



THE
LAW SOCIETY
 OF HONG KONG
 香港律師會

3/F WING ON HOUSE · 71 DES VOEUX ROAD
 CENTRAL · HONG KONG DX-009100 Central 1
 香港中環德輔道中71號
 永安集團大廈3字樓

TELEPHONE (電話) : (852) 2846 0500
 FACSIMILE (傳真) : (852) 2845 0387
 E-MAIL (電子郵件) : sg@hklawsoc.org.hk
 WEBSITE (網頁) : www.hklawsoc.org.hk

Our Ref :
 Your Ref :
 Direct Line :

GL/ml/PI-9C

President
 會長

19 December 2016

Thomas S.T. So
 蘇紹聰

Vice-Presidents
 副會長

Melissa K. Pang
 彭韻僊
 Amiral B. Nasir
 黎雅明

Ms. Mary So
 Clerk to Subcommittee
 Legislative Council Secretariat
 Legislative Complex
 1 Legislative Council Road
 Central, Hong Kong

By email and by post
 panel_ajls@legco.gov.hk

Council Members
 理事

Stephen W.S. Hung
 熊運信
 Junius K.Y. Ho
 何君堯
 Huen Wong
 王桂壠
 Peter C.L. Lo
 羅志力
 Michael J. Lintern-Smith
 史密夫
 Billy W.Y. Ma
 馬華潤
 Cecilia K.W. Wong
 黃吳潔華
 Brian W. Gilchrist
 喬柏仁
 Denis Brock
 白樂德
 Nick Chan
 陳曉峰
 Bonita B.Y. Chan
 陳寶儀
 Mark Daly
 帝理邁
 C. M. Chan
 陳澤銘
 Serina K.S. Chan
 陳潔心
 Warren P. Ganesh
 莊偉倫
 Simon S.C. Lai
 黎壽昌
 Roden M.L. Tong
 湯文龍

Dear Ms. So,

**Subcommittee on Solicitors (Professional Indemnity) (Amendment) Rules
 2016 and Solicitors' Practice (Amendment) Rules 2016
 Subcommittee Meeting on 13 December 2016**

I refer to the Subcommittee meeting and your email dated 13 December 2016.

(a) Annual financial situation of the Hong Kong Solicitors Indemnity Fund
 ("Fund")

Enclosed please find copies of the Professional Indemnity Scheme ("PIS")
 Annual Report 2010/11 - 2014/15 as requested.

(b) Annual contributions payable by members and the contribution formula
 used

Table 7 on page 17 of the PIS Annual Report 2014/15 shows the total
 Annual Contributions for indemnity years from 1998/99 – 2014/15. Please
 note that these amounts are gross contributions before reductions. The total
 Annual Contributions net of reductions are as follows:

Secretary General
 秘書長

Heidi K.P. Chu
 朱潔冰

Deputy Secretary General
 副秘書長

Christine W.S. Chu
 朱穎雪



<i>Indemnity Year</i>	<i>No. of Firms</i>	<i>No. of Practitioners</i>	<i>Contribution Payments (HK\$)</i>
2009/10	783	6,782	301,445,650
2010/11	803	7,149	208,253,791
2011/12	846	7,381	244,862,160
2012/13	844	7,717	366,030,827
2013/14	852	8,111	246,925,173
2014/15	877	8,503	261,392,152

The PIS contribution payable by each law firm is calculated based on the formula provided by paragraph 2(1)(a)(i) of Schedule 1 to the Solicitors (Professional Indemnity) Rules (Cap. 159M) (“PIS Rules”). If the Council of the Law Society (“Council”) resolves to authorise a reduction, such a reduction is made pursuant to paragraph 2(7) of the same Schedule. A copy of Schedule 1 to the PIS Rules is enclosed for your reference.

(c) Measures taken/will be taken by the Law Society to maintain the financial sustainability of the Fund while alleviating the financial obligations of members

The Council and the Board of Directors of the Hong Kong Solicitors Indemnity Fund Limited (“Company”) are mindful of the hardship on members when HIH collapsed in 2001 and the PIS was left in a deficit position with insufficient funds to meet claims. Members were required to contribute in excess of HK\$400 million to the shortfall to enable existing claims to be paid. To ensure this does not recur, the Company has taken the following measures to ensure the financial sustainability of the Fund:

- (i) The reinsurance programme of the Fund is supported by 4 reinsurers so that the impact of any of the reinsurer(s) failing is reduced;
- (ii) Insolvency insurance is in place and it runs in tandem with the reinsurance programme, covering the Fund against the insolvency of one or more of its reinsurers;
- (iii) Bearing in mind that the PIS is not a commercial insurer and cannot be placed into liquidation when it runs a loss, the financial position of the Fund is closely monitored by the Company. In seeking to maintain a balance between the paramount interests of the public and the profession, the Council considers various factors such as the outstanding liabilities of the Fund, the level of reserves, claims losses, operational costs, anticipated claims and comments of the Board before deciding whether a reduction is appropriate;

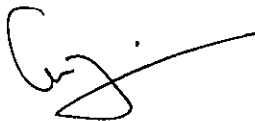
- (iv) The Fund is invested in a conservative strategy where the investments are predominantly placed in fixed income securities with high liquidity.

It should be emphasised that the prudent approach adopted by the Board and Council in managing the Fund is of critical importance in safeguarding our members as well as the public. Members of the Council and Directors of the Board are legal practitioners who understand the challenges of running a practice. To alleviate the financial obligations of members, the Council has authorised contribution reductions in the following indemnity years:

<u>Indemnity Year</u>	<u>% of reduction resolved</u>
2010/11	33⅓%
2011/12	33⅓%
2012/13	Nil
2013/14	33⅓%
2014/15	33⅓%
2015/16	33⅓%
2016/17	50%

Other than contribution reductions, the Board and the Council are also considering various suggestions to improve the coverage of the PIS.

Yours sincerely,



Gigi Liu
Assistant Director
Professional Indemnity Scheme

Enclosures

3145688

HONG KONG SOLICITORS INDEMNITY FUND LIMITED
(Incorporated by The Law Society of Hong Kong with limited liability)



PROFESSIONAL INDEMNITY SCHEME
2010/2011 YEAR ANNUAL REPORT

ISSUED June 2012

**HONG KONG SOLICITORS INDEMNITY
FUND LIMITED**

Directors:-

Peter R. Griffiths (Chairman)
Denis G. Brock (appointed on 15/11/2011)
Albert B.K. Dan
Christopher G. Howse
Brian W. Gilchrist
Peter C.L. Lo
Patrick R. Moss
Amirali B. Nasir
Ng Wai Yan
Ludwig S.W. Ng (resigned on 17/2/2011)
Kevin C.K. Shum
Richard N. Tanner (resigned on 29/2/2012)
Wong Kwai Huen (resigned on 8/11/2011)
Norris H.C. Yang

Members:-

Peter R. Griffiths
Heidi K.P. Chu
Christopher G. Howse
Peter C.L. Lo
Patrick R. Moss
Amirali B. Nasir
Norris H.C. Yang
The Law Society of Hong Kong

Company Secretary:-

ESSAR Insurance Services Ltd.
("ESSAR")

PIS CLAIMS COMMITTEE

Members:-

Brian W. Gilchrist (Chairman)
Colin B. Cohen (Vice-Chairman)
Charles W. Allen
Keith M. Brandt
Richard H.C. Chalk (resigned on 17/5/2012)
Tony K.W. Chow
Simon P. Clarke
George D. Lamplough
Jeffrey H. Lane
Ronald W.T. Tong

Secretary:-

ESSAR

**PROFESSIONAL INDEMNITY
ADVISORY COMMITTEE**

Members:-

Robin S. Peard (Chairman)
Kevin R. Bowers
Lawrence Y.H. Lee*
Susan P.S.K. Liang
Ng Wai Yan
Peter K.H. Ngai
David G. Smyth
Thomas S.T. So (appointed on 2/3/2012)
Fiona J. Stewart**
Gareth H. Thomas
Norris H.C. Yang

* Consultant of Aon Hong Kong Ltd.

** Account Director, ESSAR

Secretary:-

Gigi Liu, Assistant Director, Professional
Indemnity Scheme ("ADPIS")

PIS REVIEW WORKING PARTY

Members:-

Peter C.L. Lo (Chairman)
Heidi K.P. Chu
Peter R. Griffiths
Christopher G. Howse
Nicholas D. Hunsworth
Sundaramoorthy Krishnan
Kenneth S.Y. Ng
Benny Y.B. Yeung

Secretary:-

ADPIS

PIS INVESTMENT SUB-COMMITTEE

Members:-

Peter C.L. Lo (Chairman)
John S. Gale
Ip Shing Hing
Ludwig S.W. Ng (resigned on 1/4/2012)
Kevin C.K. Shum
Wong Kwai Huen (resigned on 12/6/2012)
Norris H.C. Yang

Secretary:-

ADPIS

PIS PANEL SOLICITORS SELECTION BOARD

Members:-

Wong Kwai Huen (Chairman)
Stephen W.S. Hung
Kenneth S.Y. Ng
Thomas S.T. So

Secretary:-

ADPIS

WORKING PARTY ON PIS GROSS FEE INCOME REPORTS AND CONTRIBUTIONS

Members:-

Ip Shing Hing (Chairman)
Albert B.K. Dan
Ng Wai Yan
Wong Kwai Huen

Secretary:-

ADPIS

- AUDITORS** : Mazars CPA Limited
- BANKERS** : Credit Agricole Corporate & Investment Bank
The Standard Chartered Bank Ltd.
- INVESTMENT MANAGERS** : AllianceBernstein Hong Kong Limited
Amundi Hong Kong Limited
Grantham Mayo Van Otterloo
MFS Investment Management
- BROKER** : Aon Hong Kong Limited ("Aon")
- CLAIMS AND SCHEME MANAGER**: ESSAR
(a subsidiary of the Aon Group of Companies)
- PANEL SOLICITORS** : Baker & McKenzie
Clyde & Co.
Deacons
Fred Kan & Co.
Herbert Smith
Howse Williams Bowers (appointed on 8 May 2012)
P.C. Woo & Co.
Reed Smith Richards Butler
Wilkinson & Grist

Hong Kong Solicitors Indemnity Fund Limited
Registered Office : 3rd Floor, Wing On House, 71 Des Voeux Road, Central, Hong Kong (DX-009100 Central 1)
Registered No. 248603, Company Limited by Guarantee Tel : 2846-0500 Fax : 2845-0387
E-Mail : sg@hklawsoc.org.hk Home Page : <http://www.hklawsoc.org.hk>

INDEX

THE COMPANY -----	6
THE SCHEME -----	7
INDEMNITY FUND, REINSURANCE, AND INSOLVENCY COVER -----	8
THE SCHEME'S BROKER/MANAGER -----	8
CLAIMS HANDLING PROCEDURE -----	9
TABLE 1 : PROTECTION LIMITS PROVIDED BY THE SCHEME AND REINSURANCE PREMIUMS-----	10
CLAIMS EXPERIENCE	
TABLE 2 : NUMBER OF CLAIMS-----	12
TABLE 3 : CLAIMS PAID AND RESERVED-----	13
TABLE 4 : APPORTIONMENT OF CLAIM PAYMENTS-----	14
TABLE 5 : APPORTIONMENT OF CLAIM RESERVES-----	15
TABLE 6 : PANEL SOLICITORS' COSTS AS A PROPORTION OF CLAIM PAYMENTS AND RESERVES-----	16
TABLE 7 : COMPARISON OF REINSURANCE PREMIUMS PAID, CONTRIBUTIONS COLLECTED AND CLAIMS LOSSES-----	17
TABLE 8 : COMPARISON OF CONTRIBUTIONS AND CLAIMS BY FIRM SIZE----	18
TABLE 9 : CONTRIBUTIONS AND CLAIMS LOADINGS-----	19
TABLE 10 : COMPARISON OF CONTRIBUTIONS AND GROSS FEE INCOME----	20
TABLE 11 : COMPARISON OF CONTRIBUTIONS AND GROSS FEE INCOME BY FIRM SIZE-----	21
TABLE 12 : DEVELOPMENT OF CLAIMS-----	22
TABLE 13 : OUTSTANDING LIABILITIES OF THE FUND-----	23
TABLE 14 : COMPARISON OF CONTRIBUTIONS, CLAIM LOADINGS AND LOSSES-----	24
TABLE 15 : FREQUENCY OF CLAIMS BY AREA OF PRACTICE-----	25
TABLE 16 : VALUE OF CLAIMS BY AREA OF PRACTICE-----	26
TABLE 17 : NUMBER OF CLAIMS BY TYPE OF ERRORS IN CONVEYANCING---	27

TABLE 18 :	VALUE OF CLAIMS BY TYPE OF ERRORS IN CONVEYANCING -----	28
TABLE 19 :	LOSS RATIOS -----	29
TABLE 20 :	ANTICIPATED MAXIMUM SHORTFALL AS A RESULT OF THE INSOLVENCY OF HIH CASUALTY AND GENERAL INSURANCE LTD. ("HIH"), FAI GENERAL INSURANCE COMPANY LIMITED ("FAI") AND FAI FIRST PACIFIC INSURANCE CO. LTD. ("FAI PACIFIC") AS AT 30 SEPTEMBER 2011 -----	30
ONGOING ISSUES		
1.	HIH REINSURERS -----	31
2.	QUALIFYING INSURERS SCHEME OR OTHER ALTERNATIVES -----	31
PERFORMANCE OF THE FUND'S INVESTMENTS -----		32
CONCLUSION -----		34
AUDITED FINANCIAL STATEMENTS OF THE FUND -----		35

THE COMPANY

The Hong Kong Solicitors Indemnity Fund Ltd. ("the Company") is a company limited by guarantee with no share capital. It was set up by The Law Society of Hong Kong ("the Society") on 14 April, 1989 to hold, manage and administer the Solicitors Indemnity Fund ("the Fund") under the Professional Indemnity Scheme ("the Scheme"). As the Company's business is to manage the Scheme and provide indemnity to members through the Fund, rather than to operate an insurance business, it does not fall within the provisions of the Insurance Companies Ordinance Cap. 41.

