Legal Practitioners' Liability Committee

Annual Report

2014/15

LEGAL PRACTITIONERS' LIABILITY COMMITTEE

Serving the profession

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 Act 2004* (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 Act 2004.*

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.

Contents

From the Chairman

Next year, LPLC reaches another milestone – 30 years as the professional indemnity insurer for Victorian legal practices and the insurer to many national law firms. What started out as an experiment in 'self-insurance' for legal practitioners, became a model soon followed in all other states, except Tasmania. LPLC was one of the first 'self-insurers' in the common law world and indeed remains the only statutory insurer of legal practitioners.

2015 also marks the tenth year Victorian barristers have been insured with LPLC and over that period the premium they have paid has reduced by an average of 50 per cent.

During the reporting period there have also been some significant changes to the composition of LPLC.

Helen Thornton, who commenced as an LPLC member on 1 July 2014, is a chartered accountant and brings financial and governance skills to the LPLC.

Following the retirement of Mary Radisich after 15 years' service as the member representing consumers, Catriona Lowe was appointed during 2014/15 by the Legal Services Board and her term begins on 1 July 2015. Catriona has had a long involvement with a number of consumer organisations.

This is my final report as Chairman of LPLC following my decision to resign after the end of the 2015 financial year as a member of the Committee. I joined the Committee in 2007, shortly before the impact of the global financial crisis. This was at a time when it was anticipated there would be significant economic consequences for Australia and in particular, a fall in the property market. LPLC's past experience indicates that a falling property market would inevitably lead to an increase to the number and cost of claims. Fortunately, this did not eventuate as Australia fared better than other countries.

I have thoroughly enjoyed my time with the Committee, including the challenges faced by the Investment Committee of which I have been a member since 2007. Other challenges included an increasingly complex legal environment which has had consequences for the management of professional risks and claims.

I thank my fellow Committee members for their support and the CEO, Miranda Milne, and her team for their work during my tenure.

Geoff Rees
Chairman

From the CEO

The 2014/15 year brought some pleasing results, with a decline in both the number and cost of claims, after a spike in the 2013/14 year.

That spike was as a result of an unusually high cost of conveyancing matters which occurred during that year. This reporting year has seen a significant decline in the cost of conveyancing claims but there has been an increase in the cost of claims arising out of commercial matters.

Claims costs against barristers was unusually high in the 2014/15 year, principally due to a very small number of expensive claims. This is a small pool of practitioners, with a relatively low number of claims incurred in any one year. This small pool, combined with a low number of claims, does lead to some volatility in cost.

LPLC continued its risk management activities and this year visited firms with significant claims histories to assist them to improve their performance.

Members of the claims team continued in their endeavours to achieve timely processing of claims. The team was expanded this year with the addition of another experienced litigation solicitor.

Investment returns were strong but the current low interest environment is likely to produce modest returns in the future after the very strong returns of the last five years.

I thank Geoff Rees, in this his final year as Chairman and as a member of LPLC, for his work and support of the LPLC management team.

Miranda Milne
Chief Executive Officer

Claims – Solicitors

Of the total cost of claims against solicitors, 75 per cent usually arises from property and conveyancing, commercial transactions, mortgages and commercial litigation.

Of these four areas, an increase was experienced in claims arising out of commercial transactions – well above average. There were a number of claims arising out of mergers and acquisitions, and capital raisings. Some of these claims are class actions, where insured firms are but one of many parties to litigation.

Drafting errors in building contracts were another area of peril in the commercial area.

It was pleasing to see a reduction in the cost of conveyancing claims from the high level of the 2013/14 year. During the reporting period, there were a number of claims arising from intra-family transfers and gifts, where elderly parents transfer property to the next generation and later allege they did so under duress.

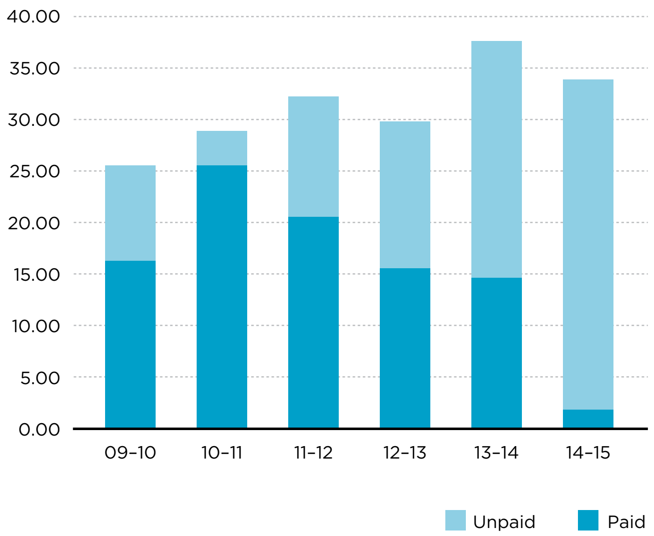
Defective section 32 statements were once more a common error, followed by errors arising out of subdivisions. There was an unusually high number of claims arising out of errors and uncertainties about liability to pay GST in property transactions.

In the area of commercial litigation, most claims arose out of litigants who were dissatisfied with settlements or the outcome of litigation. Other claims arose out of failure to issue proceedings in time or where firms receive counterclaims when suing for costs. There were also a number of claims arising from personal costs orders made by the court – an increasing exposure for solicitors.

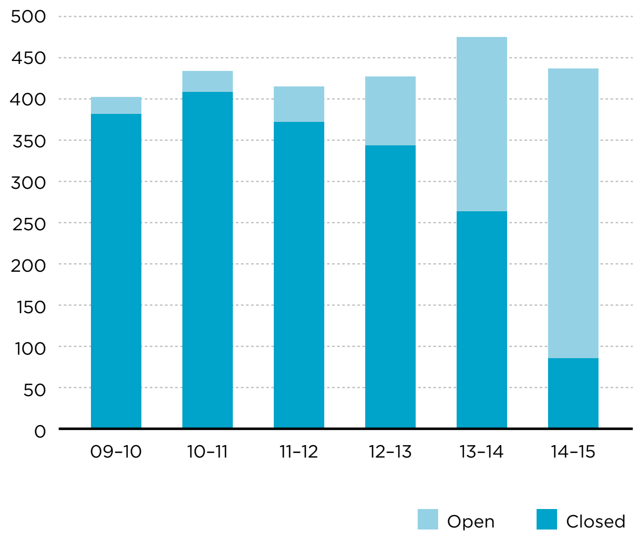
The cost of claims arising out of mortgages was well below average. Claims were dominated by practices acting for mortgagees who either obtained inadequate security or failed or delayed in registering mortgages and caveats.

While matters arising from family law accounted for a relatively modest five per cent of the cost of claims, this was almost twice the average cost of past years. Claims arising out of alleged failure to adequately advise parties of the consequences of entering into binding financial agreements were a feature of claims experience in this area of practice.

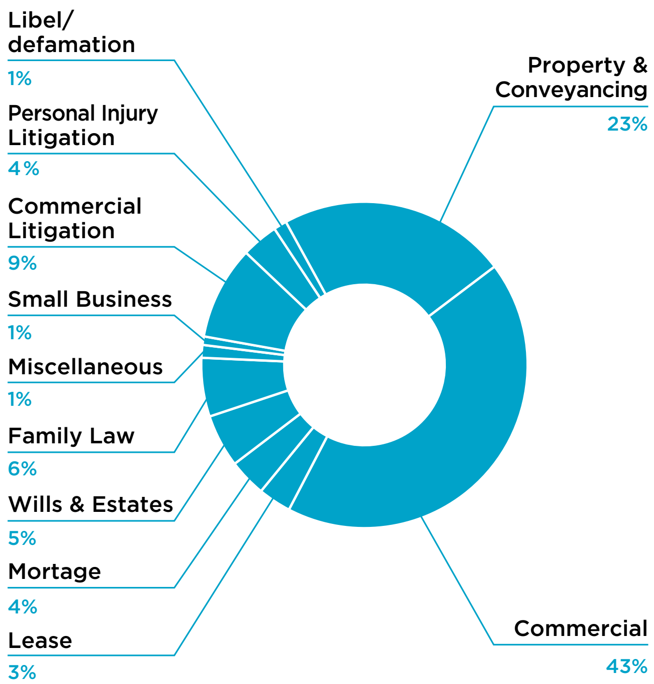
SOLICITOR: COST OF PAID AND UNPAID CLAIMS 2009–2015 ($M)



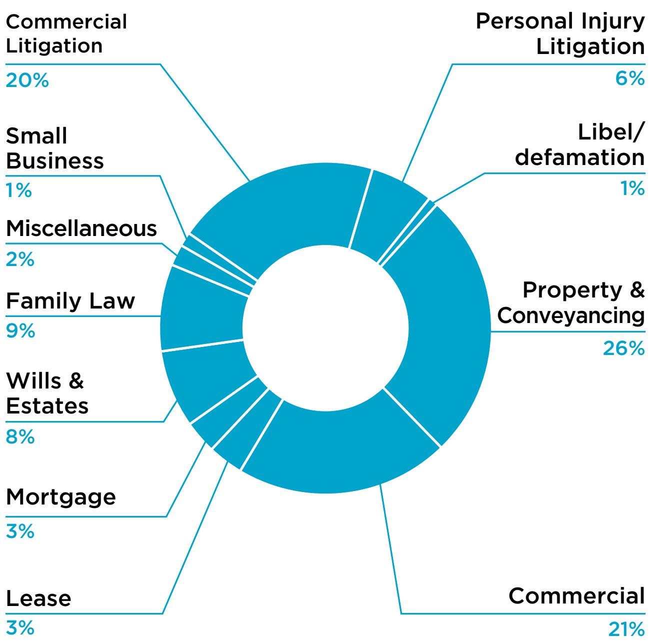
SOLICITOR: NUMBER OF OPEN AND CLOSED FILES 2008–2015



SOLICITORS: PERCENTAGE COST OF CLAIMS BY AREA OF PRACTICE 2014/15



SOLICITORS: PERCENTAGE NUMBER OF CLAIMS BY AREA OF PRACTICE 2014/15



Claims – Barristers

Over the 10 years in which LPLC has insured barristers, the claims experience has been moderate. However, in the reporting year there was a significant increase in the number and cost of claims.

