statements
for the year ended 30 June 2018

8. OTHER DISCLOSURES (CONTINUED)

8.8 Australian Accounting Standards issued that are not yet effective (continued)

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector financial statements
AASB 15 *Revenue from Contracts with Customers*	The core principle of AASB 15 requires an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer.	1 Jan 2018	The changes in revenue recognition requirements in AASB 15 may result in changes to the timing and amount of revenue recorded in the financial statements. The Standard will also require additional disclosures on service revenue and contract modifications.
AASB 2015-8 Amendments to Australian Accounting Standards - Effective date of AASB 15	This standard defers the mandatory effective date of AASB 15 from 1 January 2017 to 1 January 2018.	1 Jan 2018	This amending standard will defer the application period of AASB 15 for for-profit entities to the 2018-19 reporting period in accordance with the transition requirements.

Notes to the Financial Statements
for the year ended 30 June 2018

8. OTHER DISCLOSURES (CONTINUED)

8.8 Australian Accounting Standards issued that are not yet effective (continued)

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector financial statements
Australian Accounting Standards - clarifications to AASB 15	This Standard amends AASB 15 to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence. The amendments require: - A promise to transfer to a customer a good or service that is 'distinct' to be recognised as a separate performance obligation; - For items purchased online, the entity is a principal if it obtains control of the good or service prior to transferring to the customer; and - For licences identified as being distinct from other goods or services in a contract, entities need to determine whether the licence transfers to the customer over time (right to use) or at a point in time (right to access).	1 Jan 2018	The assessment has indicated that there will be no significant impact for the public sector, other than the impact identified for AASB 15 above.

Notes to the Financial Statements
for the year ended 30 June 2018

8. OTHER DISCLOSURES (CONTINUED)

8.8 Australian Accounting Standards issued that are not yet effective (continued)

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector financial statements
AASB 2014-1 Amendments to Australian Accounting Standards [Part E Financial Instruments]	Amends various AASs to reflect the AASB's decision to defer the mandatory application date of AASB 9 to annual reporting periods beginning on or after 1 January 2018 as a consequence of Chapter 6 Hedge Accounting, and to amend reduced disclosure requirements.	1 Jan 2018	This amending standard will defer the application period of AASB9 to the 2018-19 reporting period in accordance with the transition requirements.
AASB 16 *Leases*	The key changes introduced by AASB 16 include the recognition of most operating leases (which are currently not recognised) on balance sheet.	1 Jan 2019	The assessment has indicated that as most operating leases will come on balance sheet, recognition of lease assets and lease liabilities will cause net debt to increase. Depreciation of lease assets and interest on lease liabilities will be recognised in the income statement with marginal impact on the operating surplus. The amounts of cash paid for the principal portion of the lease liability will be presented within financing activities and the amounts paid for the interest portion will be presented within operating activities in the cash flow statement. No change for lessors.

Notes to the Financial Statements
for the year ended 30 June 2018

8. OTHER DISCLOSURES (CONTINUED)

8.8 Australian Accounting Standards issued that are not yet effective (continued)

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector financial statements
AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9	Amends various AASs to incorporate the consequential amendments arising from the issuance of AASB 9.	1 Jan 2018	The assessment has indicated that there will be no significant impact for the public sector.
AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15	Amends the measurement of trade receivables and the recognition of dividends. Trade receivables, that do not have a significant financing component, are to be measured at their transaction price, at initial recognition. Dividends are recognised in the profit and loss only when: - the entity's right to receive payment of the dividend is established - it is probable that the economic benefits associated with the dividend will flow to the entity; and - the amount can be measured reliably.	1 Jan 2017, except amendments to AASB 9 (Dec 2009) and AASB 9 (Dec 2010) apply from 1 Jan 2018	The assessment has indicated that there will be no significant impact for the public sector.

Notes to the Financial Statements
for the year ended 30 June 2018

8. OTHER DISCLOSURES (CONTINUED)

8.8 Australian Accounting Standards issued that are not yet effective (continued)

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector financial statements
AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities	This Standard defers the mandatory effective date of AASB 15 for not-for-profit entities from 1 January 2018 to 1 January 2019.	1 Jan 2019	This amending standard will defer the application period of AASB 15 for not-for-profit entities to the 2019-20 reporting period.
AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities	This Standard amends AASB 9 and AASB 15 to include requirements to assist not-for-profit entities in applying the respective standards to particular transactions and events. The amendments: - require non-contractual receivables arising from statutory requirements (i.e. taxes, rates and fines) to be initially measured and recognised in accordance with AASB 9 as if those receivables are financial instruments; and - clarifies circumstances when a contract with a customer is within the scope of AASB 15.	1 Jan 2019	The assessment has indicated that there will be no significant impact for the public sector, other than the impacts identified for AASB 9 and AASB 15 above.