This report from the Directors of the Company gives an account of the activities of the Scheme. The Scheme began operation as an indemnity fund scheme in 1986 after having operated for six years as an ordinary insurance scheme under which firms were issued insurance policies by an independent insurance company on terms negotiated by the Society. During those six years, a significant number of claims were made against solicitors resulting in substantial payments. The underwriters demanded a substantial increase in premiums and the statutory indemnity fund scheme was established to provide the necessary cover by the Society. The Scheme is governed by the Solicitors (Professional Indemnity) Rules ("the Rules") Cap. 159M which set out the scope and conditions of cover.

Since the Fund is neither a person nor does it carry on a trade, profession or business for the purpose of S14 of the Inland Revenue Ordinance, Cap. 112, it is not liable to Hong Kong taxation.

The Directors are responsible for the production of accounts for each indemnity year to provide a true and fair view of the Fund's financial transactions and of the disposition of the Fund's assets and liabilities. It is also the responsibility of the Directors to ensure that proper accounting records are kept which disclose with reasonable accuracy at any time the Fund's financial transactions and assets and liabilities.

Although the auditing of the accounts of the Fund is not a statutory requirement, the Council of the Society considers that in the interests of the Society and its Members the Fund's financial position should be annually audited. There is included in this report a reproduction of the audited accounts of the Fund for the indemnity year ended 30 September 2011.

There is a division of responsibility between the Company and the Society's Council.

The Company is concerned with the management and administration of the Fund subject to directions by the Council. It considers the recommendations of the Claims Committee, the Professional Indemnity Advisory Committee and the PIS Investment Sub-Committee and advises the Council on matters pertaining to the smooth and effective operation of the Scheme.

The Council is responsible for the appointment of the Company's Directors, Panel Solicitors and Committee Members and the enforcement of the Rules. It also supervises the PIS Investment Sub-Committee and monitors the investments of the Fund in conjunction with the Company.

The Claims Committee supervises the conduct and settlement of claims.

The Professional Indemnity Advisory Committee reviews, examines and advises on any issue relating to professional indemnity referred to it by the Council, the Company and the Claims Committee.

The PIS Review Working Party was established by the Council to review the structure and operation of the Scheme, invite and consider the views of members, and make recommendations to the Council in connection therewith.

The PIS Investment Sub-Committee was established by the Company for the purpose of reviewing the investment guidelines and performance of the investments of the Fund.

The PIS Panel Solicitors Selection Board was established by the Council. Its responsibilities are to establish the procedures necessary for the tendering of panel solicitors for the Scheme and to consider all tender applications and make recommendations to the Council to appoint suitably qualified firms to the panel.

The Working Party on PIS Gross Fee Income Reports and Contributions is responsible for considering and making recommendations to the Council on the appropriate action to be taken against those firms which have, in breach of the Rules, failed to submit an application for indemnity and/or a gross fee income report relating to their annual gross fee income or failed to pay their annual contributions.

All Company Directors and all Committee Members serve on a voluntary basis and receive no remuneration from either the Company or the Society.

THE SCHEME

The Scheme, subject to the conditions and exclusions set out in the Rules provides solicitors with indemnity against losses arising from claims in respect of civil liability incurred in private practice.

The Scheme's limit of indemnity for each and every claim was increased from HK\$5 million (inclusive of costs) to HK\$10 million (inclusive of costs) on 1 October, 1994.

Some firms have "top-up" insurance in place to cover claims in excess of HK\$10 million and such cover is a matter for each individual firm to determine based on the level of risk attached to the work conducted by the firm.

As at 30 September 2011, the total liability incurred by the Scheme for the 2010/11 indemnity year was HK\$13,465,001 of which HK\$12,599,761 was in respect of claim payments (including costs) and HK\$865,240 was in respect of claim reserves. Since the inception of the Scheme in 1986 and up to 30 September 2011, the Scheme paid a total of HK\$1,625,836,994 on claims (including costs), and the amount reserved in respect of claims is HK\$154,129,021.

INDEMNITY FUND, REINSURANCE, AND INSOLVENCY COVER

The Scheme's limit of indemnity for each and every claim is HK\$10 million (inclusive of costs). Prior to 1 October 2001, the first HK\$1 million of each claim was paid from the Fund and the remainder was provided by reinsurance. This level of retention was increased to HK\$1.5 million from 1 October 2001 to 30 September 2005. Since 1 October 2005, the Fund has entered into reinsurance arrangements with reinsurers whereby the Fund would be responsible for all claims up to an aggregate amount of HK\$100m (inclusive of costs) and all liability in excess of HK\$100m would be borne by reinsurers. The Company has further extended the programme for another 4 years from 1 October 2009 to 30 September 2013.

An insolvency cover runs in tandem with the reinsurance programme from 1 October 2008 to 30 September 2013. The cover insures the Fund against the insolvency of one or more of its reinsurers. For the first reinsurer to become insolvent, the insolvency cover indemnifies the Fund in respect of all claims, notices of intention to make a claim and circumstances notified up to the last date of the indemnity year (being 30 September) immediately preceding the date of insolvency of the first reinsurer. For the second and third reinsurer to become insolvent, the insolvency cover indemnifies the Fund in respect of all claims, notices of intention to make a claim and circumstances notified on or after 1 October 2008 up to the date of insolvency of the second and third reinsurers. Insolvency cover for claims and circumstances notified between the date of insolvency of the second and/or third reinsurer up to 30 September 2013 has been arranged with effect from 11 May 2010.

The Company also took out stop loss insurance prior to 1 October 2001 to limit the aggregate liability of its retention. Where the stop loss limit was exhausted, a drop-down policy was available to cover all claims up to the Scheme's liability limit of HK\$10 million per claim. The stop loss and drop down policies expired on 30 September 2001 and Aon was instructed to arrange renewal of cover. The quotations obtained were considered carefully by the Company and the Council but it was decided the proposed coverage was not, on balance, the best value for money. No stop loss cover was purchased until the indemnity year 1 October 2005 but the reinsurance arrangements in respect of that indemnity year could be categorized as stop loss cover without limit.

The limits of liability retained by the Indemnity Fund, the cover provided by stop loss insurance and the amounts of reinsurance premiums paid by the Fund over twenty-five indemnity years up to 2010/11 are shown in Table 1 on page 10.

THE SCHEME'S BROKER/MANAGER

A tender was conducted in 2009 and Aon and ESSAR are reappointed as the Scheme's Broker and Manager respectively from 1 April 2010 to 31 March 2014.

Aon is responsible for advising the Company on the state of the insurance market and the appropriate reinsurance arrangements and reporting on the financial viability of any underwriter who participates in the Scheme. It is also responsible for conveying the needs of the Scheme to underwriters and negotiating with them the best reinsurance terms for the Scheme.

The Fund places reinsurance with companies which have appropriate international ratings and/or which are regulated by the Hong Kong Insurance Authority.

The Manager handles claims with the assistance of Panel Solicitors and under the supervision of the Claims Committee, collects contributions and maintains proper accounting and statistical records of claims.

Under the brokerage and management agreement between Aon, ESSAR and the Company, Aon agreed to refund all brokerage commission and compensation negotiated with and received by Aon from reinsurers to the Company. A total of HK\$37,425,295.88 was rebated from 1 October 2000 to 30 September 2005 for the placement of reinsurance. All reinsurance premiums paid since 1 October 2005 do not carry any brokerage. HK\$1,800,000 was rebated as brokerage for the placement of the insolvency cover in the first 2 years of the 5 year programme.

CLAIMS HANDLING PROCEDURE

The manner in which claims are handled and reserved is contingent upon the ability to assess, as accurately as possible, the amount at which each claim is likely to be settled which, in turn, determines the true position of the Fund.

The Manager takes the initial step in opening a file upon receipt of a notification of a claim or a potential claim. As for claims (as distinct from potential claims), a reserve is placed on the claim upon completion of a preliminary investigation. Reserves are, therefore, funds set aside for unsettled claims and they represent the Fund's potential liabilities. The amount reserved is the estimated quantum of damages and costs (including defence costs) calculated on the assumption of full liability, taking into account the individual circumstances and the savings that might result from disputing either liability or quantum. As the matter proceeds and further information comes to light, the amount of reserve is adjusted accordingly. Thus, the progress of each claim for each individual year is re-assessed at six-monthly intervals until all claims for that year have been settled or otherwise disposed of. Experience shows that claims can sometimes take up to six years to finalize.

TABLE 1

PROTECTION LIMITS PROVIDED BY THE SCHEME AND REINSURANCE PREMIUMS

Indemnity Year	No. of members holding practicing certificate*	Limit of liability of the Indemnity Fund (HK\$)	Stop Loss Cover (HK\$)	Excess of Loss Insurance Premium (HK\$)	Stop Loss Insurance Premium (HK\$)	Insolvency Cover Premium (HK\$)	Total Insurance Premium Paid Per Year (HK\$)
1986/87	1,807	25,000,000	50,000,000	5,500,000	1,350,000	--	6,850,000
1987/88	1,998	25,000,000	25,000,000	12,500,000	1,720,000	--	14,220,000
1988/89	2,152	30,000,000	20,000,000	15,500,000	1,600,000	--	17,100,000
1989/90	2,326	30,000,000	20,000,000	19,500,000	1,500,000	--	21,000,000
1990/91	2,479	30,000,000	20,000,000	22,500,000	1,500,000	--	24,000,000
1991/92	2,721	30,000,000	40,000,000	24,700,000	5,250,000	--	29,950,000
1992/93	2,981	30,000,000	60,000,000	26,000,000	5,650,000	--	31,650,000
1993/94	3,307	30,000,000	60,000,000	29,500,000	5,650,000	--	35,150,000
1994/95	3,596	30,000,000	60,000,000	42,500,000	6,515,000	--	49,015,000
1995/96	3,896	30,000,000	60,000,000	42,500,000	7,675,000	--	50,175,000
1996/97	4,309	30,000,000	90,000,000	37,750,000	8,440,000	--	46,190,000
1997/98	4,619	30,000,000	90,000,000	45,000,000	7,755,000	--	52,755,000
1998/99	4,720	90,000,000 (for 3 years)	100,000,000 (for 3 years)	100,230,300 (for 2 years)	8,868,750 (for 3 years)	--	109,099,050
1999/00	4,890	--	--	--	--	--	--
2000/01	5,070	--	--	83,232,650	--	--	123,253,900
				40,021,250**	--	--	
2001/2002	5,173	--	--	95,262,865.81	--	--	95,262,865.81
2002/2003	5,301	--	--	128,899,595.32	--	--	128,899,595.32
2003/2004	5,422	--	--	172,230,412.38	--	--	172,230,412.38
2004/2005	5,593	--	--	218,023,353.30	--	--	218,023,353.30
2005/2006	5,757	100,000,000	Unlimited	--	75,000,000	--	75,000,000
2006/2007	5,925	100,000,000	Unlimited	--	79,500,000	--	79,500,000
2007/2008	6,205	100,000,000	Unlimited	--	79,500,000	--	79,500,000
2008/2009	6,465	100,000,000	Unlimited	--	79,500,000	4,100,000	83,600,000
2009/2010	6,782	100,000,000	Unlimited	--	79,500,000	7,069,503 [#]	86,569,503
2010/2011	7,149	100,000,000	Unlimited	--	79,500,000	11,679,500	91,179,500

* Figure as of 31 December of each year.

** Amount paid to reinsurers in place of HIH.

[#] Includes pro-rated premium for insolvency cover arranged with effect from 11 May 2010. Please refer to page 8 for details of insolvency cover.

CLAIMS EXPERIENCE

The statistics provided in Table 2 to Table 20 of this report should be studied in the light of the following remarks:-

- (a) The classification of claims is not an exact science as it is often difficult to determine under which category a particular claim should fall given the fact that many claims are borderline cases; therefore, the classification of claims should not be treated as conclusive;*
- (b) A claim which has been allocated to the current indemnity year may at a later time be allocated to the preceding indemnity year if there was insufficient information available at the time of the notification to determine the exact date when the Indemnified should have become aware of circumstances giving rise to the claim;*
- (c) A claim may sometimes be settled by the Indemnified without indemnity being sought from the Scheme if the cost of the claim is lower than the Indemnified firm's deductible; therefore, the statistics do not reflect claims which have been settled outside the Scheme;*
- (d) With the exception of Table 2, the claims statistics in the tables are computed on the basis of data collected to 30 September 2011 excluding the grace period for notification of claims. The statistics for the 2010/11 indemnity year are therefore to that extent incomplete;*
- (e) All data have been calculated to their nearest decimal point.*

TABLE 2
NUMBER OF CLAIMS INCLUDING NOTIFICATIONS CALCULATED AS AT 30
SEPTEMBER 2011 IN ACCORDANCE WITH THE CLAIMS CLASSIFICATION PROCEDURE
ADOPTED BY ESSAR

<i>Indemnity Year</i>	<i>Number of Claims</i>	<i>Percentage Increase/Decrease from previous year</i>
1986/1987	64	-
1987/1988	58	-9%
1988/1989	126	117%
1989/1990	178	41%
1990/1991	72	-60%
1991/1992	93	29%
1992/1993	118	27%
1993/1994	143	21%
1994/1995	151	6%
1995/1996	150	-1%
1996/1997	176	17%
1997/1998	336	91%
1998/1999	483	44%
1999/2000	263	-46%
2000/2001	230	-13%
2001/2002	215	-7%
2002/2003	269	25%
2003/2004	165	-39%
2004/2005	159	-4%
2005/2006	165	4%
2006/2007	141	-15%
2007/2008	308	118%
2008/2009	147	-52%
2009/2010	139	-5%
2010/2011	172	24%

Note : (1) Number of claims includes claims notified within the grace period.