The policy year closed with 55 reported claims and notifications with an incurred value of $2.84 million. This relatively high incurred cost came off a low average base over the previous nine years. The size of the barristers' pool is relatively small, so there is volatility from year to year. Many of the notifications were of a precautionary nature.

Experienced barristers (being barristers of more than 15 years seniority) handling commercial litigation matters accounted for most claims and notifications, measured by both number and cost. Within this practice area, there are some recurrent themes.

The largest proportion of claims arose from criticisms of the barrister's evaluation of strength and weaknesses of a client's claim or defence. In some cases, there were allegations that a particular claim or defence proceeded without adequate advice of the risk of failure. In others, there were allegations that had proper advice been given, the client would have made a decision not to commence or defend litigation. In other cases, clients claimed they could have been extricated from the dispute at an earlier time in the proceeding, prior to judgment being given or at an earlier time during the litigation on more advantageous terms.

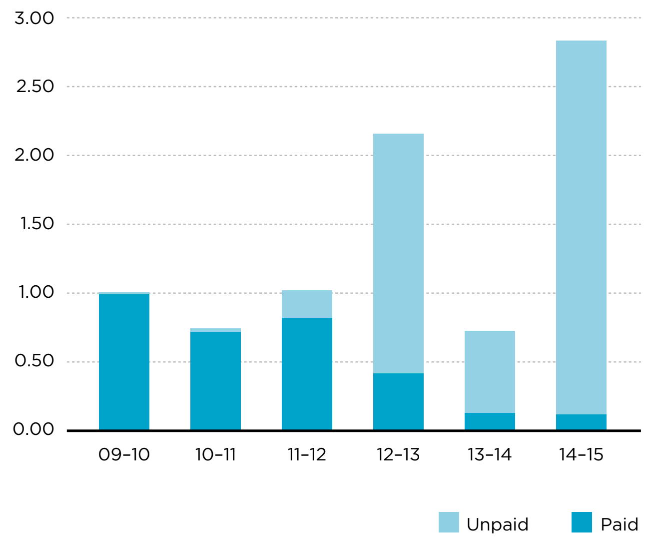
Other claims arising from the conduct of litigation included allegations and deficiencies in pleadings and non-compliance with the rules of procedure. These matters often resulted in personal costs applications against barristers.

A growing area is the pursuit of remedies against barristers alleging breach of overarching obligations under *the Civil Procedure Act 2010* (Vic). Such claims were often initiated by the court or the opposing party, rather than by clients. These can be particularly sensitive because of the impact on reputation accompanying these applications.

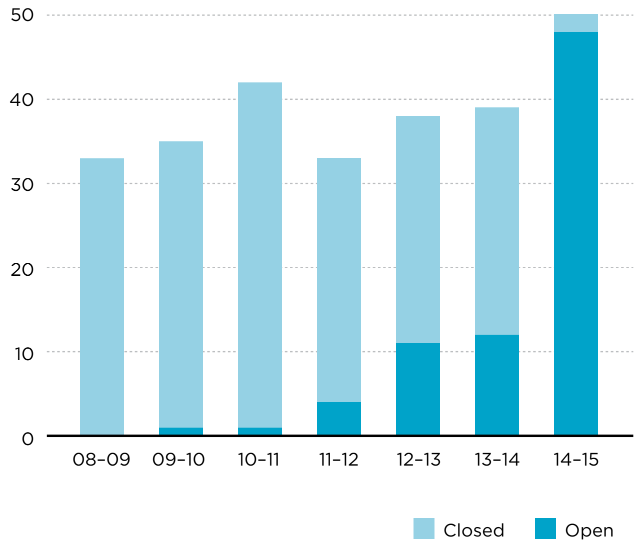
Disputes arising from settlement of litigation featured prominently, more so with family and commercial disputes than from personal injury litigation. Most of these claims involved allegations that barristers pressured clients into settling a case for less than it was worth. Other claims arose from failure to seek the required court approval and from failure to advise clients of tax issues arising out of settlements.

Dissatisfied and serial litigants continue to occupy a significant proportion of the cost and number of claims in the reporting period. These claims are difficult to dispose of quickly and are often brought against a number of barristers who may have represented or have been opposed to the litigant over a period of time.

BARRISTERS: COST OF PAID AND UNPAID CLAIMS 2009–2015 ($M)



BARRISTERS: NUMBER OF OPEN AND CLOSED FILES 2008–2015



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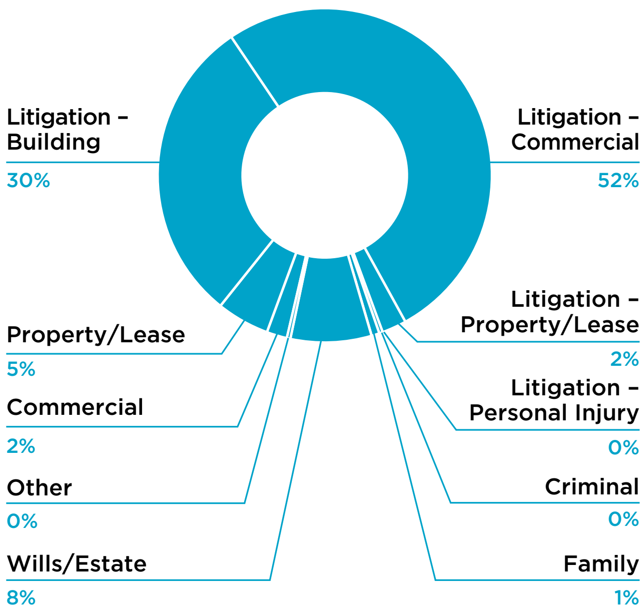

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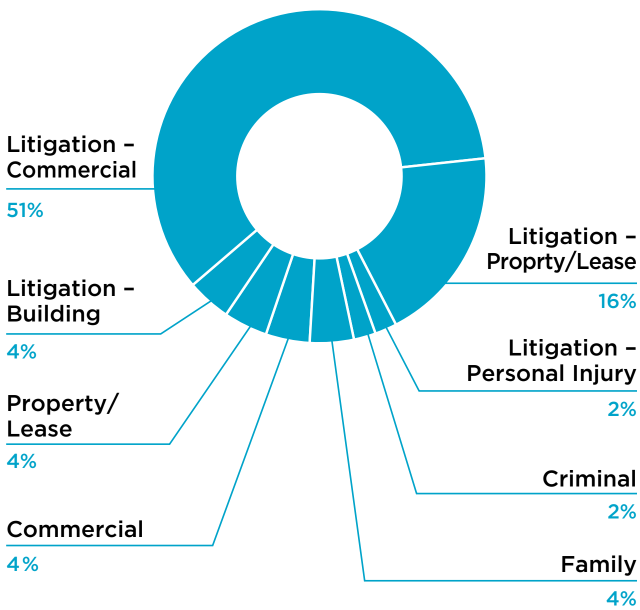


Risk Management

LPLC's Risk Management team provides information and mitigating strategies to assist practitioners avoid risks and minimise their exposure to claims.

The team provides a range of educational resources and forums, publications and presentations as well as enhancing LPLC's online presence and offering ongoing assistance to our insured practitioners.

Summary of 2014/15

- 2014 Risk Management Intensive, Melbourne: 652 attendees | 3 workshops
- Legal Business Essentials Series: 12 workshops | 329 attendees
- 2015 Regional Risk Management Tour: 564 attendees | 11 regional centres
- External Speaking Engagements: 41
- Weekly Risk Management Blogs: 46
- Risk Video Bites: 4
- In Check: 4
- Bulletins: 2
- Law Institute Journal Articles: 11
- Practice Risk Guides: 4 revised
- Presenter's workbooks: 1 new and 6 revised
- Checklists: 4 new and 1 revised
- At risk firm reviews: 6
- Welcome and new starter kit.