Notes to the Financial Statements
for the year ended 30 June 2018

8. OTHER DISCLOSURES (CONTINUED)

8.8 Australian Accounting Standards issued that are not yet effective (continued)

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector financial statements
AASB 1058 Income of *Not-for-Profit Entities*	This standard replaces AASB 1004 Contributions and establishes revenue recognition principles for transactions where the consideration to acquire an asset is significantly less than fair value to enable to not-for-profit entity to further its objectives.	1 Jan 2019	The assessment has indicated that revenue from capital grants that are provided under an enforceable agreement that have sufficiently specific obligations, will now be deferred and recognised as performance obligations are satisfied. As a result, the timing recognition of revenue will change.
AASB 17 *Insurance Contracts*	The new Australian standard eliminates inconsistencies and weaknesses in existing practices to provide a single principle-based framework to account for all types of insurance contracts, including reissuance contract that an insurer holds. It also provides for presentation and disclosure to enhance comparability between entities. This standard does not apply to not-for-profit public sector entities. The AASB is undertaking further outreach to consider the application of this standard to the not-for-profit public sector.	1 Jan 2021	The assessment has indicated that there will be no significant impact for the public sector. It is expected that the impact from the introduction of AASB17 will be minimal and primarily in the nature of additional disclosures. Further analysis of the impact of AASB 17 on LPLC will be undertaken as guidance and advice is received.

Notes to the Financial Statements
for the year ended 30 June 2018

8. OTHER DISCLOSURES (CONTINUED)

8.9 Glossary

Amortisation is the expense that results from the consumption, extraction or use over time of a non-produced physical or intangible asset.

Commitments include those operating, capital and other outsourcing commitments arising from non-cancellable contractual or statutory sources.

Depreciation is an expense that arises from the consumption through wear or time of a produced physical or intangible asset.

Effective interest method is the method used to calculate the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, where appropriate, a shorter period.

Employee benefits expenses include all costs related to employment including wages and salaries, fringe benefits tax, leave entitlements, redundancy payments, defined benefits superannuation plans, and defined contribution superannuation plans.

Financial asset is any asset that is:

(a) cash;

(b) an equity instrument of another entity;

(c) a contractual right:

- to receive cash or another financial asset from another entity; or
- to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or

(d) a contract that will or may be settled in the entity's own equity instruments and is:

- a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
- a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Notes to the Financial Statements
for the year ended 30 June 2018

8. OTHER DISCLOSURES (CONTINUED)

8.9 Glossary (continued)

Financial liability is any liability that is:

(a) a contractual obligation:

- to deliver cash or another financial asset to another entity; or
- to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

(b) a contract that will or may be settled in the entity's own equity instruments and is:

- a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
- a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

Financial statements in the Model Report comprises:

(a) a balance sheet as at the end of the period;

(b) a comprehensive operating statement for the period;

(c) a statement of changes in equity for the period;

(d) a cash flow statement for the period;

(e) notes, comprising a summary of significant accounting policies and other explanatory information;

(f) comparative information in respect of the preceding period as specified in paragraph 38 of AASB 101 Presentation of Financial Statements; and

(g) a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 41 of AASB 101.

Notes to the Financial Statements
for the year ended 30 June 2018

8. OTHER DISCLOSURES (CONTINUED)

8.9 Glossary (continued)

Leases are rights to use an asset for an agreed period of time in exchange for payment. Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and rewards incidental to ownership. Leases of infrastructure, property, plant and equipment are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership from the lessor to the lessee. All other leases are classified as operating leases.

Net result is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those classified as 'other non-owner movements in equity'.

Payables includes short and long-term trade debt and accounts payable, grants, taxes and interest payable.

Receivables include amounts owing from government through appropriation receivable, short and long-term trade credit and accounts receivable, accrued investment income, grants, taxes and interest receivable.

Contact details
Legal Practitioners' Liability Committee
Level 31, 570 Bourke Street
Melbourne VIC 3000
DX 431
ABN: 45 838 419 536
Telephone: (03) 9672 3800
Facsimile: (03) 9670 5538
Website: www.lplc.com.au

LEGAL PRACTITIONERS' LIABILITY COMMITTEE