(2) Percentage increase/decrease in the table has been calculated to the nearest decimal point.

TABLE 3
CLAIMS PAID AND RESERVED AS AT 30 SEPTEMBER 2011

Indemnity Year	Total Claim Payments (HK\$)	Total Claim Reserves (HK\$)	Total Claim Payments & Reserves (HK\$)
1986/1987	24,843,393	-	24,843,393
1987/1988	13,673,564	-	13,673,564
1988/1989	29,291,950	-	29,291,950
1989/1990	12,470,291	-	12,470,291
1990/1991	7,581,520	-	7,581,520
1991/1992	8,663,605	-	8,663,605
1992/1993	40,361,002	170,643	40,531,645
1993/1994	33,580,438	-	33,580,438
1994/1995	47,815,117	95,713	47,910,830
1995/1996	80,837,814	-	80,837,814
1996/1997	77,654,021	747,585	78,401,606
1997/1998	186,896,581	13,269,914	200,166,495
1998/1999	392,860,200	13,638,870	406,499,070
1999/2000	81,924,590	4,374,850	86,299,440
2000/2001	69,965,792	892,387	70,858,179
2001/2002	84,098,468	4,053,655	88,152,123
2002/2003	74,165,861	7,636,151	81,802,012
2003/2004	61,826,932	3,714,033	65,540,965
2004/2005	66,548,625	10,827,653	77,376,278
2005/2006	69,649,375	20,843,996	90,493,371
2006/2007	19,720,779	25,306,209	45,026,988
2007/2008	30,434,428	16,649,305	47,083,733
2008/2009	57,070,586	10,482,640	67,553,226
2009/2010	41,302,301	20,560,177	61,862,478
2010/2011	12,599,761	865,240	13,465,001
Total	1,625,836,994	154,129,021	1,779,966,015

- Note: (1) An indemnity year begins on 1 October and ends on 30 September of the following year. There is a grace period of 60 days for notifying claims arising or circumstances giving rise to a claim within an indemnity year: hence claims may be notified on or before 29 November in respect of the indemnity year ended on the preceding 30 September.
- (2) The table shows the amount of claims paid out in respect of the indemnity year 1986/87 to 2010/11.
- (3) A payment in respect of a claim notified in an indemnity year is often paid after the indemnity year in which the claim was notified. The table is NOT a representation of amounts paid within the indemnity years in question, but shows the amounts paid IN RESPECT OF the claims notified in each of those indemnity years. As further claims are paid these amounts will be adjusted.
- (4) Claim payments include payments in respect of settlement or judgment of a claim, claimants' costs, costs for defending claims and indemnity investigation.
- (5) Claim reserves include reserves for the quantum of a claim, reserves for claimants' costs and defence costs.

TABLE 4
APPORTIONMENT OF CLAIM PAYMENTS AS AT 30 SEPTEMBER 2011

<i>Indemnity Year</i>	<i>Total claim payments (HK\$)</i>	<i>Claim payments which fall within the Fund's retention (HK\$)</i>	<i>% of claim payments borne by the Fund</i>	<i>Claim payments borne by reinsurers (HK\$)</i>	<i>% of claim payments borne by reinsurers</i>	<i>Deductibles paid by indemnified firms (HK\$)</i>	<i>Deductibles as a % of claim payments</i>
1986/87	24,843,393	6,922,847	27.9%	16,460,546	66.3%	1,460,000	5.9%
1987/88	13,673,564	8,174,223	59.8%	2,974,341	21.8%	2,525,000	18.5%
1988/89	29,291,950	10,058,813	34.3%	17,445,224	59.6%	1,787,913	6.1%
1989/90	12,470,291	10,123,428	81.2%	1,236,863	9.9%	1,110,000	8.9%
1990/91	7,581,520	3,846,085	50.7%	3,098,303	40.9%	637,132	8.4%
1991/92	8,663,605	3,746,767	43.2%	4,000,000	46.2%	916,838	10.6%
1992/93	40,361,002	18,284,644	45.3%	19,227,867	47.6%	2,848,491	7.1%
1993/94	33,580,438	12,806,906	38.1%	13,682,797	40.7%	7,090,735	21.1%
1994/95	47,815,117	16,886,410	35.3%	28,145,036	58.9%	2,783,671	5.8%
1995/96	80,837,814	22,752,567	28.1%	54,076,003	66.9%	4,009,244	5.0%
1996/97	77,654,021	35,126,334	45.2%	36,692,472	47.3%	5,835,215	7.5%
1997/98	186,896,581	60,705,167	32.5%	117,589,329	62.9%	8,602,085	4.6%
1998/99	392,860,200	145,334,321	37.0%	227,524,350	57.9%	20,001,529	5.1%
1999/00	81,924,590	31,168,312	38.0%	45,002,336	54.9%	5,753,942	7.0%
2000/01	69,965,792	30,279,587	43.3%	34,971,105	50.0%	4,715,100	6.7%
2001/02	84,098,468	31,810,318	37.8%	48,762,061	58.0%	3,526,089	4.2%
2002/03	74,165,861	30,912,125	41.7%	39,769,793	53.6%	3,483,943	4.7%
2003/04	61,826,932	26,310,025	42.6%	32,367,210	52.4%	3,149,697	5.1%
2004/05	66,548,625	23,043,421	34.6%	40,722,755	61.2%	2,782,449	4.2%
2005/06	69,649,375	66,462,596	95.4%	-	0.0%	3,186,779	4.6%
2006/07	19,720,779	18,280,281	92.7%	-	0.0%	1,440,498	7.3%
2007/08	30,434,428	28,841,928	94.8%	-	0.0%	1,592,500	5.2%
2008/09	57,070,586	54,618,086	95.7%	-	0.0%	2,452,500	4.3%
2009/10	41,302,301	40,087,301	97.1%	-	0.0%	1,215,000	2.9%
2010/11	12,599,761	12,229,761	97.1%	-	0.0%	370,000	2.9%
<i>Total</i>	<i>1,625,836,994</i>	<i>748,812,253</i>	<i>46.1%</i>	<i>783,748,391</i>	<i>48.2%</i>	<i>93,276,350</i>	<i>5.7%</i>

Note: The percentages of the claim payments borne by the Fund and by the reinsurers and the deductibles are calculated to the nearest decimal point only. The aggregation of these percentages in respect of each indemnity year may not therefore add up to 100%.

TABLE 5
APPORTIONMENT OF CLAIM RESERVES AS AT 30 SEPTEMBER 2011

<i>Indemnity Year</i>	<i>Total claim reserves (HK\$)</i>	<i>Claim reserves to be borne by the Fund (HK\$)</i>	<i>% of reserves borne by the Fund</i>	<i>Claim reserves to be borne by reinsurers (HK\$)</i>	<i>% of reserves borne by reinsurers</i>
1986/87	-	-	-	-	-
1987/88	-	-	-	-	-
1988/89	-	-	-	-	-
1989/90	-	-	-	-	-
1990/91	-	-	-	-	-
1991/92	-	-	-	-	-
1992/93	170,643	170,643	100.0%	-	-
1993/94	-	-	-	-	-
1994/95	95,713	95,713	100.0%	-	-
1995/96	-	-	-	-	-
1996/97	747,585	747,585	100.0%	-	-
1997/98	13,269,914	1,407,955	10.6%	11,861,959	89.4%
1998/99	13,638,870	1,062,386	7.8%	12,576,484	92.2%
1999/00	4,374,850	943,295	21.6%	3,431,555	78.4%
2000/01	892,387	877,387	98.3%	15,000	1.7%
2001/02	4,053,655	2,557,391	63.1%	1,496,264	36.9%
2002/03	7,636,151	5,044,017	66.1%	2,592,134	33.9%
2003/04	3,714,033	1,278,875	34.4%	2,435,158	65.6%
2004/05	10,827,653	2,613,267	24.1%	8,214,386	75.9%
2005/06	20,843,996	20,843,996	100.0%	-	-
2006/07	25,306,209	25,306,209	100.0%	-	-
2007/08	16,649,305	16,649,305	100.0%	-	-
2008/09	10,482,640	10,482,640	100.0%	-	-
2009/10	20,560,177	20,560,177	100.0%	-	-
2010/11	865,240	865,240	100.0%	-	-
<i>Total</i>	<i>154,129,021</i>	<i>111,506,081</i>	<i>72.3%</i>	<i>42,622,940</i>	<i>27.7%</i>

Note: All claims notified in the 1986/87, 1987/88, 1988/89, 1989/90, 1990/91, 1991/92, 1993/94 and 1995/96 indemnity years have been settled. There is no outstanding reserve for the claims in those indemnity years.

TABLE 6
PANEL SOLICITORS' COSTS AS AT 30 SEPTEMBER 2011 AS A PROPORTION OF
CLAIM PAYMENTS AND CLAIM RESERVES

<i>Indemnity Year</i>	<i>Total claim payments (HK\$)</i>	<i>Panel Solicitors' costs (HK\$)</i>	<i>Panel Solicitors' costs as a % of claim payments</i>	<i>Total claim reserves (HK\$)</i>	<i>Reserves for Panel Solicitors' costs (HK\$)</i>	<i>Reserves for Panel Solicitors' costs as a % of claim reserves</i>
1986/87	24,843,393	5,174,616	20.8%	-	-	-
1987/88	13,673,564	5,381,029	39.4%	-	-	-
1988/89	29,291,950	7,111,194	24.3%	-	-	-
1989/90	12,470,291	7,995,055	64.1%	-	-	-
1990/91	7,581,520	3,344,250	44.1%	-	-	-
1991/92	8,663,605	3,327,344	38.4%	-	-	-
1992/93	40,361,002	9,927,565	24.6%	170,643	170,643	100.0%
1993/94	33,580,438	15,663,625	46.6%	-	-	-
1994/95	47,815,117	9,869,060	20.6%	95,713	95,713	100.0%
1995/96	80,837,814	19,064,073	23.6%	-	-	-
1996/97	77,654,021	21,319,836	27.5%	747,585	147,585	19.7%
1997/98	186,896,581	54,518,479	29.2%	13,269,914	285,618	2.2%
1998/99	392,860,200	103,459,398	26.3%	13,638,870	838,870	6.2%
1999/00	81,924,590	34,188,289	41.7%	4,374,850	2,064,850	47.2%
2000/01	69,965,792	26,614,186	38.0%	892,387	677,387	75.9%
2001/02	84,098,468	41,771,741	49.7%	4,053,655	903,655	22.3%
2002/03	74,165,861	27,912,559	37.6%	7,636,151	2,436,151	31.9%
2003/04	61,826,932	20,286,965	32.8%	3,714,033	915,718	24.7%
2004/05	66,548,625	12,105,683	18.2%	10,827,653	747,653	6.9%
2005/06	69,649,375	26,363,970	37.9%	20,843,996	1,210,571	5.8%
2006/07	19,720,779	6,637,423	33.7%	25,306,209	3,516,006	13.9%
2007/08	30,434,428	10,885,070	35.8%	16,649,305	1,249,262	7.5%
2008/09	57,070,586	18,820,343	33.0%	10,482,640	1,309,903	12.5%
2009/10	41,302,301	12,543,400	30.4%	20,560,177	4,661,514	22.7%
2010/11	12,599,761	2,305,507	18.3%	865,240	349,703	40.4%
<i>Total</i>	<i>1,625,836,994</i>	<i>506,590,660</i>	<i>31.2%</i>	<i>154,129,021</i>	<i>21,580,802</i>	<i>14.0%</i>

TABLE 7**COMPARISON OF REINSURANCE PREMIUMS PAID, CONTRIBUTIONS COLLECTED AND CLAIMS LOSSES**

<i>Indemnity Year</i>	<i>Claims Losses (HK\$ million)</i>	<i>Annual Contributions (HK\$)</i>	<i>No. of Claims</i>	<i>Contractual Reinsurance Premium (HK\$)</i>	<i>Actual Reinsurance Premium (HK\$)</i>
1998/1999	406.5	112,178,110	483	109,099,050 2 years excess of loss 3 years stop loss	109,099,050
1999/2000	86.3	85,231,403	263		
2000/2001	70.9	95,910,707	230	83,232,650	123,253,900 (40,021,250 for HIH Replacement)
2001/2002	88.2	236,886,755	215	113,625,000	95,262,865.81
2002/2003	81.8	222,237,005	269	164,756,250	128,899,595.32
2003/2004	65.5	219,607,685	165	238,896,563	172,230,412.38
2004/2005	77.4	217,484,983	159	340,427,602	218,023,353.30
2005/2006	90.5	242,335,709	165	75,000,000	75,000,000
2006/2007	45.0	256,756,900	141	79,500,000	79,500,000
2007/2008	47.1	283,223,840	308	79,500,000	79,500,000
2008/2009	67.6	318,613,840	147	79,500,000	79,500,000
2009/2010	61.9	301,445,650	139	79,500,000	79,500,000
2010/2011	13.5	309,996,404	172	79,500,000	79,500,000

Note :

- (1) Claims Losses include claim payments and reserves and are calculated to the nearest decimal point.
- (2) Annual Contributions include claims loadings.
- (3) Contractual reinsurance premiums differ from actual premiums paid as the 5-year reinsurance programme (from 2000/2001 to 2004/2005) provided for a reduction in premium should there be a decrease in claims during the 5 years.
- (4) Contribution before reduction is used for 2010/2011 indemnity year.