Seminars

Locations LPLC seminar held in 2014/15

2014 Risk Management Intensive

The Risk Management Intensive workshops were held in Melbourne in late July and early August. The presenters included LPLC and industry experts. The same program was conducted on three separate days to maximise the opportunity for practitioners to attend.

The topics covered were:

- Looking after mum: the deals that families do
- Ethical dilemmas
- Stand and deliver – handing files over
- Ten time limits that might surprise you
- Detecting deception
- Commercial litigation: managing the client and the case
- Old mistakes and new laws – risk management for property lawyers.

The sessions were recorded and a complimentary DVD sent to those who attended. The DVD is also available for purchase from the LPLC website.

2014 and 2015 Legal Business Essentials

In November 2014, and again in April 2015, LPLC ran its six half-day Legal Business Essentials workshops. The program was a repetition of the successful series run in early 2014 and was designed to develop crucial skills and knowledge to assist practitioners build and manage a successful legal practice. Three hundred and twenty-nine registrations were received for the Melbourne-based sessions over the six days.

The topics were:

- Managing matters
- How much will it cost? Estimating costs effectively
- Conscious communication: how to strengthen relationships and avoid getting sued
- Business strategy and drivers of profitability
- Managing and developing your people: risks and benefits
- Will you take the case? Managing work intake and risks throughout the retainer.

2015 Regional Risk Management Tour

Half-day seminars were held in 11 regional centres across Victoria from late April to early June. The presentations were given by the LPLC risk managers and were tailored to the specific needs of regional practitioners.

The topics were:

- Wills and (real) estate: seeing the big picture
- On your engagement: making clients happy.

The seminars were held in:

- Bairnsdale
- Ballarat
- Bendigo
- Geelong
- Horsham
- Mildura
- Mt Eliza
- Shepparton
- Traralgon
- Wangaratta
- Warrnambool.

External speaking engagements

Over the 2014/15 year LPLC experts attended 41 external speaking engagements delivering presentations on wide-ranging topics from risk management and the Personal Property and Securities Act to potential pitfalls for ‘P plate’ practitioners and electronic conveyancing.

LPLC staff spoke at the following locations/events:

- The College of Law – 13
- Leo Cussen Institute – 3
- Law Institute of Victoria-related – 2
- Law firms – 10
- Other legal forums and interest groups – 12.

Publications

Blogs

LPLC’s weekly risk management blog discussed current or recurring risk management themes and was emailed directly to over 900 subscribers as well as being posted on the LPLC website. The blogs covered topics ranging from audit checklists and caveats to risk registers and the new national mortgage form.

Risk Video Bites

To complement our newsletters, bulletins, seminars and weekly blogs we developed and filmed five three-to-four minute risk video bites on important and timely risk management issues to assist practitioners in claims prevention. During the policy year we published four bites on our website and notified practitioners by email.

The topics published were:

- Intra-family transfers: risks of intra-family transfers
- Who are you actually acting for?
- Solicitor's certificates: why are you borrowing the money?
- Useable trail: fail to record at your own peril.

In Check

LPLC's quarterly online newsletter, In Check, covered topics to assist practitioners stay informed about important developments affecting their professional risk. Four issues were published in 2014/15.

The newsletter covered a range of subjects including:

- LPLC's upcoming training seminars
- Changes to the franchising code of conduct, FIRB approval, section 32 statements and terms contracts
- Common GST queries
- Cyber crime
- Family provisions
- Power of attorney changes
- PPSA matters
- Wills.

Bulletins and announcements

During the reporting period LPLC published two bulletins to alert practitioners about developments of particular significance in professional risk.

The bulletins were:

- Urgent LPLC Warning: New ID law means mortgages could be void
  - » Released on 24 September 2014 and re-released as a reminder on 8 October 2014
- LPLC Bulletin: Amended section 32 statement
  - » Released on 25 September 2014.

Law Institute Journal articles

LPLC published 11 articles in the Law Institute Journal in 2014/15. The articles provided readers with in-depth risk management advice for all aspects of legal practice.

The topics included:

- Self-managed super funds
- Foreign investment traps
- Intra-family transfers
- Section 32 statements
- The importance of file notes.

Practice risk guides

LPLC's practice risk guides are a series of booklets that identify and explain key risks for specific areas of practice. During the reporting period LPLC revised the following four guides:

- Looking after leases
- Commercial litigation – stay alert
- Weatherproofing wills and estates
- Claim-free conveyancing.

Presenter's workbooks

LPLC revised six of its comprehensive presenter's workbooks to accompany the training videos on the LPLC website as well as developing one new workbook.

Checklists

During the financial year LPLC published four new checklists on its website as well as revising the Risk Management audit checklist.

The four new checklists were:

- Key risk checklist – Solicitor's certificates for borrowers or surety providers
- Sale of land – questions for the vendor
- Property websites
- List of firm policies.

LPLC website

The LPLC website continued to provide practitioners easily accessible, timely and useful information about policies and premiums, the claims process, renewing insurance and risk management. It is extremely well patronised, with more than 59,000 users.

Firm projects

At risk firm reviews

During 2014/15 LPLC visited firms with significant claims experience to assist them with their risk management strategies. The aim of this project was to improve the claims experience of these firms by establishing reasons why claims have occurred and implementing steps to prevent claims in the future. The reports have been delivered to these firms and the project will continue in 2015/16.

Welcome and new starter kit

As a new initiative during the policy year a welcome email with information about LPLC was sent to practitioners newly insured with LPLC within a month of them taking their insurance. Topics covered in the welcome email were:

- The difference between LPLC, VLSBC and LIV
- LPLC website
- Insurance policies, premiums and renewals
- Claims
- Risk management resources.

This project will continue in 2015/16.

Other activities

Hotlines

LPLC provides practitioners three premium services to answer their specific practice area questions.

The GST Hotline is a risk management initiative that has been providing practitioners with expert advice on client-related GST enquiries since 1999. LPLC's PPS Hotline answers practitioners' client-related Personal Property and Securities Act questions and the Water Hotline answers practitioners' client-related water unbundling questions.

Informal helpline

Our risk and claims teams continue to answer practitioners' enquires and requests for assistance. On average, we responded to over 18 queries per week.

Investments

The 2014/15 year returned a strong investment return of 7.55 per cent. The fund continued to be invested as a balanced fund, with an average allocation of approximately 60 per cent to growth assets and 40 per cent to cash.

Within its growth portfolio, the Legal Practitioners Liability Fund maintained its relatively low exposure to Australian equities in favour of international equities. Returns on international equities were enhanced by a falling Australian dollar.

LPLC diversified its investment portfolio during the reporting period, investing in four new funds, giving LPLC exposure to emerging markets and creating more diversity among managers and growth assets.

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 Management
- Schroder Emerging Markets Fund
- Real Index Global Share Fund
- Schroder Real Return Fund
- Vanguard International Shares Index Fund