TABLE 8**COMPARISON OF CONTRIBUTIONS AND CLAIMS BY FIRM SIZE****(1 OCTOBER 2010 - 30 SEPTEMBER 2011)****(including firms which ceased practice and firms which changed names)**

No. of Solicitors in Firm	No. of Firms	No. of Firms with Claims	% of Firms with Claims	Total No. of Claims	% of Total No. of Claims	Contribution Payments (HK\$ thousand)	Claim Payments (HK\$ thousand)	Claim Reserves (HK\$ thousand)
1	167	3	1.80%	3	1.74%	11,295.2	0.0	0.0
2 to 5	412	34	8.25%	46	26.74%	83,088.3	1,799.4	802.8
6 to 10	111	12	10.81%	21	12.21%	45,369.3	111.3	62.4
11 to 20	60	11	18.33%	16	9.30%	44,111.2	382.2	0.0
21 to 30	26	9	34.62%	29	16.86%	32,297.2	10,306.9	0.0
31 to 50	14	5	35.71%	23	13.37%	26,636.3	0.0	0.0
Over 50	13	10	76.92%	34	19.77%	67,198.9	0.0	0.0
Total	803	84		172		309,996.4	12,599.8	865.2

*Note: The percentages of the number of claims are calculated to the nearest decimal point only.
The aggregation of these percentages may not therefore add up to 100%.
Contribution before reduction is used for 2010/2011 indemnity year.*

TABLE 9**CONTRIBUTIONS AND CLAIMS LOADINGS****(1 OCTOBER 2010 – 30 SEPTEMBER 2011)****(including firms which ceased practice and firms which changed names)**

No. of Solicitors in Firm	No. of Firms	No. of Firms with Claims Loadings	% of Firms with Claims Loadings	Contribution Payments (HK\$ thousand)	Claims Loadings (HK\$ thousand)	Claims Loadings as a % of Contribution Payments
1	167	5	2.99%	11,295.2	323.4	2.86%
2 to 5	412	23	5.58%	83,088.3	2,899.0	3.49%
6 to 10	111	13	11.71%	45,369.3	1,539.0	3.39%
11 to 20	60	5	8.33%	44,111.2	1,440.8	3.27%
21 to 30	26	7	26.92%	32,297.2	992.6	3.07%
31 to 50	14	2	14.29%	26,636.3	317.1	1.19%
Over 50	13	3	23.08%	67,198.9	1,505.3	2.24%
<i>Total</i>	803	58		309,996.4	9,017.2	

Note: Contribution before reduction is used for 2010/2011 indemnity year.

TABLE 10**COMPARISON OF CONTRIBUTIONS AND GROSS FEE INCOME AS AT 30 SEPTEMBER 2011**

Indemnity Year	Gross Fees of the Profession (HK\$)	Contribution Payments (HK\$)	Contributions as a % of Gross Fees
1997/98	11,786,875,405	106,778,078	0.91%
1998/99	13,111,052,058	112,178,110	0.86%
1999/00	11,089,453,975	85,231,403	0.77%
2000/01	11,015,561,030	95,910,707	0.87%
2001/02	11,619,410,157	236,886,755	2.04%
2002/03	11,221,835,142	355,129,255 *	3.16%
2003/04	10,921,884,902	219,607,685	2.01%
2004/05	10,635,107,496	217,484,983	2.04%
2005/06	11,725,199,370	242,335,709	2.07%
2006/07	12,906,183,745	256,756,900	1.99%
2007/08	15,069,395,251	283,223,840	1.88%
2008/09	18,446,786,551	318,613,840	1.73%
2009/10	18,586,558,400	301,445,650	1.62%
2010/11	18,337,954,982	309,996,404	1.69%

Note: Contribution before reduction is used for 2010/2011 indemnity year.

* Shortfall Contributions are included in the Contributions collected for the 2002/03 indemnity year.

TABLE 11**COMPARISON OF CONTRIBUTIONS AND GROSS FEE INCOME BY FIRM SIZE
(1 OCTOBER 2010 – 30 SEPTEMBER 2011)
(including firms which ceased practice)**

No. of Solicitors in Firm	No. of Firms	Gross Fees of the Profession (HK\$)	Contribution Payments (HK\$)	Contribution Payments as a % of Gross Fee Income
1	167	247,749,946	11,295,173	4.56%
2 to 5	412	2,260,748,359	83,088,322	3.68%
6 to 10	111	1,810,525,989	45,369,328	2.51%
11 to 20	60	2,423,179,202	44,111,230	1.82%
21 to 30	26	2,219,213,435	32,297,162	1.46%
31 to 50	14	2,568,331,035	26,636,337	1.04%
Over 50	13	6,808,207,016	67,198,852	0.99%
Total	803	18,337,954,982	309,996,404	

Note: Contribution before reduction is used for 2010/2011 indemnity year.

TABLE 12 - DEVELOPMENT OF CLAIMS AS AT 30 SEPTEMBER 2011

<i>Indemnity Year</i>	<i>Claims Closed</i>		<i>Claims Outstanding</i>		<i>Total</i>
	<i>With Payment</i>	<i>Without Payment</i>	<i>With Reserve or Payment</i>	<i>Without Reserve or Payment</i>	
1986/1987	26	38	0	0	64
1987/1988	27	31	0	0	58
1988/1989	41	85	0	0	126
1989/1990	117	61	0	0	178
1990/1991	15	57	0	0	72
1991/1992	22	71	0	0	93
1992/1993	50	67	1	0	118
1993/1994	66	77	0	0	143
1994/1995	37	113	1	0	151
1995/1996	44	106	0	0	150
1996/1997	57	115	4	0	176
1997/1998	113	202	15	6	336
1998/1999	196	181	105	1	483
1999/2000	60	192	8	3	263
2000/2001	53	165	11	1	230
2001/2002	50	151	11	3	215
2002/2003	35	177	21	36	269
2003/2004	30	115	12	8	165
2004/2005	24	96	5	34	159
2005/2006	19	60	8	78	165
2006/2007	12	36	15	78	141
2007/2008	19	15	11	263	308
2008/2009	13	20	18	96	147
2009/2010	8	15	19	97	139
2010/2011	0	2	11	159	172
TOTAL	1,134	2,248	276	863	4521

TABLE 13
OUTSTANDING LIABILITIES OF THE FUND

<i>Indemnity Year</i>	<i>Total Claim Payments (HK\$)</i>	<i>Total Claim Reserves (HK\$)</i>	<i>Total Claim Payments & Reserves (HK\$)</i>	<i>Outstanding Liabilities of the Fund (HK\$)</i>
1986/1987	24,843,393	-	24,843,393	-
1987/1988	13,673,564	-	13,673,564	-
1988/1989	29,291,950	-	29,291,950	-
1989/1990	12,470,291	-	12,470,291	-
1990/1991	7,581,520	-	7,581,520	-
1991/1992	8,663,605	-	8,663,605	-
1992/1993	40,361,002	170,643	40,531,645	170,643
1993/1994	33,580,438	-	33,580,438	-
1994/1995	47,815,117	95,713	47,910,830	95,713
1995/1996	80,837,814	-	80,837,814	-
1996/1997	77,654,021	747,585	78,401,606	261,655
1997/1998	186,896,581	13,269,914	200,166,495	10,794,383
1998/1999	392,860,200	13,638,870	406,499,070	23,226,703
1999/2000	81,924,590	4,374,850	86,299,440	
2000/2001	69,965,792	892,387	70,858,179	
2001/2002	84,098,468	4,053,655	88,152,123	2,557,391
2002/2003	74,165,861	7,636,151	81,802,012	5,044,017
2003/2004	61,826,932	3,714,033	65,540,965	1,278,875
2004/2005	66,548,625	10,827,653	77,376,278	2,613,267
2005/2006	69,649,375	20,843,996	90,493,371	20,843,996
2006/2007	19,720,779	25,306,209	45,026,988	25,306,209
2007/2008	30,434,428	16,649,305	47,083,733	16,649,305
2008/2009	57,070,586	10,482,640	67,553,226	10,482,640
2009/2010	41,302,301	20,560,177	61,862,478	20,560,177
2010/2011	12,599,761	865,240	13,465,001	865,240
<i>Total</i>	<i>1,625,836,994</i>	<i>154,129,021</i>	<i>1,779,966,015</i>	<i>140,750,214</i>

Note : Outstanding liabilities include claim reserves to be borne by the Fund, and liabilities to be borne by the Fund as a result of the insolvency of HIH Casualty and General Insurance Ltd, FAI General Insurance Company Ltd and FAI First Pacific Insurance Co. Ltd.

TABLE 14**COMPARISON OF CONTRIBUTIONS, CLAIMS LOADINGS AND LOSSES**

<i>Indemnity Year</i>	<i>Annual Contributions (HK\$)</i>	<i>Claims Loadings (HK\$)</i>	<i>Total Incurred Losses (HK\$)</i>	<i>Loadings as % of Losses</i>	<i>Loadings as % of Contributions</i>	<i>Recovery by way of Deductibles (HK\$)</i>
1997/1998	106,778,078	3,996,258	200,166,495	2.00%	3.74%	8,602,085
1998/1999	112,178,110	5,815,656	406,499,070	1.43%	5.18%	20,001,529
1999/2000	85,231,403	4,187,326	86,299,440	4.85%	4.91%	5,753,942
2000/2001	95,910,707	5,547,161	70,858,179	7.83%	5.78%	4,715,100
2001/2002	236,886,755	17,716,648	88,152,123	20.10%	7.48%	3,526,089
2002/2003	222,237,005	12,044,600	81,802,012	14.72%	5.42%	3,483,943
2003/2004	219,607,685	10,909,400	65,540,965	16.65%	4.97%	3,149,697
2004/2005	217,484,983	10,485,444	77,376,278	13.55%	4.82%	2,782,449
2005/2006	242,335,709	9,119,595	90,493,371	10.08%	3.76%	3,186,779
2006/2007	256,756,900	9,946,895	45,026,988	22.09%	3.87%	1,440,498
2007/2008	283,223,840	9,504,563	47,083,733	20.19%	3.36%	1,592,500
2008/2009	318,613,840	7,765,371	67,553,226	11.50%	2.44%	2,452,500
2009/2010	301,445,650	7,518,788	61,862,478	12.15%	2.49%	1,215,000
2010/2011	309,996,404	9,017,161	13,465,001	66.97%	2.91%	370,000

Note :

- (1) Total incurred losses include claim payments and reserves, some of which are covered by the deductibles paid by indemnified firms.
- (2) Annual Contributions include claims loadings.
- (3) Contribution before reduction is used for 2010/2011 indemnity year.

TABLE 15

**FREQUENCY OF CLAIMS BY AREA OF PRACTICE
(1 OCTOBER 2006 – 30 SEPTEMBER 2011)**

AREA OF PRACTICE	INDEMNITY YEAR											
	2006/ 07	% of Total No. of Claims	2007/ 08	% of Total No. of Claims	2008/ 09	% of Total No. of Claims	2009/ 10	% of Total No. of Claims	2010/ 11	% of Total No. of Claims	Total No. of Claims in the 5 Indemnity Years	% of Total No. of Claims in 5 Indemnity Years
COMMERCIAL	26	18.44%	22	7.14%	19	12.93%	18	12.95%	18	10.47%	103	11.36%
CONVEYANCING	46	32.62%	218	70.78%	42	28.57%	48	34.53%	37	21.51%	391	43.11%
LITIGATION	51	36.17%	46	14.94%	53	36.05%	48	34.53%	67	38.95%	265	29.22%
PROBATE	4	2.84%	7	2.27%	2	1.36%	1	0.72%	3	1.74%	17	1.87%
LANDLORD & TENANT	0	0.00%	0	0.00%	3	2.04%	0	0.00%	1	0.58%	4	0.44%
PATENTS, TRADEMARKS	9	6.38%	8	2.60%	19	12.93%	16	11.51%	19	11.05%	71	7.83%
TAX MATTERS	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
OTHERS	5	3.55%	7	2.27%	9	6.12%	8	5.76%	27	15.70%	56	6.17%
TOTAL	141		308		147		139		172		907	

*Note : The percentages of the number of claims in each area of practice are calculated to the nearest decimal point only.
The aggregation of these percentages in respect of each indemnity year may not therefore add up to 100%.*

TABLE 16

**VALUE OF CLAIMS BY AREA OF PRACTICE
(1 OCTOBER 2006 – 30 SEPTEMBER 2011)**

AREA OF PRACTICE	INDEMNITY YEAR											
	2006/2007 (HK\$)	% of Total Value of Claims	2007/2008 (HK\$)	% of Total Value of Claims	2008/2009 (HK\$)	% of Total Value of Claims	2009/2010 (HK\$)	% of Total Value of Claims	2010/2011 (HK\$)	% of Total Value of Claims	Total Value of Claims in 5 Indemnity Years (HK\$)	% of Total Value of Claims in 5 Indemnity Years
COMMERCIAL	-	-	10,942,481	23.24%	2,075,090	3.07%	9,207,873	14.88%	10,064,630	74.75%	32,290,074	13.74%
CONVEYANCING	38,623,803	85.78%	22,941,041	48.72%	44,989,938	66.60%	31,805,750	51.41%	402,785	2.99%	138,763,317	59.05%
LITIGATION	5,753,865	12.78%	13,200,211	28.04%	17,502,060	25.91%	19,893,034	32.16%	2,970,556	22.06%	59,319,726	25.24%
PROBATE	649,320	1.44%	-	-	-	-	-	-	-	-	649,320	0.28%
LANDLORD & TENANT	-	-	-	-	296,178	0.44%	-	-	-	-	296,178	0.13%
PATENTS, TRADEMARKS	-	-	-	-	-	-	-	-	-	-	-	-
TAX MATTERS	-	-	-	-	-	-	-	-	-	-	-	-
OTHERS	-	-	-	-	2,689,960	3.98%	955,821	1.55%	27,030	0.20%	3,672,811	1.56%
TOTAL	45,026,988		47,083,733		67,553,226		61,862,478		13,465,001		234,991,426	

- Note :
- (1) Value of claims includes claims paid and reserved.
 - (2) The percentages of the value of claims in each area of practice are calculated to the nearest decimal point only.
The aggregation of these percentages in respect of each indemnity year may not therefore add up to 100%.

TABLE 17

**NUMBER OF CLAIMS BY TYPE OF ERRORS IN CONVEYANCING
(1 OCTOBER 2006 - 30 SEPTEMBER 2011)**

Type of Errors in Conveyancing	INDEMNITY YEAR					Total no. of Claims in 5 indemnity years	% of Total No. of Claims in Conveyancing
	2006/07	2007/08	2008/09	2009/10	2010/11		
	NO. OF CLAIMS						
<i>Breach of undertaking</i>	1	1	0	2	0	4	1.0%
<i>Conflict of Interest</i>	0	0	0	2	0	2	0.5%
<i>Delay irrespective of time limits</i>	1	1	2	1	0	5	1.3%
<i>Failure to spot/investigate defect</i>	1	0	0	0	0	1	0.3%
<i>Failure to act per client's instruction</i>	0	2	1	2	2	7	1.8%
<i>Failure to advise correctly</i>	25	192	22	12	9	260	66.5%
<i>Failure to answer requisitions</i>	0	0	2	5	4	11	2.8%
<i>Failure to check client's I.D.</i>	0	1	1	0	0	2	0.5%
<i>Failure to investigate title</i>	0	0	0	7	7	14	3.6%
<i>Failure to search properly</i>	0	0	0	1	0	1	0.3%
<i>Failure to supervise</i>	0	0	0	0	0	0	0.0%
<i>Failure to verify/check information</i>	2	5	0	0	1	8	2.0%
<i>Fraud by clients*</i>	1	1	0	2	0	4	1.0%
<i>Fraud by employee*</i>	0	0	0	0	2	2	0.5%
<i>Fraud by principal*</i>	0	0	0	0	0	0	0.0%
<i>Incorrect preparation/drafting</i>	3	1	0	3	1	8	2.0%
<i>Insufficient information</i>	2	2	0	1	0	5	1.3%
<i>Late notices/requisitions</i>	0	0	0	0	0	0	0.0%
<i>Late/failed registration</i>	1	2	0	1	0	4	1.0%
<i>Late/failed stamping</i>	0	1	0	0	1	2	0.5%
<i>Loss of documents</i>	3	0	0	1	3	7	1.8%
<i>Missed time limits</i>	2	4	2	1	0	9	2.3%
<i>No apparent negligence</i>	2	3	5	5	1	16	4.1%
<i>Other failure to take correct action</i>	0	1	6	1	6	14	3.6%
<i>Causes not specified</i>	2	1	1	1	0	5	1.3%
Total	46	218	42	48	37	391	

* Data only include those claims where the major cause giving rise to the claims is fraud.

TABLE 18

**VALUE OF CLAIMS BY TYPE OF ERRORS IN CONVEYANCING
(1 OCTOBER 2006 - 30 SEPTEMBER 2011)**

Type of Errors in Conveyancing	INDEMNITY YEAR					Total Value of Claims ** in 5 indemnity years (HK\$)	% of Total Value of Claims in Conveyancing
	2006/07	2007/08	2008/09	2009/10	2010/2011		
	VALUE OF CLAIMS (HK\$)						
Breach of undertaking	6,975,352	132,027	-	-	-	7,107,379	5.1%
Conflict of interest	-	-	-	-	-	-	0.0%
Delay irrespective of time limits	718,513	-	8,074,867	1,211,209	-	10,004,589	7.2%
Failure to spot/investigate defect	-	-	-	-	-	-	0.0%
Failure to act per client's instruction	-	-	11,395	5,614,765	-	5,626,160	4.1%
Failure to advise correctly	11,888,727	9,151,202	33,824,999	12,737,459	223,544	67,825,931	48.9%
Failure to answer requisitions	-	-	885,111	6,403,743	98,740	7,387,594	5.3%
Failure to check client's I.D.	-	-	-	-	-	-	0.0%
Failure to investigate title	-	-	-	4,438,879	-	4,438,879	3.2%
Failure to search properly	-	-	-	1,242,615	-	1,242,615	0.9%
Failure to supervise	-	-	-	-	-	-	0.0%
Failure to verify/check information	12,278,379	5,643,706	-	-	-	17,922,085	12.9%
Fraud by clients*	4,646,425	7,047,304	-	152,020	-	11,845,749	8.5%
Fraud by employee*	-	-	-	-	31,634	31,634	0.02%
Fraud by principal*	-	-	-	-	-	-	0.00%
Incorrect preparation/drafting	9,544	-	-	-	-	9,544	0.01%
Insufficient information	-	-	-	-	-	-	0.0%
Late notices/requisitions	-	-	-	-	-	-	0.0%
Late/failed registration	20,297	-	-	-	-	20,297	0.01%
Late/failed stamping	-	-	-	-	-	-	0.0%
Loss of documents	-	-	-	-	-	-	0.0%
Missed time limits	2,086,566	966,802	968,874	-	-	4,022,242	2.9%
No apparent negligence	-	-	-	5,060	-	5,060	0.004%
Other failure to take correct action	-	-	687,027	-	48,867	735,894	0.5%
Causes not specified	-	-	537,665	-	-	537,665	0.4%
Total	38,623,803	22,941,041	44,989,938	31,805,750	402,785	138,763,317	

* Data only include those claims where the major cause giving rise to the claims is fraud.

** Value of claims includes claims paid and reserved.

TABLE 19**LOSS RATIOS AS AT 30 SEPTEMBER 2011**

Indemnity Year	Number of claims	Annual Contributions (HK\$)	Claims Losses (HK\$)	Loss ratio
1997/98	336	106,778,078	200,166,495	187%
1998/99	483	112,178,110	406,499,070	362%
1999/00	263	85,231,403	86,299,440	101%
2000/01	230	95,910,707	70,858,179	74%
2001/02	215	236,886,755	88,152,123	37%
2002/03	269	222,237,005	81,802,012	37%
2003/04	165	219,607,685	65,540,965	30%
2004/05	159	217,484,983	77,376,278	36%
2005/06	165	242,335,709	90,493,371	37%
2006/07	141	256,756,900	45,026,988	18%
2007/08	308	283,223,840	47,083,733	17%
2008/09	147	318,613,840	67,553,226	21%
2009/10	139	301,445,650	61,862,478	21%
2010/11	172	309,996,404	13,465,001	4%

Note :

- (1) Loss ratio is the ratio of contributions to claims losses (claims paid and reserved).
100% loss ratio means the contributions equal to the incurred losses.
200% loss ratio means the amount of claims losses is double the contributions collected.
- (2) Whilst the higher the ratio, the greater the amount by which claims losses exceed the contributions collected, it should be borne in mind it takes about 4 years before claims are sufficiently developed to provide a figure close to a final loss ratio. The loss ratios for the 2007/08 indemnity year onwards cannot therefore be taken as the final loss ratios.
- (3) Contribution before reduction is used for 2010/2011 indemnity year.

TABLE 20

ANTICIPATED MAXIMUM SHORTFALL AS A RESULT OF THE INSOLVENCY OF HIH CASUALTY AND GENERAL INSURANCE LTD. ("HIH"), FAI GENERAL INSURANCE COMPANY LTD. ("FAI") AND FAI FIRST PACIFIC INSURANCE CO. LTD. ("FAI PACIFIC") AS AT 30 SEPTEMBER 2011

(1) Outstanding claims provision recoverable from reinsurers

Indemnity Year	(a) Excess of Loss Layer			(b) Stop Loss Layer			(c) "Incurred but not reported" reserve #			Total (a)+(b)+(c)
	HIH	FAI	FAI Pacific	HIH	FAI	FAI Pacific	HIH	FAI	FAI Pacific	
1988/89	-	-	-	-	-	-	-	-	-	-
1989/90	-	-	-	-	-	-	-	-	-	-
1990/91	-	-	-	-	-	-	-	-	-	-
1991/92	-	-	-	-	-	-	-	-	-	-
1992/93	-	-	-	-	-	-	-	-	-	-
1993/94	-	-	-	-	-	-	-	-	-	-
1994/95	-	-	-	-	-	-	-	-	-	-
1995/96	-	-	-	-	-	-	-	-	-	-
1996/97	-	-	-	-	-	261,655	-	-	-	261,655
1997/98	6,049,599	-	4,744,784	-	-	-	-	-	-	10,794,383
1997/98-2000/2001	N/A	N/A	N/A	N/A	N/A	N/A	(460)	-	168	(292)
1998/99-1999/2000	23,226,703 *	-	-	-	-	-	-	-	-	23,226,703
1998/99-2000/2001	-	-	-	-	-	-	-	-	-	-
2001/2002	-	-	-	-	-	-	-	-	-	-
2001/02	-	-	-	-	-	-	-	-	-	-
2002/03	-	-	-	-	-	-	-	-	-	-
2003/04	-	-	-	-	-	-	-	-	-	-
2004/05	-	-	-	-	-	-	-	-	-	-
2005/06	-	-	-	-	-	-	-	-	-	-
2006/07	-	-	-	-	-	-	-	-	-	-
2007/08	-	-	-	-	-	-	-	-	-	-
2008/09	-	-	-	-	-	-	-	-	-	-
2009/10	-	-	-	-	-	-	-	-	-	-
2010/11	-	-	-	-	-	-	-	-	-	-
	29,276,302	-	4,744,784	-	-	261,655	(460)	-	168	34,282,449

* including the drop down cover totalling \$11,140,634

no stop loss insurance since 2001/02

(2) Claims receivables from reinsurers

Indemnity Year	(a) Excess of Loss Layer			(b) Stop Loss Layer			(c) Drop Down Layer	Total (a)+(b)+(c)
	HIH	FAI	FAI Pacific	HIH	FAI	FAI Pacific	HIH	
1988/89-99/2000	225,152,786	1,365,851	45,846,341	N/A	N/A	N/A	N/A	272,364,978
1997/98-2000/01	N/A	N/A	N/A	37,500,000	-	8,625,899	8,963,917	55,089,816
	225,152,786	1,365,851	45,846,341	37,500,000	-	8,625,899	8,963,917	327,454,794

ONGOING ISSUES

1. HIH REINSURERS

HIH Casualty and General Insurance Ltd. ("HIH"), FAI General Insurance Company Ltd. ("FAI") and FAI First Pacific Insurance Co. Ltd. ("FAI Pacific") ("the HIH reinsurers") were the excess of loss and stop loss insurers for the Scheme from 1987 onwards. The first 2 companies were placed in provisional liquidation on 15 March 2001 and the third went into provisional liquidation on 9 April 2001. A winding-up order was subsequently made against the first 2 companies on 27 August 2001. The ultimate effect of the insolvency of the HIH group will not be known for some time; meanwhile, a provision is being made in the Fund Accounts to cover an anticipated maximum shortfall. The anticipated maximum shortfall as at 30 September 2011 is set out in table 20.

The Company has also conducted an actuarial study on the total outstanding liabilities of the Fund. Having taken into account the default of the HIH reinsurers, the total outstanding liabilities of the Fund as at 30 September 2011 was approximately HK\$365.866m.

The Company is a member of the Committees of Inspection and the Creditors' Committees of HIH and FAI. The Liquidator has commenced proceedings against various parties including the former directors, auditors and actuary of the companies in the HIH group based on his investigation and the findings of the Royal Commission in Australia. Some of the proceedings have been settled. Schemes of arrangement were implemented in respect of HIH and FAI on 30 May 2006. As of 14 June 2012, a total of US\$6,988,019.44 was paid by HIH, of which US\$643,809.14 was repaid to reinsurers who replaced HIH in accordance with the reinsurance policies. A total of US\$86,494.41 was paid by FAI as interim dividends. The Company is also a member of the Creditors' Committee of FAI Pacific in Hong Kong. A scheme of arrangement was implemented in respect of the provisional liquidation in Hong Kong on 30 November 2002. As of 14 June 2012, a total of HK\$29,364,649.08 was paid by FAI First Pacific as interim dividend and threshold payments i.e. settlements for small claims.

2. QUALIFYING INSURERS SCHEME ("QIS") OR OTHER ALTERNATIVES

At an Extraordinary General Meeting ("EGM") of the Law Society on 16 November 2004, Members voted by a majority of 316 to 255 to replace the Scheme with a QIS.

A notice of EGM, the QIS Rules, the qualifying insurer's agreement, the assigned risk pool management agreement and an explanatory note were issued to the Members on 11 April 2006.

Having considered the structure of the QIS proposed in the QIS Rules and the other documents, Members voted in the EGM on 27 April 2006 by a majority of 1873 to 506 against the implementation of such a scheme.

The Council has set up the PIS Review Working Party ("the Working Party") to consider how to improve the Scheme or such other alternative insurance or indemnity schemes as may be viable. An actuarial analysis of the present contribution formula was performed and provided the following findings:

- The current contribution formula is sufficient to cover the total claims and expenses of administering the Scheme;
- The three rating factors currently used in the formula, namely the average number of principals, average number of assistants and gross fee income are all positively correlated with the net incurred costs and the number of reported claims;
- Any additional rating factors to be introduced to the formula will need to be obtained from members without causing an excessive burden and be verifiable. The Rules will also need to be amended to authorise the collection of such data;
- As with any formula structure, cross subsidization exists and large firms were found to contribute more than the cost attributable to them. Small firms contributed less than or equal to their share of the cost while medium size firms showed mixed results.