Property

- Dexus Wholesale Property Fund

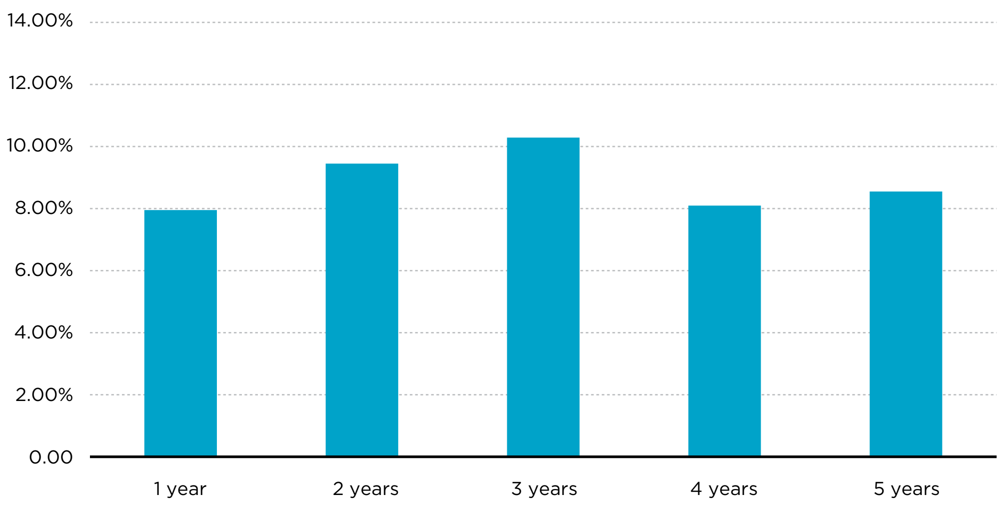
Interest bearing growth alternatives

- Colonial First State Wholesale Global Credit Income Fund

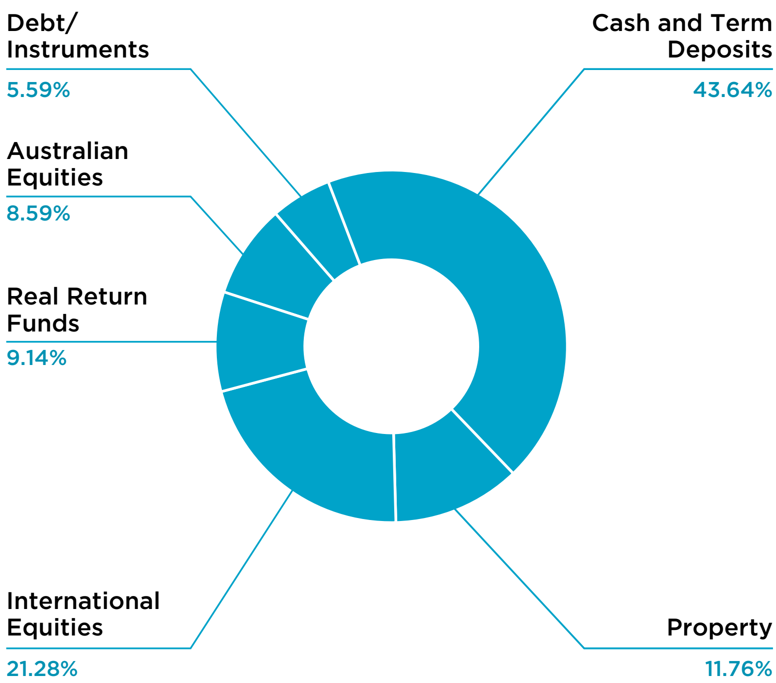
Cash

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

AVERAGE INVESTMENT RETURN OVER FIVE YEARS (%)



ASSET ALLOCATION 2015



Legal Practitioners' Liability Committee

Legal Practitioners' Liability Committee Members

Geoffrey Rees
Chairman

Geoff is a graduate from Melbourne University in law and commerce and is a Law Institute of Victoria accredited business law specialist. He is one of the founding partners of the JRT Partnership.

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

Geoff is an author for Business Law and General Counsel modules of LexisNexis Practical Guidance.

Geoff was appointed Chair of Sietel Limited in February and retired as the Chair of the Advisory Board of Melbourne University Sport at the end of his extended term, which was also in February.

He is also the Representative Director of the University of Melbourne on Uniseed, a $60M preseed technology commercialisation fund of three leading Australian universities. The fund invests in research outcomes from the institutes and manages the early stages of the commercialisation of that research.

Peter Fox QC
Committee Member

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

John Corcoran
Committee Member

John has a Bachelor of Laws (Monash) and Bachelor of Economics (Monash) as well as being an Accredited Specialist in Business Law (Law Institute of Victoria).

John is Chairman of Russell Kennedy. John's areas of practice are commercial property, retirement villages and aged care, business law and securities law.

John is a Recipient of Centenary Medal for services to Australian society and to the law, and in addition to his position as a LPLC committee member he was on the Legal Service Board from 2005 to 2010 and again in 2013.

John has been a member of the Mercy Health and Aged Care Board since 2011. He has also been Law Council of Australia President in 2009, Law Institute of Victoria President 2001/02 as well as an Honorary Life Member 2011 and an International Bar Association, London Board Member from 2009 to 2012.

John has been named in Best Lawyers' 2013 'Lawyer of the Year' for Retirement Villages and Senior Living Law and has also been recognized in Best Lawyers' for expertise in Real Property Law.

Mary Radisich
Committee Member

Mary was formerly the Financial Councillor with Southern Peninsula Community Information Centre and previously at Casey Cardinia Legal Service.

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

Mary was manager of the Dispute Settlement Centre of Victoria and her community involvement has included being a councillor of the City of Knox and a member of the Board of the Angliss Hospital. She was also a member of the Financial and Consumer Rights Council of Victoria for many years.

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 Ltd and of RACV Limited and subsidiary companies.

Helen Thornton
Committee Member (commenced 1 July 2014)

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 16 years' experience as a non-executive director and is an experienced Chair of Audit and Risk Committees. She is currently on the board of Big Sky Building Society, an APRA regulated entity and the Zoological Parks and Gardens Board and is an independent member of the Risk & Audit Committee of the Department of Environment, Land, Water and Planning. She is a former board member of Rural Finance Corporation.

Miranda Milne
Executive Member

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

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

Miranda has been a director of the Victorian Managed Insurance Authority and a trustee of the Melbourne Cricket Ground. She was also a member of the executive of the Trinity College Foundation. She sits on the Appeals Committee of the Royal Australasian College of Surgeons.

Organisational chart

Legal Practitioners' Liability Committee

COMMITTEE
Geoff Rees Chairman
Peter Fox QC
Patricia Kelly
Mary Radisich
John Corcoran
Helen Thornton
FROM 1 JULY 2014
Miranda Milne CEO

AUDIT AND RISK COMMITTEE
Patricia Kelly
Chairman
Mary Radisich
Helen Thornton

INVESTMENT COMMITTEE
John Corcoran
Chairman
Geoff Rees
Peter Fox QC
Miranda Milne

REMUNERATION AND APPOINTMENTS COMMITTEE
Patricia Kelly
Chairman
Geoff Rees

Legal Practitioners' Liability Committee Staff

CHIEF EXECUTIVE OFFICER
Miranda Milne

DEPUTY CHIEF EXECUTIVE OFFICER
Justin Toohey

RISK MANAGEMENT
Heather Hibberd
Matthew Rose
Phillip Nolan
Sophie Patten
Kelly Cooper
Kristy Fuga

ADMINISTRATION
Bernadette Mallia
Terri Hedt

FINANCE
Martin Dohnt

CLAIMS
Justin Toohey
Alex Macmillan
Bronwyn Hine
Josh Clutterbuck
Prue Campton

PERSONAL ASSISTANTS
Jenny Aitken
Jackie Miller
Barbara McKay
Kathy Greenwood

RECEPTIONIST
Inge Gallery

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 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 Patricia Kelly (Chairman), Mary Radisich and Helen Thornton.

The Audit and Risk Committee oversees:

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

The Investment Committee comprised of John Corcoran (Chairman), Geoff Rees, Peter Fox QC and Miranda Milne.

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 (Chairman) and Geoff Rees.

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
Geoff Rees	10	10			5	5	2	2
Peter Fox QC	10	9			5	5		
John Corcoran	10	9			5	4		
Mary Radisich	10	8	4	4				
Patricia Kelly	10	9	4	4			2	2
Helen Thornton	10	10	4	4				
Miranda Milne	10	10			5	5		

Legal Practitioners' Liability Committee Staff

Miranda Milne
Chief Executive Officer

The Committee began its operations in January of 1986. Miranda was solicitor to the Committee from May 1986 until October 1996 and has been the Chief Executive Officer since that time.

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

Justin Toohey
Deputy Chief Executive Officer

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

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

Alex Macmillan
Claims Solicitor

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

Bronwyn Hine
Claims Solicitor

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

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

Josh Clutterbuck
Claims Solicitor

Josh joined LPLC in October 2013 after 11 years 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.

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.

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 the Committee on secondment in 1999. She became a permanent member of staff in 2001.

Matthew Rose
Risk Manager

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

Phillip Nolan
Risk Manager

Phil joined LPLC in February 2013 and was formerly a principal at SBA Law. He is chair of the Property Law Committee and PELS Executive and a member of the Dispute Resolution Committee at the LIV as well as chair of the Estate Agents Council and the Growth Areas Infrastructure Contribution Hardship Relief Board.

Phil is a Senior Fellow of the University of Melbourne where he lectures in Property Law to postgraduates and Owned Environments to undergraduates in the Faculty of Architecture, Building and Planning.

On 18 November 2011 Phil received the Law Institute of Victoria Certificate of Service Award.

Martin Dohnt
Chief Financial Officer

Martin joined LPLC as Chief Financial Officer in December 2013 and manages the accounting, finance and payroll functions. Martin previously worked in the financial services industry where he held senior finance management positions in credit unions and friendly societies.

Supplementary information

Legislation administered by the Committee

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

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

Financial management regulations

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

Whistleblowers policy statement

Policy

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 246 of the *Legal Practice Act 1996* and section 6.6.13 of the *Legal Profession Act 2004*.

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*.

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 no requests 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. Three 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. The CEO conducts an annual performance review of her respective direct reports.

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

2013/14

Position	Male	Female	Total
Chief Executive Officer		1	1
Chief Financial Officer *(from 09/12/13)*	1		1
Financial Controller *(until 024/01/14)*		1	1
Claims Manager	2	2	4
Risk Manager	2	1	3
Officer Manager		1	1
Insurance Manager		1	1
Communications Manager		1	1
Receptionist/PA		5	5
Total	**5**	**13**	**18**

2014/15

Position	Male	Female	Total
Chief Executive Officer		1	1
Chief Financial Officer	1		1
Claims Manager	2	3	5
Risk Manager	2	1	3
Officer Manager		1	1
Insurance Manager		1	1
Communications Manager		1	1
Receptionist/PA		7	7
Total	**5**	**15**	**20**

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 2014/15 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 60,041 kWh compared to 53,501 kWh in 2013/14 and the energy used per unit of office area 85.16 compared to 86.29 in 2013/14. kWh of energy used per FTE was 4002.