The Working Party also appointed Lockton Companies (Hong Kong) Limited to consider the feasibility of a master policy scheme in Hong Kong. It was noted certain features of the Scheme, such as unlimited aggregate cover, are not currently supported by commercial insurers. When coverage comparable to the current Scheme becomes available, Lockton will perform a cost comparison exercise for the Working Party's review.

Meanwhile, the Fund will continue to provide indemnity to the Members in accordance with the current Rules.

PERFORMANCE OF THE FUND'S INVESTMENTS

Mercer Investment Consulting Limited has been appointed as the Company's investment consultant since December 2010. In 2011, the PIS Investment Subcommittee ("Subcommittee") conducted a portfolio structure review and health check of investment managers. It was resolved that two additional global equity managers would be appointed to take over the equity portfolio managed by AllianceBernstein Hong Kong Limited ("AllianceBernstein").

The current investment managers of the Fund are as follows:

- Amundi Hong Kong Limited ("Amundi")
- AllianceBernstein
- MFS Investment Management ("MFS") (appointed in December 2011)
- Grantham Mayo van Otterloo ("GMO") (appointed in December 2011)

The Subcommittee meets every quarter to monitor the investment managers and the guidelines for the investments. The Fund adopts a conservative investment strategy where

where the investments are predominantly placed in fixed income securities. The investment objectives, guidelines and restrictions are summarised as follows:

Investment Objectives:

- to preserve capital and to maximize total return on the portfolio; and
- regarding the bond portfolio, to outperform the Barclays Capital Global Aggregate Index.

The Investment Guidelines and Restrictions applicable to Amundi's portfolio are as follows:

- allowable range in equities: 20% - 35%
- allowable range in bonds: 55% - 80%
- allowable range in cash: 0% - 10%

Total: 100%

Investments are made via the other three managers in the form of pooled funds, as follows:

- AllianceBernstein Global Bond Fund
- MFS Global Concentrated Equity Fund
- GMO Global Equity Allocation Fund

The net returns on the portfolios managed by AllianceBernstein and Amundi for the 12-month period ended 31 December for the past 4 years are as follows:

	<i>AllianceBernstein</i>	<i>Amundi</i>
<i>2008</i>	<i>-19.22%</i>	<i>-9.65%</i>
<i>2009</i>	<i>21.59%</i>	<i>15.23%</i>
<i>2010</i>	<i>8.6%</i>	<i>7.08%</i>
<i>2011</i>	<i>-3.44%</i>	<i>-2.11%</i>

As MFS and GMO were only appointed in December 2011, their net annual returns will be provided in the next Annual Report.

CONCLUSION

The Company's policy is to resolve claims promptly for the benefit of the Fund. However, unmeritorious claims are vigorously defended. Each claim is carefully considered on its own merits.

The Board of Directors of the Company would like to record their appreciation to all members of the relevant PIS Committees for their hard work during the year and the time they gave so freely to serve the profession.

ADPIS 10/11 AR (754954)

Audited Financial Statements
Hong Kong Solicitors Indemnity Fund
30 September 2011

Independent Auditor's Report

To the Manager of
Hong Kong Solicitors Indemnity Fund

We have audited the financial statements of Hong Kong Solicitors Indemnity Fund (the "Fund") set out on pages 4 to 19, which comprise the statement of financial position as at 30 September 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Manager's responsibility for the financial statements

The Manager of the Fund is responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

To the Manager of
Hong Kong Solicitors Indemnity Fund

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Fund as at 30 September 2011 and of its surplus and cash flows for the year then ended in accordance with HKFRS.



Certified Public Accountants
Hong Kong, 17 April 2012

Chan Wai Man
Practising Certificate number: P02487

Hong Kong Solicitors Indemnity Fund

Statement of Comprehensive Income

Year ended 30 September 2011

	<i>Note</i>	2011 <i>HK\$</i>	2010 <i>HK\$</i>
Turnover	3	228,155,565	296,834,332
Gain on disposal of financial assets at fair value through profit or loss		18,931,789	18,123,623
Change in fair value of financial assets at fair value through profit or loss		(109,848,361)	40,551,214
Net claims incurred		(46,870,781)	(24,217,510)
Other revenue	3	47,890,524	40,986,753
Operating expenses	4	<u>(108,699,112)</u>	<u>(105,771,499)</u>
Surplus from operations		29,559,624	266,506,913
Add: Net movement in claims provision and claims receivable relating to reinsurance contracts with HIF Group	5	<u>11,721,291</u>	<u>24,012,324</u>
Surplus before income tax		41,280,915	290,519,237
Income tax expense	6	<u>-</u>	<u>-</u>
Surplus for the year		41,280,915	290,519,237
Other comprehensive income for the year		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u><u>41,280,915</u></u>	<u><u>290,519,237</u></u>

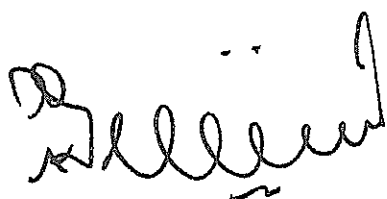
Hong Kong Solicitors Indemnity Fund

Statement of Financial Position

At 30 September 2011

	<i>Note</i>	2011 <i>HK\$</i>	2010 <i>HK\$</i>
Current assets			
Profit commission receivable from reinsurers	7	63,748	69,315,291
Claims provision recoverable and claims receivable	8	28,472,000	73,881,000
Financial assets at fair value through profit or loss	9	1,488,704,301	1,361,152,626
Amount due from Hong Kong Solicitors Indemnity Fund Limited	10	2,901,561	2,617,121
Accounts receivable	11	10,413,873	6,234,825
Prepayments		13,729,500	11,684,692
Cash at bank	12	207,471,167	273,003,768
		<u>1,751,756,150</u>	<u>1,797,889,323</u>
Current liabilities			
Outstanding claims provision		394,339,000	481,058,000
Accrued charges		171,468	212,098
Amounts payable to reinsurers		141,316	1,295,474
Contributions received in advance		182,798,498	183,591,159
Contributions refundable		2,078,083	785,722
		<u>579,528,365</u>	<u>666,942,453</u>
NET ASSETS		<u>1,172,227,785</u>	<u>1,130,946,870</u>
Reserves			
Accumulated fund		<u>1,172,227,785</u>	<u>1,130,946,870</u>

Approved and authorised for issued by the Manager on 17 April 2012



Director



Director

Hong Kong Solicitors Indemnity Fund

Statement of Changes in Equity

Year ended 30 September 2011

	Accumulated fund HK\$
At 1 October 2009	840,427,633
Total comprehensive income for the year	<u>290,519,237</u>
At 30 September 2010 and 1 October 2010	1,130,946,870
Total comprehensive income for the year	<u>41,280,915</u>
At 30 September 2011	<u><u>1,172,227,785</u></u>

Hong Kong Solicitors Indemnity Fund

Statement of Cash Flows

Year ended 30 September 2011

	<i>Note</i>	2011 <i>HK\$</i>	2010 <i>HK\$</i>
OPERATING ACTIVITIES			
Cash generated from operations	15	<u>105,045,132</u>	<u>153,594,678</u>
Net cash from operating activities		<u>105,045,132</u>	<u>153,594,678</u>
INVESTING ACTIVITIES			
Net payment for purchase of financial assets at fair value through profit or loss		(176,620,705)	(341,515,474)
Interest received		43,613,062	37,076,311
Decrease in bank deposits maturing beyond three months		-	49,450,440
Dividend income		<u>4,277,452</u>	<u>3,903,474</u>
Net cash used in investing activities		<u>(128,730,191)</u>	<u>(251,085,249)</u>
Net decrease in cash and cash equivalents		(23,685,059)	(97,490,571)
Cash and cash equivalents at beginning of year		<u>304,530,734</u>	<u>402,021,305</u>
Cash and cash equivalents at end of year	12	<u><u>280,845,675</u></u>	<u><u>304,530,734</u></u>

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements Year ended 30 September 2011

1. GENERAL

Hong Kong Solicitors Indemnity Fund (the "Fund") was established by The Law Society of Hong Kong to provide indemnity against such loss as is mentioned in Section 73A(1) of the Hong Kong Legal Practitioners Ordinance (Chapter 159). The Fund is managed by the Hong Kong Solicitors Indemnity Fund Limited (the "Manager"), a company limited by guarantee.

2. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong.

These financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2010 financial statements. The new / revised HKFRSs that are effective from the current year had no significant effects on the results and financial position of the Fund for the current and prior years. A summary of the principal accounting policies adopted by the Fund is set out below.

Basis of measurement

The measurement basis used in the preparation of these financial statements is historical cost, except for the financial assets at fair value through profit or loss which are measured at fair value as explained in the accounting policies set out below.

Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when and only when the Fund becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when and only when (i) the Fund's contractual rights to future cash flows from the financial asset expire or (ii) the Fund transfers the financial asset and the Fund has transferred substantially all the risks and rewards of ownership of the financial asset. A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

Classification and measurement

Financial assets or financial liabilities are initially recognised at their fair value plus, in the case of financial assets or financial liabilities not carried at fair value through profit or loss, transaction costs that are direct attributable to the acquisition or issue of the financial assets or financial liabilities.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2011

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. They are carried at fair value, with any resultant gain and loss recognised in profit or loss.

Financial assets are classified as held for trading if they are (i) acquired principally for the purpose of selling in the near future; (ii) part of a portfolio of identified financial instruments that the Fund manages together and has a recent actual pattern of short-term profit-taking; or (iii) derivatives that are not financial guarantee contracts or not designated and effective hedging instruments.

Financial assets are designated at initial recognition as at fair value through profit or loss only if (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or (ii) they are part of a group of financial assets and / or financial liabilities that are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in profit or loss.

Financial liabilities

All financial liabilities except for derivatives are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Impairment of financial assets

At the end of each reporting period, the Fund assesses whether there is objective evidence that financial assets, other than those at fair value through profit or loss, are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate. Such impairment loss is reversed in subsequent periods through profit or loss when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Cash equivalents

For the purpose of the statement of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2011

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Fund and when the revenue and costs, if applicable, can be measured reliably and on the following bases:

Contributions are accounted for in the period in which the risk commences. Contributions received in advance represent contributions invoiced and received but not earned at the reporting date.

Dividend income from investments is recognised when the Fund's rights to receive payment have been established.

Interest income from financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Foreign currency translation

The financial statements are presented in the currency of Hong Kong dollars, which is the Fund's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Provisions

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Fund expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Related parties

A party is related to the Fund if

- (a) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Fund; or has an interest in the Fund that gives it significant influence over the Fund; or has joint control over the Fund;
- (b) the party is an associate of the Fund;
- (c) the party is a joint venture in which the Fund is a venturer;
- (d) the party is a member of the key management personnel of the Fund;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of employees of the Fund, or of any entity that is a related party of the Fund.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2011

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Critical accounting estimates and judgements

Estimates and assumptions concerning the future and judgements are made by the Manager in the preparation of the financial statements. They affect the application of the Fund's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

Provision for claims

The estimation of the ultimate liability arising from claims made under indemnity is the Fund's most critical accounting estimate.

Full provision is made for the estimated cost of claims notified but not settled at the end of the reporting period and for the estimated cost of claims incurred but not enough reported ("IBNER") by that date. The provision for amounts recoverable from reinsurers and from solicitors' firms is estimated and shown separately in the statement of financial position. Provision is also made for the estimated cost of servicing claims notified but not settled at the reporting date and expenses on claims incurred but not enough reported at the end of the reporting period.

Management of the Fund takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Estimates and assumptions have been made in arriving at the provision for claims and reinsurance recoveries thereof. The actual results may be significantly different from those envisaged when these estimates were made. In particular, the estimation of IBNER is based upon actual claims experience using predetermined methodology and is generally subject to a greater degree of uncertainty.

	2011 <i>HK\$</i>	2010 <i>HK\$</i>
Case reserves	154,129,000	273,478,000
Estimated IBNER	167,036,000	126,145,000
Estimated allowance for indirect claim handling expenses	14,635,000	16,287,000
Risk margin	58,539,000	65,148,000
	<u>394,339,000</u>	<u>481,058,000</u>

Profit commission receivable from reinsurances

The estimate of the ultimate profit commission to be receivable from reinsurers involve critical accounting estimate. The Fund estimates that provision based primarily on risk premium, latest expenses, claims paid and claims received.