The 2015/16 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 0.98 tonnes of paper in the reporting period which contributed to a reduction in greenhouse gas emissions of more than 1.34 tonnes of carbon over 2014/15.

Units of paper used per FTE (A4 reams/FTE) – 25.

The target for the 2015/16 year is to reduce the paper consumption by at least 10 per cent compared to 2014/15, 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 section 3.5.5 of the *Legal Profession Act 2004* provides:

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

Consultants

LPLC engages a number of external consultants each year to provide specialist advice to assist with decision making and risk management programs. During 2014/15 total consultancy expenditure as defined by the *Financial Management Act 1994* (Vic) was approximately $387,935.

Taylor Fry – Actuaries

Taylor Fry is LPLC's actuary. The expenditure for the reporting period was $171,779. Taylor Fry has been retained as LPLC's actuary for the 2015/16 reporting period.

Cumpston Sarjeant – Actuaries

LPLC also obtains actuarial advice from Cumpston Sarjeant. The consulting fee paid to this firm for the reporting period was $46,800. Cumpston Sarjeant has been retained for the 2015/16 reporting period.

Towers Watson – from December 2013

Towers Watson is LPLC's Fund Administrator. The expenditure for the reporting period was $169,356. Towers Watson has been retained for the 2015/16 reporting period.

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 Fund

Financial Report

For the Financial Year Ended 30 June 2015

Statement of Comprehensive Income

for the Financial Year Ended 30 June 2015

	Note	2015 $	2014 $
UNDERWRITING			
Premium revenue	24	26,627,249	24,733,537
Outwards reinsurance expense		(1,128,600)	(1,147,068)
Net earned premiums		25,498,649	23,586,469
Claims expense		(48,702,325)	(47,349,184)
Net claims incurred	25	(48,702,325)	(47,349,184)
Movement in unexpired risk liability	26	1,685,641	(1,073,586)
UNDERWRITING RESULT		**(21,518,035)**	**(24,836,301)**
Investment income	3	15,491,479	22,941,768
Other income		155,536	162,956
Other expenses	7	(5,653,969)	(5,367,319)
Net Result		**(11,524,989)**	**(7,098,896)**
Other Comprehensive Income		-	-
Total Comprehensive Income		**(11,524,989)**	**(7,098,896)**

Notes to and forming part of these financial statements are set out in pages 32 to 64

Balance Sheet

as at 30 June 2015

	Note	2015 $	2014 $
Current Assets			
Cash and cash equivalents		16,766,753	25,718,621
Receivables	4	1,263,745	2,201,170
Other financial assets	5	84,985,943	66,509,687
Prepayments		1,469,475	1,474,506
Total Current Assets		**104,485,916**	**95,903,984**
Non-Current Assets			
Other financial assets	5	131,701,979	134,811,581
Property, plant & equipment	6	62,468	67,568
Total Non-Current Assets		**131,764,447**	**134,879,149**
TOTAL ASSETS		**236,250,363**	**230,783,133**
Current Liabilities			
Outstanding claims liability	27	39,393,000	35,117,000
Payables	8a	1,104,864	651,860
Unearned premium liability	8b	44,804,000	42,531,000
Provisions	9	477,899	443,898
Total Current Liabilities		**85,779,763**	**78,743,758**
Non-Current Liabilities			
Outstanding claims liability	27	89,192,000	79,248,000
Provisions	9	24,554	12,340
Total Non-Current Liabilities		**89,216,554**	**79,260,340**
TOTAL LIABILITIES		**174,996,317**	**158,004,098**
NET ASSETS		**61,254,046**	**72,779,035**
EQUITY			
Accumulated funds	10	61,254,046	72,779,035
TOTAL EQUITY		**61,254,046**	**72,779,035**

Notes to and forming part of these financial statements are set out in pages 32 to 64

Cash Flow Statement

for the Financial Year Ended 30 June 2015

	Note	2015 $	2014 $
Cash flows from operating activities			
Premium revenue received		33,669,768	29,413,729
Other Income		158,441	190,851
Dividend Received		868,586	1,260,874
Interest Received		3,284,851	2,848,743
Other Income from Investments		7,444,635	3,004,757
Claims paid		(36,147,092)	(29,390,741)
Outward reinsurance premium paid		(1,072,170)	(2,275,668)
Payments to suppliers and employees		(6,778,693)	(7,666,887)
Net cash provided by/(used in) operating activities	2b	**1,428,326**	**(2,614,341)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(27,902)	(55,768)
(Purchase)/sale of investments		8,123,965	8,132,400
Net cash provided by/(used in) investing activities		**8,096,063**	**8,076,632**
Net increase in cash held		**9,524,389**	**5,462,290**
Cash and cash equivalents at beginning of period		**92,228,307**	**86,766,017**
Cash and cash equivalents at end of period	2a	**101,752,696**	**92,228,307**

Notes to and forming part of these financial statements are set out in pages 32 to 64

Statement of Changes In Equity

for the Financial Year ended 30 June 2015

	Note	Accumulated Funds $	Total $
At 30 June 2013		79,877,931	79,877,931
Comprehensive result for the year		(7,098,896)	(7,098,896)
At 30 June 2014		72,779,035	72,779,035
Comprehensive result for the year		(11,524,989)	(11,524,989)
At 30 June 2015	10	**61,254,046**	**61,254,046**

Notes to and forming part of these financial statements are set out in pages 32 to 64

Notes to the Financial Statements

for the year ended 30 June 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The reporting entity is the Legal Practitioners' Liability Committee (LPLC). The Legal Practitioners' Liability Committee is a statutory authority established under what is 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.

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

The 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.

Critical Accounting Judgements and Estimates

The fund makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates are applied are described below.

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 22.

Consistent with AASB 13 Fair Value Measurement, all assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 unobservable.

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.

The financial report is presented in Australian dollars.

Statement of Comprehensive Income

The statement of comprehensive income comprises three components, being 'net result', 'other comprehensive income' and 'total comprehensive income'. The net result is equivalent to profit or loss derived in accordance with AASs.

Balance Sheet

Assets and liabilities are presented in liquidity order with assets aggregated into financial assets and non-financial assets. Current and non-current assets and liabilities (non-current being those assets or liabilities expected to be recovered or settled more than 12 months after the reporting period) are disclosed in the notes, where relevant.

Cash Flow Statement

Cash flows are classified according to whether or not they arise from operating, investing or financing activities. This classification is consistent with requirements under AASB 107 Statement of Cash Flows. For cash flow statement presentation purposes, cash and cash equivalents include bank overdrafts, which are included as current borrowings on the balance sheet.

Statement of Changes in Equity

The statement of changes in equity presents reconciliations of non-owner and owner changes in equity from opening balances at the beginning of the reporting period to the closing balance at the end of the reporting period. It also shows separately changes due to amounts recognised in the Comprehensive result' and amounts related to 'Transactions with owner in its capacity as owner'.

Rounding

Amounts in the financial statements have been rounded to the nearest dollar unless otherwise stated. Figures in the financial statements may not equate due to rounding.

(b) Statement of Compliance

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

A number of Australian Accounting Standards, which have been issued or amended and are not yet effective have not been adopted for the annual reporting period ended 30 June 2015. Their details are disclosed below.

Notes to the Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector financial statements
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	Subject to AASB's further modifications to AASB 9, together with the anticipated changes resulting from the staged projects on impairments and hedge accounting, details of impacts will be assessed.
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 2017	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. A potential impact will be the upfront recognition of revenue from licenses that cover multiple reporting periods. Revenue that was deferred and amortised over a period may now need to be recognised immediately as a transitional adjustment against the opening returned earnings if there are no former performance obligations outstanding.
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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 - Clarification of Acceptable Methods of Depreciation and Amortisation.	Amends AASB 116 Property, Plant and Equipment and AASB 138 Intangible Assets to: • establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of future economic benefits of an asset. • prohibit the use of revenue-based methods to calculate the depreciation or amortisation of an asset, tangible or intangible, because revenue generally reflects the pattern of economic benefits that are generated from operating the business, rather than the consumption through the use of the asset.	1 Jan 2016	The assessment has indicated that there is no expected impact as the revenue-based method is not used for depreciation and amortisation.
AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)	These consequential amendments are in relation to the introduction of AASB 9.	1 Jan 2017	No significant impact is expected from these consequential amendments on entity reporting.
AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)	This Standard gives effect to consequential changes arising from the issuance of AASB 9 (December 2014).	1 Jan 2018	No significant impact is expected from these consequential amendments on entity reporting.
AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	This Standard amends AASB 101 to provide clarification regarding the disclosure requirements in AASB 101. Specifically, the Standard proposes narrow-focus amendments to address some of the concerns expressed about existing presentation and disclosure requirements and to ensure entities are able to use judgement when applying a Standard in determining what information to disclose in their financial statements.	1 Jan 2016	No significant impact is expected from these consequential amendments on entity reporting.

Notes to the Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector financial statements
AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality	This Standard completes the withdrawal of references to AASB 1031 in all Australian Accounting Standards and Interpretations, allowing that Standard to effectively be withdrawn.	1 Jan 2015	No significant impact is expected from these consequential amendments on entity reporting.

(c) Changes in accounting policies

Subsequent to the 2013-14 reporting period, the following new and revised Standards have been adopted in the current period with their financial impact detailed as below.

AASB 10 Consolidated Financial Statements

AASB 10 provides a new approach to determine whether an entity has control over an entity, and therefore must present consolidated financial statements. The new approach requires the satisfaction of all three criteria for control to exist over an entity for financial reporting purposes:

(a) The investor has power over the investee;

(b) The investor has exposure, or rights to variable returns from its involvement with the investee; and

(c) The investor has the ability to use its power over the investee to affect the amount of investor's returns.

Based on the new criteria prescribed in AASB 10, the LPLC has concluded that there is no impact to financial statements from the implementation of AASB 10.

AASB 11 Joint Arrangements

In accordance with AASB 11, there are two types of joint arrangements, i.e. joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of the arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportionate consolidation of joint ventures is no longer permitted.

The LPLC does not engage in joint operations or joint ventures, as such there is no impact to the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

AASB 12 Disclosure of Interests in Other Entities

AASB 12 Disclosure of Interests in Other Entities prescribes the disclosure requirements for an entity's interests in subsidiaries, associates, joint arrangements and extends to the entity's association with unconsolidated structured entities.

LPLC does not have interests in other entities, as such there is no impact to the financial statements.

The application of these revised standards primarily impact disclosure requirements and have not had a material effect on the reported figures.

(d) Premium

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

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

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

(e) Outwards Reinsurance

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

The Legal Practitioners Liability Fund carries a stop loss insurance policy to cover the payment of total claims made during the year ended 30 June 2015 in excess of $42.5m (2014:$42.5m).

(f) Outstanding Claims Liability

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

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

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

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

Notes to the Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Unexpired Risk Liability

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

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

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.

(h) Property, Plant and Equipment & Intangibles

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. More details about the valuation techniques and inputs used in determining the fair value of non-financial physical assets are discussed in Note 6 Property, plant and equipment.

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

Impairment

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

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

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

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

Impairment losses are recognised in the Statement of Comprehensive Income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation and Amortisation

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

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

The depreciation rates used 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

(i) Employee Benefits

Provision is made for the Fund's liability for employee benefits arising from services rendered by employees to balance date.

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.

Depending on the expectation of the timing of settlement, liabilities for wages and salaries, annual leave and sick leave are measured at:

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

Long Service Leave

Liability for long service leave (LSL) is recognised in the provision for employee benefits.

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:

- nominal 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.

Notes to the Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Termination Benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee decides to accept on offer of benefits in exchange for the termination of employment. Termination benefits are recognised when the Legal Practitioners Liability Committee is demonstrably committed to either terminating the employment of current employees according to a formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

On-Costs

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

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

(j) Cash and cash equivalents

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

(k) 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 or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(l) Other Financial Assets

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

Net market values have been determined as follows:

1. Units in managed equity funds by reference to the unit redemption price at the end of the reporting period 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Asset backing general insurance liabilities

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

With the exception of property plant and equipment, the fund has determined that other financial assets are held to back general insurance liabilities and their accounting treatment is described in note 1(l). 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.

(n) Financial Instruments

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.

The following refers to financial instruments unless otherwise stated.

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.

Notes to the Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(o) Derecognition of financial assets and financial liabilities

(i) Financial Assets

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

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

(ii) Financial liabilities

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

(p) 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.

(q) 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.

(r) Investment Income

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Receivables

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

(t) Payables

Payables consist of:

- contractual payables, such as accounts payable, and unearned income. 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, such as goods and services tax and fringe benefits tax payables.

Contractual payables are classified as financial instruments and categorised as financial liabilities at amortised cost (refer Note 1(n)). Statutory payables 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 a contract.

(u) Commitments

Commitments for future expenditure include operating capital commitments arising from contracts. These commitments are disclosed by way of a note (refer to Note 13 Commitments and Contingencies) 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.

(v) Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the balance sheet, but are disclosed by way of a note (refer to Note 14 Contingent Asset/Liabilities) and, if quantifiable, are measured at nominal value. Contingent assets and liabilities are presented inclusive of GST receivable or payable respectively.

(w) Prepayments

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 (continued)

		2015 $	2014 $

2 RECONCILIATION OF CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks, bank bills and investments in term deposits. Cash and cash equivalents at end of the financial year as shown in the cash flow statement is reconciled to items in the Balance Sheet as follows:

		2015 $	2014 $
2(a)	Cash and Cash Equivalents	16,766,753	25,718,621
	Cash Trusts & Deposits	84,985,943	66,509,687
		101,752,696	**92,228,308**
2(b)	Reconciliation of Operating profit for the year to the net cash flows from operations.		
	Operating profit	(11,524,989)	(7,098,896)
	Depreciation	33,003	33,446
	(Profit)/Loss on sale of property, plant & equipment	-	-
	Changes in net market value of investments	(5,014,362)	(14,985,924)
	Insurance Recovery recognised	-	-
	Unexpired Risk Liability	(1,685,641)	1,073,586
	Change in assets and liabilities		
	Increase/(Decrease) in provision for long service and annual leave	46,215	84,478
	(Increase)/Decrease in receivables & prepayments	942,455	(2,280,747)
	Increase/(Decrease) in creditors	453,004	(672,696)
	Increase/(Decrease) in premiums received in advance	3,958,641	1,984,414
	Increase/(Decrease) in claims outstanding	14,220,000	19,247,998
	Net cash and cash equivalents provided by operating activities	**1,428,326**	**(2,614,341)**

2(c) The fund has no credit standby arrangements or loan facilities (2014: Nil)

3 INVESTMENT INCOME

	2015 $	2014 $
Net fair value gains on financial assets at fair value through profit or loss	5,014,362	14,985,924
Other Income	6,507,752	3,850,102
Dividend Income	868,586	1,260,874
Interest Income	3,100,779	2,844,868
	15,491,479	22,941,768

	2015 $	2014 $

4 RECEIVABLES

	2015 $	2014 $
CURRENT		
Deductibles Receivable & Cost Recovery	239,100	55,570
Accrued Income	1,024,645	2,145,600
	1,263,745	2,201,170

5. OTHER FINANCIAL ASSETS

	2015 $	2014 $
CURRENT		
Cash Trusts, Bank bills & Term Deposits	84,985,943	66,509,687
	84,985,943	66,509,687
NON CURRENT		
Unquoted Unit Trusts		
- Overseas Equities	49,732,577	51,725,469
- Property Fund	27,477,076	37,695,750
- Australian Equities	33,128,951	45,390,363
- Diversified Funds	21,363,375	-
	131,701,979	134,811,581

6. NON - FINANCIAL ASSETS

	2015 $	2014 $
PROPERTY, PLANT AND EQUIPMENT		
Furniture & equipment:		
At Fair Value	195,182	171,665
Accumulated depreciation	(157,708)	(128,430)
	37,474	43,235
Leasehold Improvements:		
At Fair Value	105,607	101,222
Accumulated depreciation	(80,613)	(76,889)
	24,994	24,333
Total	**62,468**	**67,568**
DEPRECIATION		
Furniture & equipment	29,279	25,150
Leasehold improvements	3,724	8,296
Intangibles	-	-
	33,003	33,446

Notes to the Financial Statements (continued)

6. NON - FINANCIAL ASSETS (continued)

MOVEMENT IN THE CARRYING AMOUNTS

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

2015	Furniture Equipment $	Leasehold Improvements $	Intangibles $	Total $
Balance at the Beginning of the year	43,235	24,333	-	67,568
Additions	23,518	4,385	-	27,903
Disposals	-	-	-	-
Depreciation Expense	(29,279)	(3,724)	-	(33,003)
Carrying amount at the end of the year	37,474	24,994	-	62,468

2014	Furniture Equipment $	Leasehold Improvements $	Intangibles $	Total $
Balance at the Beginning of the year	37,991	7,256	-	45,246
Additions	35,095	25,374	-	60,469
Disposals	(4,701)	-	-	(4,701)
Depreciation Expense	(25,150)	(8,296)	-	(33,446)
Carrying amount at the end of the year	43,235	24,333	-	67,568

Fair value measurement hierarchy for assets as at 30 June 2015

Fair value measurement at end of reporting period using:

	Level 1 $	Level 2 $	Level 3 $
Furniture & Equipment	-	-	37,474
Leasehold improvements	-	-	24,994
Total assets at fair value			**62,468**

Fair value measurement hierarchy for assets as at 30 June 2014

Fair value measurement at end of reporting period using:

	Level 1 $	Level 2 $	Level 3 $
Furniture & Equipment	-	-	43,235
Leasehold improvements	-	-	24,333
Total assets at fair value			**67,568**

6. NON - FINANCIAL ASSETS (continued)

Reconciliation of Level 3 fair value as at 30 June 2015

	Furniture & Equipment	Leasehold improvements
Opening balance	43,235	24,333
Purchases (Sales)	23,518	4,385
Depreciation	(29,279)	(3,724)
Revaluation		
Closing Balance	37,474	24,994

There have been no transfers between levels during the period.