Future changes in HKFRS

At the date of authorisation of these financial statements, the HKICPA has issued a number of new / revised HKFRS that are not yet effective for the current year, which the Fund has not early adopted. The Manager anticipates that the adoption of these new / revised HKFRS in the future accounting periods will have no material impact on the results of the Fund.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2011

3. TURNOVER AND OTHER REVENUE

	2011 <i>HK\$</i>	2010 <i>HK\$</i>
Contribution received	<u>228,155,565</u>	<u>296,834,332</u>
Turnover	<u>228,155,565</u>	<u>296,834,332</u>
Bond interest income	43,502,544	36,270,103
Deposit interest income	110,518	806,208
Dividend income	4,277,452	3,903,474
Sundry income	<u>10</u>	<u>6,968</u>
Other revenue	<u>47,890,524</u>	<u>40,986,753</u>
Total revenue	<u><u>276,046,089</u></u>	<u><u>337,821,085</u></u>

4. OPERATING EXPENSES

	2011 <i>HK\$</i>	2010 <i>HK\$</i>
Accounting fee	241,000	231,000
Auditor's remuneration		
- Current year	105,000	165,000
- Under-provision for prior year	-	15,000
Administration fee paid to Hong Kong Solicitors Indemnity Fund Limited	11,235,994	12,616,594
Bad debts	-	172,188
Bank charges	116,919	117,968
Investments management fee	5,361,129	4,042,624
Legal and professional fees	439,848	1,825,118
Reinsurance premium	91,184,692	86,564,311
Sundry expenses	<u>14,530</u>	<u>21,696</u>
	<u><u>108,699,112</u></u>	<u><u>105,771,499</u></u>

5. NET MOVEMENT IN CLAIMS PROVISION AND CLAIMS RECEIVABLE RELATING TO REINSURANCE CONTRACTS WITH HIH GROUP

In 2001, three of the major reinsurers used by the Fund, which were part of an insurance group in Australia ("HIH Group"), were placed into liquidation. Given the limited information provided by the liquidators except for certain indications that the financial losses could be very substantial, the Manager has concluded that a full provision against the remaining amounts due from these reinsurers would be prudent. The amount provided relates to claims extending over the indemnity years 1998 to 2000. During the year, HK\$11,721,291 was recovered from the reinsurers and has been credited to profit or loss.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2011

6. INCOME TAX EXPENSE

Since the Fund is neither a person nor does it carry on a trade, profession or business for the purpose of section 14 of the Inland Revenue Ordinance (Cap. 112), it is not liable to Hong Kong taxation.

7. PROFIT COMMISSION RECEIVABLE FROM REINSURERS

The profit commission relates to slip policies covering the indemnity period from 1 October 2000 to 30 September 2005. The estimation of amount is based on risk premium, expenses, claims paid and claims reserved.

The amounts due are interest-free and in accordance with the slip policies, final calculation on profit commission receivable from reinsurer took place on 30 September 2010. The carrying amount of the amounts due approximates its fair value.

8. CLAIMS PROVISION RECOVERABLE AND CLAIMS RECEIVABLE

	2011 <i>HK\$</i>	2010 <i>HK\$</i>
Claims provision recoverable from reinsurers and solicitors' firms	51,614,000	104,668,000
Less: provision for impairment – HIH Group	<u>(23,142,000)</u>	<u>(30,787,000)</u>
	<u><u>28,472,000</u></u>	<u><u>73,881,000</u></u>

The Fund does not have any settled claims receivable at the end of the reporting period. The carrying value of claims provision recoverable is considered a reasonable approximation of its fair value.

The Fund allows a credit period of 7 days to its reinsurers. Before accepting any new reinsurers, the Manager performs check on the potential reinsurer's international ratings as well as whether they are regulated by the Hong Kong Insurance Authority.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011 <i>HK\$</i>	2010 <i>HK\$</i>
Equity funds		
- Underlying investments listed in Hong Kong	14,564,999	40,334,504
- Underlying investments listed outside Hong Kong	<u>158,315,611</u>	<u>204,597,818</u>
	172,880,610	244,932,322
Bond funds		
- Underlying investments listed outside Hong Kong	529,637,129	409,806,568
- Money market and cash deposits	73,374,508	51,506,159
- Mutual funds	<u>712,812,054</u>	<u>654,907,577</u>
	<u><u>1,488,704,301</u></u>	<u><u>1,361,152,626</u></u>

The financial assets are designated at initial recognition as at fair value through profit or loss.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2011

10. AMOUNT DUE FROM HONG KONG SOLICITORS INDEMNITY FUND LIMITED

The amount due is unsecured, interest-free and has no fixed repayment term. The carrying amount of the amount due approximates its fair value.

11. ACCOUNTS RECEIVABLE

	2011 HK\$	2010 HK\$
Contributions receivable	3,965,387	2,372,899
Other receivables	6,448,486	3,861,926
	<u>10,413,873</u>	<u>6,234,825</u>

The contributions receivable of the Fund represent contributions receivable from legal practitioners. Under the Hong Kong Legal Practitioners Ordinance (Chapter 159), all the legal practitioners in Hong Kong are required to contribute to the Fund in order to get new or renewal practicing certificates from the Law Society of Hong Kong. The carrying amount of contributions receivable and other receivable are considered a reasonable approximation of its fair value.

The Fund does not allow credit period to the legal practitioners, all payments are due by 30 September except in the case of new firms, in which case payments are due on presentation of debit notes. All of the Fund's contributions receivable and other receivable have been reviewed for indication of impairment. The impaired contributions receivable are mostly from legal practitioners with are in unexpected difficult economic situations. No impairment has been recognised on receivables through the provision account for the years ended 30 September 2011 and 2010.

Included in the Fund's contributions receivable balance are debtors with a carrying amount of HK\$3,965,387 (2010: HK\$2,372,899) which are past due within 3 months as at the reporting date for which the Fund has not provided as there has not been a significant change in its good credit quality and there was no recent history of default and the amounts are still considered recoverable. The Fund does not hold any collateral over these balances.

12. CASH AND CASH EQUIVALENTS

	2011 HK\$	2010 HK\$
Cash at bank	207,471,167	273,003,768
Cash deposits in investment accounts	73,374,508	52,076,526
Less : Time deposits with maturity beyond three months but less than one year	<u>-</u>	<u>(20,549,560)</u>
As stated in statement of cash flows	<u>280,845,675</u>	<u>304,530,734</u>

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2011

13. MANAGEMENT OF RISKS

The Fund is exposed to insurance risk and financial risks because of the nature of its operations and because of the use of financial instruments in its operating activities.

The carrying amount presented in the statement of financial position relate to the following categories of financial assets and financial liabilities.

	2011 <i>HK\$</i>	2010 <i>HK\$</i>
Financial assets		
Loans and receivables:		
Profit commission receivable from reinsurers	63,748	69,315,291
Outstanding claims provision recoverable from reinsurers and solicitors' firms	28,472,000	73,881,000
Amounts due from Hong Kong Solicitors Indemnity Fund Limited	2,901,561	2,617,120
Accounts receivable	10,413,873	6,234,825
Cash at bank	207,471,167	273,003,768
	<u>249,322,349</u>	<u>425,052,004</u>
Financial assets at fair value through profit or loss	<u>1,488,704,301</u>	<u>1,361,152,626</u>
Financial liabilities		
Amortised costs:		
Outstanding claims provision	394,339,000	481,058,000
Amounts payable to reinsurers	141,316	1,295,474
Contributions refundable	2,078,083	785,722
	<u>396,558,399</u>	<u>483,139,196</u>

13.1 Insurance risk management

The Fund was established by The Law Society of Hong Kong. Pursuant to the Solicitors (Professional Indemnity) Rules made by the Council of The Law Society of Hong Kong under Section 73A(l) of the Hong Kong Legal Practitioners Ordinance to provide solicitors with indemnity against loss arising from claims in respect of civil liability incurred in private practice.

The principal risk that the Fund faces is that the actual claims exceed the carrying amount of the claims provision. This could occur when the frequency or severity of claims are greater than estimated. Events under indemnity are random and the actual number and amount of claims will vary from year to year from the estimate established using statistical techniques.

Management of the Fund attempts to diversify this risk by entering into reinsurance with reinsurers. Reinsurance does not discharge the Fund's liability as the primary obligor under the indemnity. Failure of reinsurers to honor their obligations could result in losses to the Fund. In order to minimise losses from reinsurers' defaults, the Fund only places reinsurance with companies which have appropriate international ratings and/or which are regulated by the Hong Kong Insurance Authority.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2011

13. MANAGEMENT OF RISKS (CONTINUED)

13.2 Financial risk management

The financial risks to which the Fund is exposed include market risk (including currency risk, interest risk and other price risk), credit risk and liquidity risk.

The objective of financial risk management is to ensure that the Fund's overall financial risk is at an acceptable level and that appropriate returns are earned for the level of risk assumed. The Manager appointed two investment managers who operate independently of each other and with a certain degree of discretion with the investment guidelines prescribed for them. The Fund adopts a conservative investment guidelines prescribed for them. The Fund adopts a conservative investment strategy where the investments are predominantly placed in fixed income securities. The strategy is to achieve an optimal return without incurring a risk of substantial fluctuations in the value of the accumulated reserves.

(a) Foreign currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instruments will fluctuate because of changes in foreign exchange rates. The Fund's exposures to currency risk arise from its bank balances and financial assets at fair value through profit or loss, which are primarily denominated in Australian Dollars ("AUD"), United States Dollars ("USD"), British Pounds ("GBP"), Japanese Yen ("JPY"), Singapore Dollars ("SGD") and Euro.

The Fund does not hedge its foreign currency risks. However, the Fund's investment managers monitor the foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

The following table provides details of the Fund's exposure at the end of the reporting period to foreign exchange risk arising from recognised assets and liabilities denominated in a currency other than the functional currency of the Fund:

	As at 30 September 2011			As at 30 September 2010		
	Financial assets at fair value through profit or loss	Cash at bank	Overall net exposure	Financial assets at fair value through profit or loss	Cash at bank	Overall net exposure
AUD	4,931,835	-	4,931,835	1,618,333	-	1,618,333
CHF	212,523	-	212,523	912,570	-	912,570
EUR	25,101,801	-	25,101,801	1,538,408	-	1,538,408
GBP	6,768,970	-	6,768,970	810,053	-	810,053
JPY	28,593,865	-	28,593,865	348,443,005	-	348,443,005
KRW	1,363,715,849	-	1,363,715,849	1,033,799,505	-	1,033,799,505
NZD	65	-	65	65	-	65
SGD	4,295,240	-	4,295,240	1,828,021	-	1,828,021
TWD	15,176	-	15,176	15,175	-	15,175
USD	133,997,341	386,924	134,384,265	145,281,993	4,523,666	149,805,659
MYR	6,000,312	-	6,000,312	3,133,549	-	3,133,549
THB	1,945,636	-	1,945,636	-	-	-

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2011

13. MANAGEMENT OF RISKS (CONTINUED)

13.2 Financial risk management (Continued)

(a) Foreign currency risk (continued)

At the end of the reporting period, the Fund's major exposures are in Australian Dollars, United States Dollars, British Pounds, Japanese Yen, Singapore Dollars and Euro.

The following table indicates the approximate change in the Fund's surplus after income tax in response to reasonably possible changes in the foreign exchange rates to which the Fund has significant exposure at the end of the reporting period.

	2011		2010	
	Increase in foreign exchange rates %	Effect on surplus after income tax HK\$	Increase in foreign exchange rates %	Effect on surplus after income tax HK\$
AUD	5	1,882,087	5	609,019
USD	1	10,473,103	1	11,609,939
GBP	5	4,122,201	5	497,069
JPY	5	145,400	5	1,630,224
SGD	5	1,292,201	5	538,837
EUR	5	13,305,222	5	827,205

This analysis assumes that all other variables remain constant. A depreciation in the Fund's functional currencies against the respective foreign currencies would have the same magnitude on the Fund's surplus for the year and equity but of opposite effect.

Exchange differences arising from financial assets at fair value through profit or loss are classified as gain/loss on disposal of financial assets at fair value through profit or loss or change in fair value of financial assets at fair value through profit or loss.

(b) Interest rate risk

The Fund's earnings are affected by changes in the market interest rates due to the impact such changes have on interest income from cash and cash equivalents and financial assets. Investment guidelines are in place and reviewed regularly to provide the general direction for the Fund's investment managers and to monitor the risk undertaken.

At 30 September 2011, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would increase/decrease the Fund's surplus after income tax and accumulated surplus by approximately HK\$1,037,356 (2010: HK\$1,854,000). The 50 basis point increase/decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next reporting date.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2011

13. MANAGEMENT OF RISKS (CONTINUED)

13.2 Financial risk management (Continued)

(c) Other price risk

Other price risk relates to the risk that the fair values or future cash flows of a financial instruments will fluctuate because of changes in market prices (other than changes in interest rates and foreign exchange rates). The Fund is exposed to change in market prices of listed equity and debt securities in respect of its investments in listed equity and debt securities classified as financial assets at fair value through profit and loss.

Investments in equity must be confined to publicly listed widely held and traded securities and there are limits on the exposure to an overseas stock market other than a recognised stock exchange and on the equity of any one company.

If the quoted price for listed equity securities increased or decreased by a hypothetical 10% (2010: 10%) change, the Fund's surplus or deficit for the year and accumulated surplus would have increased or decreased by HK\$17,288,061 (2010: HK\$24,493,232).

If the quoted price for listed equity securities increased or decreased by a hypothetical 8% (2010: 8%) change, the Fund's surplus or deficit for the year and accumulated surplus would have increased or decreased by HK\$13,830,449 (2010: HK\$19,594,586).

(d) Liquidity risk

The Fund manages its liquidity and cash flow profiles to ensure the operations maintain optimum level of liquidity at all times sufficient to meet its obligations as and when they fall due.

All of the Fund's financial liabilities, other than outstanding claims provision, will be settled within one year from the reporting date. This is based on the remaining period at the reporting date to the contractual maturity date and at the earliest date the Fund can be required to pay.

(e) Credit risk

The Fund's credit risk is primarily attributable to cash and cash equivalents and receivables from reinsurers and solicitor's firm.

Cash and cash equivalents are normally placed at fin that have sound credit rating and the Fund considers the credit risk to be insignificant.

Management has a credit policy in place for selection of its reinsurers and approving the credit limits and the exposures to credit risk are monitored such that any outstanding debtors are reviewed and followed up on an ongoing basis.

As at the report date, the Fund does not hold any collateral from the reinsurers and the Fund has no significant concentration of credit risk, with exposure spread over a number of reinsurers and counterparties.