Reconciliation of Level 3 fair value as at 30 June 2014

	Furniture & Equipment	Leasehold improvements
Opening balance	37,991	7,256
Purchases (Sales)	30,394	25,374
Depreciation	(25,150)	(8,296)
Revaluation		
Closing Balance	43,235	24,334

Plant and Equipment

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 2015. 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

Valuation technique	Significant unobservable inputs	Range (weighted average)	Sensitivity of fair value measurement to changes in significant unobservable inputs
Plant and Equipment Depreciated replacement cost	Useful life of plant and equipment	2-10 years (4 years)	A significant increase or decrease in the estimated useful life of the asset would result in a significantly higher or lower valuation

Notes to the Financial Statements (continued)

		2015 $	2014 $
7	**OTHER EXPENSES**		
	Included in other expenses are:		
	Depreciation and amortisation	33,003	33,446
	Employee benefits	3,051,696	2,822,287
	Operating lease payments	317,457	357,341
8a	**PAYABLES**		
	Current		
	Creditors - Contractual	262,189	219,879
	Creditors - Statutory	771,025	363,236
	Deferred other income	71,650	68,745
		1,104,864	651,860
8b	**UNEARNED PREMIUM LIABILITY**		
	Current		
	Unearned premium liability 1 July	42,531,000	39,473,000
	Earning of premiums written in previous periods	(26,022,678)	(24,038,264)
	Deferral of premium contracts written in period	29,981,319	26,022,678
	Unexpired risk liability recognised for year ending 30 June (note 26 (a))	(1,685,641)	1,073,586
	Unearned premium liability 30 June	44,804,000	42,531,000
9.	**PROVISIONS**		
	CURRENT EMPLOYEE BENEFITS		
	Annual Leave	224,095	162,996
	Long Service Leave	253,804	280,902
	NON-CURRENT EMPLOYEE BENEFITS		
	Long Service Leave	24,554	12,340
	Aggregate Employee Benefit Liability	502,453	456,238
	Number of employees at year end	20	17

	2015 $	2014 $

10. ACCUMULATED FUNDS

	2015 $	2014 $
Accumulated Funds at the beginning of the year	72,779,035	79,877,931
Operating Profit/(loss) for the year	(11,524,989)	(7,098,896)
Accumulated Funds at the end of the year	61,254,046	72,779,035

11. AUDITORS' REMUNERATION

	2015 $	2014 $
Remuneration of the auditor for:		
- auditing or reviewing the financial report	43,000	44,000
- other services	-	-
	43,000	44,000
Audit fees paid or payable to the Victorian Auditor-General's Office for audit of the Fund's financial report:		
Paid as at 30 June	10,000	-
Payable as at 30 June	33,000	44,000
	43,000	44,000

Notes to the Financial Statements (continued)

12(a) RESPONSIBLE PERSONS

In accordance with the Ministerial Directions issued by the Minister for Finance under the Financial Management Act 1994, the following disclosures are made regarding responsible persons for the reporting period.

Names

The persons who held the positions of Responsible Minister, Committee Member and Accountable Officer in the Fund are as follows:

Attorney General	The Hon. Robert Clark, MP	1 July 2014 to 03 December 2014
Attorney General	The Hon. Martin Pakula, MP	04 December 2014 to 30 June 2015
Accountable Officer/ Committee Member	Ms Miranda Milne	1 July 2014 to 30 June 2015
Committee Member	Mr Geoffrey Rees	1 July 2014 to 30 June 2015
Committee Member	Ms Mary Radisich	1 July 2014 to 30 June 2015
Committee Member	Ms Patricia Kelly	1 July 2014 to 30 June 2015
Committee Member	Ms Helen Thornton	1 July 2014 to 30 June 2015
Committee Member	Mr Peter Fox QC	1 July 2014 to 30 June 2015
Committee Member	Mr John Corcoran	1 July 2014 to 30 June 2015

Remuneration

Remuneration received or receivable by committee members and the accountable officer, excluding the responsible Minister during the reporting period was in the range:

$	2015 No.	2014 No.
10,000 -19,999	-	-
20,000 - 29,999	5	5
40,000 - 49,999	1	1
320,000 - 329,999	-	-
350,000 - 359,999	-	-
360,000 - 369,999	-	-
370,000 - 379,999	-	-
380,000 - 389,999	-	-
390,000 - 399,999	1	-
400,000 - 409,999	-	-
410,000 - 419,999	-	1
Total numbers	7	7
Total Amount	**578,271**	**604,926**

Amounts relating to Ministers are reported in the financial statements of the Department of Premier and Cabinet.

12(b) EXECUTIVE OFFICER REMUNERATION

Income Band $	Total Remuneration 2015 No.	Total Remuneration 2014 No.	Base Remuneration 2015 No.	Base Remuneration 2014 No.
130,000 - 139,999	-	-	-	-
150,000 - 159,999	2	-	2	-
160,000 - 169,999	-	-	-	1
170,000 - 179,999	1	1	1	-
180,000 - 189,999	-	1	-	1
200,000 - 209,999	-	-	-	-
210,000 - 219,999	2	1	2	1
230,000 - 239,999	-	1	-	1
250,000 - 259,999	1	-	1	-
260,000 - 269,999	-	1	-	1
320,000 - 329,999	-	-	-	1
330,000 - 339,999	-	-	1	-
350,000 - 359,999	-	1	-	-
360,000 - 369,999	1	-	-	-
Total Numbers	7	6	7	6
Total annualised employee equivalents (AAE)*	6.5	5.5	6.5	5.5
Total Amount	$1,523,864	$1,428,225	$1,487,472	$1,394,072

* Annual employee equivalent is based on working 35 ordinary hours per week over the reporting period.

The remuneration of the Chief Executive Officer is included in the Committee remuneration disclosure

No other payments were made to contractors in an executive capacity (i.e. contractors with significant management responsibilities).

Notes to the Financial Statements (continued)

13 COMMITMENTS

	$ 2015	$ 2014
Operating Lease Commitments: Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable:		
- not later than 1 year	355,678	343,189
- later than 1 year but not later than 5 years	1,533,222	1,438,212
- later than 5 years	1,487,894	1,822,969
	3,376,794	3,604,370

The property lease is a non-cancellable lease.

The lease is for a 10 year term. There are no options. Rental increases are fixed annually on the anniversary of the commencement date. Figures are inclusive of Goods and Services Tax (GST).

Other Commitments:

The Fund has entered into an agreement with Towers Watson Pty Ltd for the provision of investment advice.

This agreement is an ongoing agreement.

Payable:

- not later than 1 year	212,741	185,775

14 CONTINGENT ASSETS/LIABILITIES

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

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

This entitlement is secured by a mortgage over the property.

There are no contingent liabilities.

15. INDEMNIFYING OFFICERS

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

The fund has paid premiums to insure the Committee Members against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Committee Member of the Fund, other than conduct involving a wilful breach of duty in relation to the Fund. The total amount of the premium was $24,405.

15. INDEMNIFYING OFFICERS (continued)

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

16. SEGMENT REPORTING

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

17. FINANCIAL INSTRUMENTS

(a) Significant accounting policies

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

(b) Fair Values

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

	Level 1 $	Level 2 $	Level 3 $	Total $
30-Jun-15				
Financial Assets				
- Unit in managed funds	104,224,903	27,477,076	-	131,701,979
30-Jun-14				
Financial Assets				
- Unit in managed funds	97,115,831	37,695,750	-	134,811,581

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

There have been no transfers between levels during the period.

Notes to the Financial Statements (continued)

17. FINANCIAL INSTRUMENTS (continued)

(c) Interest Rate Risk

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

30 June 2015			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	1.29%	16,766,753	-	-	-	-	16,766,753
Receivables	n/a		-	-	-	1,263,745	1,263,745
Units in Managed Funds	n/a	-	-	-	-	131,701,979	131,701,979
Bank Bills	n/a	-	-	-	-	-	-
Term Deposits	3.50%	-	84,985,943	-	-	-	84,985,943
Total Financial Assets		**16,766,753**	**84,985,943**	**-**	**-**	**132,965,724**	**234,718,420**
Financial Liabilities:							
Creditors - Contractual	n/a	-	-	-	-	262,189	262,189
Outstanding claims	n/a					128,585,000	128,585,000
Total Financial Liabilities		**-**	**-**	**-**	**-**	**128,847,189**	**128,847,189**

30 June 2014			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	1.39%	25,718,621	-	-	-	-	25,718,621
Receivables	n/a		-	-	-	2,201,170	2,201,170
Units in Managed Funds	n/a	-	-	-	-	134,811,581	134,811,581
Bank Bills	n/a	-	-	-	-	-	-
Term Deposits	3.89%	-	66,509,687	-	-	-	66,509,687
Total Financial Assets		**25,718,621**	**66,509,687**	**-**	**-**	**137,012,752**	**229,241,059**
Financial Liabilities:							
Creditors - Contractual	n/a	-	-	-	-	219,879	219,879
Outstanding claims	n/a					114,365,000	114,365,000
Total Financial Liabilities		**-**	**-**	**-**	**-**	**114,584,879**	**114,584,879**

17. FINANCIAL INSTRUMENTS (continued)

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

(d) Credit Risk

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.

(e) Liquidity Risk

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

(f) Market Risk

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

Equity Market Risk

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

The fund's policy is to use independent investment managers to manage our exposure to local and overseas equities.

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

Notes to the Financial Statements (continued)

17. FINANCIAL INSTRUMENTS (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.

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 2.00%
- A shift of + 10% or - 10% in the average weighted market value of local equities, overseas equities and local property unquoted unit trusts.

Market Risk Exposure

		Interest Rate Risk				Other Price Risk			
2015	Carrying	-0.25%		+.5%		-10%		+10%	
Financial Assets	Amount	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
Cash and cash equivalents	101,752,696	(254,382)	(254,382)	508,763	508,763				
Units in Managed Funds	131,701,979					(13,170,198)	(13,170,198)	13,170,198	13,170,198

2014	Carrying	-0.25%		+.5%		-10%		+10%	
Financial Assets	Amount	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
Cash and cash equivalents	92,228,308	(230,571)	(230,571)	461,142	461,142				
Units in Managed Funds	134,811,581					(13,481,158)	(13,481,158)	13,481,158	13,481,158

18. DESIGNATION OF FINANCIAL ASSETS

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

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The main purpose of these financial instruments it 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 - 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 17 above.

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

20. RELATED PARTY TRANSACTIONS

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

21. EVENTS AFTER THE BALANCE SHEET DATE

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

22. 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 30/6/15.

Development Year	Ultimate claims incurred as % of current estimate	Payments to end of year, as % of ultimate
0	96.4%*	6.8%
1	95.1%	32.5%
2	98.0%	56.1%
3	98.3%	71.5%
4	100.0%	81.5%
5	100.0%	87.9%
6	100.0%	92.2%
7	100.0%	94.9%
8	100.0%	96.7%
9	100.0%	97.8%

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

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 5.75% of net claim payments based on forecasted expenses of LPLC
- Wage inflation based explicitly on Victorian AWE and state government forecasts.

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 2015 are estimated by deducting payments to date.

Gross payments in 2015-16 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 2015-16.

Gross payments in 2015-16 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.

22. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

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 2015. 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 30/6/15

Risk Variable	Base	Altered	Outstanding claims ($m)	Premium liability ($m)
Discount rate (% pa)	2.00%	3.00%	-2.723	-1.153
	2.00%	1.00%	2.879	1.223
Claim administration expenses (% of claims)	5.75%	6.75%	1.105	
	5.75%	4.75%	-1.105	
Wage inflation (% pa)	3.50%	4.50%	2.720	1.242
	3.50%	2.50%	-2.627	-1.195
"Regular" solicitor claims per principal equivalent	3,448	3,793	0.619	2.358
	3,448	3,135	-0.562	-2.144
"Large" claims ($m)	$11.2m	$9.0m		-2.344

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.

23. 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 maintained a sound and prudent Risk Management Strategy (RMS)

23. INSURANCE CONTRACTS - RISK MANAGEMENT AND PROCEDURES (continued)

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 2015 in excess of $42.5m

(d) Development of claims

- There is a possibility that changes may occur in the estimate of our obligations at the end of a contract period. The table in note 27 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.

24. NET PREMIUM REVENUE

	2015 $	2014 $
Gross Written Premiums	30,585,891	26,717,951
Movement in Unearned Premium	(3,958,642)	(1,984,414)
Net Premium Revenue	**26,627,249**	**24,733,537**

25. NET CLAIMS INCURRED

	2015			2014		
	Current Year $	Prior Years $	Total $	Current Year $	Prior Years $	Total $
Gross claims expense	45,603,000	2,263,325	47,866,325	47,558,000	1,933,184	49,491,184
Discount movement	(2,297,000)	3,133,000	836,000	(2,920,000)	778,000	(2,142,000)
	43,306,000	**5,396,325**	**48,702,325**	**44,638,000**	**2,711,184**	**47,349,184**
Reinsurance and other recoveries revenue						
Reinsurance and other recoveries revenue - undiscounted	-	-	-	-	-	-
Discount movement	-	-	-	-	-	-
	-	-	-	-	-	-
Net claims incurred	**43,306,000**	**5,396,325**	**48,702,325**	**44,638,000**	**2,711,184**	**47,349,184**

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.

26. 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 2015.

Notes to the Financial Statements (continued)

26. UNEXPIRED RISK LIABILITY (continued)

(a) Unexpired risk liability

	2015 $	2014 $
Unexpired risk liability as at 1 July	16,508,322	15,434,736
Recognition of additional unexpired risk liability in the period	(1,685,641)	1,073,586
Unexpired risk liability as at 30 June	**14,822,681**	**16,508,322**

(b) Calculation of deficiency

	2015 $	2014 $
Unearned premium liability relating to insurance contracts	29,981,319	26,022,678
Central estimate of present value of expected future cash flows arising from future claims	39,130,000	37,145,000
Risk Margin of 15%	5,674,000	5,386,000
	44,804,000	42,351,000
Net deficiency	**14,822,681**	**16,508,322**

The process of determining the overall risk margin is discussed in Note 22. As with outstanding claims the overall risk margin is intended to achieve a 75% probability of adequacy.

27. OUTSTANDING CLAIMS LIABILITY

(a) Outstanding Claims Liability

Central estimate of claims still to be paid	117,246,000	106,761,000
Discount to present value	(6,708,000)	(7,543,000)
	110,538,000	99,218,000
Present value of claims handling costs	6,357,000	5,704,000
Risk Margin	11,690,000	9,443,000
Gross Outstanding claims liability	128,585,000	114,365,000
Gross Outstanding claims liability - undiscounted	135,291,000	121,909,000
Current	39,393,000	35,117,000
Non-current	89,192,000	79,248,000
Total	**128,585,000**	**114,365,000**

(b) Risk margin applied	10.000%	9.000%

27. OUTSTANDING CLAIMS LIABILITY (continued)

(c) Reconciliation of movement in discounted outstanding claims liability

Brought forward	114,365,000	95,117,002
Increase in claims incurred/recoveries anticipated over the year	2,263,325	1,933,184
Incurred claims recognised in the Statement of Comprehensive Income	45,603,000	47,558,000
Claims payments/recoveries during the year	(34,482,325)	(28,101,186)
Movement in net present value adjustment	836,000	(2,142,000)
Carried forward	**128,585,000**	**114,365,000**

(d) Claims Development table ($m)

Policy Year	2011	2012	2013	2014	2015	Total
Estimate of ultimate claim cost at end of policy year	33.627	27.217	30.336	39.248	37.066	
one year later	32.928	30.406	30.505	37.750		
two years later	31.980	30.639	31.743			
three years later	31.527	33.410				
four years later	29.716					
current estimate	29.716	33.410	31.743	37.750	37.066	169.685
cumulative payments	(25.605)	(20.599)	(15.512)	(14.302)	(1.888)	(77.906)
undiscounted central estimate	4.111	12.811	16.231	23.448	35.178	91.779
discount						(6.708)
inflation to future values						7.869
present value of claims handling expenses						6.356
undiscounted central estimate prior years						17.599
risk margin						11.690
Total Outstanding Claims						**128.585**

28. Net present value adjustment to outstanding claims

	2015 $	2014 $
Opening Balance	7,543,000	5,401,000
Prior Year	(3,133,000)	(778,000)
Current Year	2,298,000	2,920,000
Closing Balance	**6,708,000**	**7,543,000**

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 Standing Direction 4.2 of 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 2015 and financial position of the Legal Practitioners' Liability Committee at 30 June 2015.

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 09 September 2015.

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John Corcoran - Chairman

....

Miranda Milne - Chief Executive Officer

....

Martin Dohnt - Chief Financial Officer

Dated this 9th day of September 2015

Auditor-General's Report

VAGO

Victorian Auditor-General's Office

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INDEPENDENT AUDITOR'S REPORT

To the Committee Members, Legal Practitioners' Liability Committee

The Financial Report

The accompanying financial report for the year ended 30 June 2015 of the Legal Practitioners' Liability Committee which comprises the statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity, notes comprising a summary of significant accounting policies and other explanatory information, and the declaration by committee members, chief executive officer and chief financial officer has been audited.

The Committee Members' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Auditing in the Public Interest

AUDITOR-GENERAL'S REPORT (continued)

Independent Auditor's Report (continued)

Independence

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

Opinion

In my opinion, the financial report presents fairly, in all material respects, the financial position of the Legal Practitioners' Liability Committee as at 30 June 2015 and of its financial performance and its cash flows for the year then ended in accordance with applicable Australian Accounting Standards, and the financial reporting requirements of the *Financial Management Act 1994*.

MELBOURNE
14 September 2015

for T. DH
John Doyle
Auditor-General

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LPLC LEGAL PRACTITIONERS' LIABILITY COMMITTEE