Hence, the maximum exposure to credit risk is represented by the carrying amounts of each class of financial assets. The Fund does not provide any other guarantees which would expose the Fund to credit risk.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2011

13. MANAGEMENT OF RISKS (CONTINUED)

13.2 Financial risk management (Continued)

(f) Fair value measurements recognised in the statement of financial position

The financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

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

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

As at the end of the reporting period, all financial assets of the Fund are grouped as Level 1.

The listed debts and equity securities of the Fund are denominated in US dollars. Fair value have been determined by reference to their quoted bid prices at the reporting date and have been translated using the spot foreign currency rates at the end of the reporting period where appropriate.

14. CAPITAL MANAGEMENT

The Fund's capital management objective is to ensure the Fund's ability to continue as a going concern in order to provide indemnity against such loss as is mentioned in Section 73A(1) of the Hong Kong legal Practitioners Ordinance (Chapter 159).

The Fund has no share capital. The Manager of the Fund will actively and regularly review its accumulated surplus and make adjustment on the contributions receivable from legal practitioners in line of change in economic conditions.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2011

15. CASH GENERATED FROM OPERATIONS

	2011 HK\$	2010 HK\$
Surplus before income tax	41,280,915	290,519,237
Change in fair value of financial assets at fair value through profit or loss	109,848,361	(40,551,214)
Gain on disposal of financial assets at fair value through profit or loss	(18,931,789)	(18,123,623)
Interest income	(43,613,062)	(37,076,311)
Dividend income from financial assets at fair value through profit or loss	(4,277,452)	(3,903,474)
Changes in working capital:		
Decrease in profit commission receivable from reinsurers	69,251,543	66,275,589
Decrease in outstanding claims provision recoverable from reinsurers and solicitor's firm	45,409,000	79,729,000
Decrease in claims receivable from reinsurers	-	7,904,623
(Increase)/Decrease in accounts receivable	(4,179,048)	618,193
Increase in prepayments	(2,044,808)	(11,684,692)
Increase in amount due from Hong Kong Solicitors Indemnity Fund Limited	(284,440)	(3,299,543)
Decrease in outstanding claims provision	(86,719,000)	(103,802,000)
(Decrease) Increase in accrued charged	(40,630)	31,024
(Decrease) Increase in amounts payable to reinsurers	(1,154,158)	980,797
Decrease in contributions received in advance	(792,661)	(73,082,231)
Increase (Decrease) in contributions refundable	1,292,361	(940,697)
Cash generated from operations	105,045,132	153,594,678

16. RELATED PARTY TRANSACTIONS

During the year, the Fund incurred an administrative fee of HK\$11,235,994 (2010: HK\$12,616,594) payable to Hong Kong Solicitors Indemnity Fund Limited. As at 30 September 2011, the amount due from Hong Kong Solicitors Indemnity Fund Limited was HK\$2,901,561 (2010: HK\$2,617,121). The Company and the Fund are under common control by the Law Society of Hong Kong. The carrying amount of the amount due approximates its fair value.

17. CONTINGENT ASSETS

	2011 HK\$	2010 HK\$
Profit commission from reinsurers	95,400,000	63,600,000

The profit commission relates to slip policies covering the indemnity period from 1 October 2008 to 30 September 2013. The calculation of profit commission shall take place on 30 September 2017. Under the slip policies, the Fund shall not be entitled to any profit sharing if the slip policies are cancelled before 30 September 2013 except for certain events. No contingent assets have been recognised.

HONG KONG SOLICITORS INDEMNITY FUND LIMITED
(Incorporated by The Law Society of Hong Kong with limited liability)



PROFESSIONAL INDEMNITY SCHEME
2011/2012 ANNUAL REPORT

Every year a copy of the PIS Annual Report is sent to all Senior Partners of Hong Kong law firms. If you do not wish to receive the PIS Annual Report in the future or prefer to receive a scanned copy by email, please let us know by email at maggie@hklawsoc.org.hk

ISSUED June 2013

**HONG KONG SOLICITORS INDEMNITY
FUND LIMITED**

Directors:-

Peter R. Griffiths (Chairman)
Denis G. Brock
Albert B.K. Dan
Christopher G. Howse
Brian W. Gilchrist
Peter C.L. Lo
Patrick R. Moss
Amirali B. Nasir
Ng Wai Yan
Kevin C.K. Shum
David G. Smyth (appointed on 20/8/2012)
Norris H.C. Yang

Members:-

Peter R. Griffiths
Heidi K.P. Chu
Christopher G. Howse
Peter C.L. Lo
Patrick R. Moss
Amirali B. Nasir
Norris H.C. Yang
The Law Society of Hong Kong

Company Secretary:-

ESSAR Insurance Services Ltd.
("ESSAR")

PIS CLAIMS COMMITTEE

Members:-

Brian W. Gilchrist (Chairman)
Colin B. Cohen (Vice-Chairman)
Charles W. Allen
Keith M. Brandt
Tony K.W. Chow
Simon P. Clarke
George D. Lamplough
Jeffrey H. Lane
Ronald W.T. Tong

Secretary:-

ESSAR

**PROFESSIONAL INDEMNITY
ADVISORY COMMITTEE**

Members:-

Robin S. Peard (Chairman)
Kevin R. Bowers
Lawrence Y.H. Lee*
Susan P.S.K. Liang
Ng Wai Yan
Peter K.H. Ngai
David G. Smyth
Thomas S.T. So
Fiona J. Stewart**
Gareth H. Thomas
Norris H.C. Yang

* Consultant of Aon Hong Kong Ltd.

** Account Director, ESSAR

Secretary:-

Gigi Liu, Assistant Director, Professional
Indemnity Scheme ("ADPIS")

PIS REVIEW WORKING PARTY

Members:-

Peter C.L. Lo (Chairman)
Heidi K.P. Chu
Peter R. Griffiths
Christopher G. Howse
Nicholas D. Hunsworth
Sundaramoorthy Krishnan
Kenneth S.Y. Ng
Benny Y.B. Yeung

Secretary:-

ADPIS

PIS INVESTMENT SUB-COMMITTEE

Members:-

Peter C.L. Lo (Chairman)
John S. Gale
Ip Shing Hing
Elen Lau (appointed on 23/5/2012)
Kher Sheng Lee (appointed on 23/5/2012)
Kevin C.K. Shum
Norris H.C. Yang

Secretary:-

ADPIS

PIS PANEL SOLICITORS SELECTION BOARD

Members:-

Wong Kwai Huen (Chairman)
Stephen W.S. Hung
Kenneth S.Y. Ng
Amirali B. Nasir (appointed on 28/12/2012)
Thomas S.T. So (resigned on 20/12/2012)

Secretary:-

ADPIS

WORKING PARTY ON PIS GROSS FEE INCOME REPORTS AND CONTRIBUTIONS

Members:-

Ip Shing Hing (Chairman)
Albert B.K. Dan
Ng Wai Yan
Wong Kwai Huen

Secretary:-

ADPIS

- AUDITORS** : Mazars CPA Limited
- BANKERS** : Credit Agricole Corporate & Investment Bank
The Standard Chartered Bank Limited
- INVESTMENT MANAGERS** : AllianceBernstein Hong Kong Limited
Amundi Hong Kong Limited
Grantham Mayo Van Otterloo
MFS Investment Management
- BROKER** : Aon Hong Kong Limited ("Aon")
- CLAIMS AND SCHEME MANAGER** : ESSAR
(a subsidiary of the Aon Group of Companies)
- PANEL SOLICITORS** : Bird & Bird
(appointed for the period from Deacons
1 February 2013 to 31 January 2018) Fred Kan & Co
Gall
Howse Williams Bowers
P.C. Woo & Co.
Reed Smith Richards Butler
Smyth & Co

INDEX

THE COMPANY -----	6
THE SCHEME -----	7
INDEMNITY FUND, REINSURANCE, AND INSOLVENCY COVER -----	8
THE SCHEME'S BROKER/MANAGER -----	8
CLAIMS HANDLING PROCEDURE -----	9
TABLE 1 : PROTECTION LIMITS PROVIDED BY THE SCHEME AND REINSURANCE PREMIUMS-----	10
CLAIMS EXPERIENCE	
TABLE 2 : NUMBER OF CLAIMS-----	12
TABLE 3 : CLAIMS PAID AND RESERVED -----	13
TABLE 4 : APPORTIONMENT OF CLAIM PAYMENTS -----	14
TABLE 5 : APPORTIONMENT OF CLAIM RESERVES -----	15
TABLE 6 : PANEL SOLICITORS' COSTS AS A PROPORTION OF CLAIM PAYMENTS AND RESERVES-----	16
TABLE 7 : COMPARISON OF REINSURANCE PREMIUMS PAID, CONTRIBUTIONS COLLECTED AND CLAIMS LOSSES -----	17
TABLE 8 : COMPARISON OF CONTRIBUTIONS AND CLAIMS BY FIRM SIZE----	18
TABLE 9 : CONTRIBUTIONS AND CLAIMS LOADINGS-----	19
TABLE 10 : COMPARISON OF CONTRIBUTIONS AND GROSS FEE INCOME----	20
TABLE 11 : COMPARISON OF CONTRIBUTIONS AND GROSS FEE INCOME BY FIRM SIZE-----	21
TABLE 12 : DEVELOPMENT OF CLAIMS-----	22
TABLE 13 : OUTSTANDING LIABILITIES OF THE FUND -----	23
TABLE 14 : COMPARISON OF CONTRIBUTIONS, CLAIM LOADINGS AND LOSSES -----	24
TABLE 15 : FREQUENCY OF CLAIMS BY AREA OF PRACTICE-----	25
TABLE 16 : VALUE OF CLAIMS BY AREA OF PRACTICE-----	26
TABLE 17 : NUMBER OF CLAIMS BY TYPE OF ERRORS IN CONVEYANCING ---	27

TABLE 18 :	VALUE OF CLAIMS BY TYPE OF ERRORS IN CONVEYANCING -----	28
TABLE 19 :	LOSS RATIOS -----	29
TABLE 20 :	ANTICIPATED MAXIMUM SHORTFALL AS A RESULT OF THE INSOLVENCY OF HIH CASUALTY AND GENERAL INSURANCE LTD. ("HIH"), FAI GENERAL INSURANCE COMPANY LIMITED ("FAI") AND FAI FIRST PACIFIC INSURANCE CO. LTD. ("FAI PACIFIC") AS AT 30 SEPTEMBER 2012 -----	30
 ONGOING ISSUES		
1.	HIH REINSURERS -----	31
2.	QUALIFYING INSURERS SCHEME OR OTHER ALTERNATIVES -----	31
 PERFORMANCE OF THE FUND'S INVESTMENTS -----		33
 CONCLUSION -----		34
 AUDITED FINANCIAL STATEMENTS OF THE FUND -----		35

THE COMPANY

The Hong Kong Solicitors Indemnity Fund Ltd. ("the Company") is a company limited by guarantee with no share capital. It was set up by The Law Society of Hong Kong ("the Society") on 14 April, 1989 to hold, manage and administer the Solicitors Indemnity Fund ("the Fund") under the Professional Indemnity Scheme ("the Scheme"). As the Company's business is to manage the Scheme and provide indemnity to members through the Fund, rather than to operate an insurance business, it does not fall within the provisions of the Insurance Companies Ordinance Cap. 41.

This report from the Directors of the Company gives an account of the activities of the Scheme. The Scheme began operation as an indemnity fund scheme in 1986 after having operated for six years as an ordinary insurance scheme under which firms were issued insurance policies by an independent insurance company on terms negotiated by the Society. During those six years, a significant number of claims were made against solicitors resulting in substantial payments. The underwriters demanded a substantial increase in premiums and the statutory indemnity fund scheme was established to provide the necessary cover by the Society. The Scheme is governed by the Solicitors (Professional Indemnity) Rules ("the Rules") Cap. 159M which set out the scope and conditions of cover.

Since the Fund is neither a person nor does it carry on a trade, profession or business for the purpose of S14 of the Inland Revenue Ordinance, Cap. 112, it is not liable to Hong Kong taxation.

The Directors are responsible for the production of accounts for each indemnity year to provide a true and fair view of the Fund's financial transactions and of the disposition of the Fund's assets and liabilities. It is also the responsibility of the Directors to ensure that proper accounting records are kept which disclose with reasonable accuracy at any time the Fund's financial transactions and assets and liabilities.

Although the auditing of the accounts of the Fund is not a statutory requirement, the Council of the Society considers that in the interests of the Society and its Members the Fund's financial position should be annually audited. There is included in this report a reproduction of the audited accounts of the Fund for the indemnity year ended 30 September 2012.

There is a division of responsibility between the Company and the Society's Council.

The **Company** is concerned with the management and administration of the Fund subject to directions by the Council. It considers the recommendations of the Claims Committee, the Professional Indemnity Advisory Committee and the PIS Investment Sub-Committee and advises the Council on matters pertaining to the smooth and effective operation of the Scheme.

The **Council** is responsible for the appointment of the Company's Directors, Panel Solicitors and Committee Members and the enforcement of the Rules. It also supervises the PIS Investment Sub-Committee and monitors the investments of the Fund in conjunction with the Company.

The **Claims Committee** supervises the conduct and settlement of claims.

The **Professional Indemnity Advisory Committee** reviews, examines and advises on any issue relating to professional indemnity referred to it by the Council, the Company and the Claims Committee.

The **PIS Review Working Party** was established by the Council to review the structure and operation of the Scheme, invite and consider the views of members, and make recommendations to the Council in connection therewith. The findings of the Working Party are detailed on page 31 of this report. Having completed its review and reported its findings to the Council, the Working Party was wound up on 5 February 2013.

The **PIS Investment Sub-Committee** was established by the Company for the purpose of reviewing the investment guidelines and performance of the investments of the Fund.

The **PIS Panel Solicitors Selection Board** was established by the Council. Its responsibilities are to establish the procedures necessary for the tendering of panel solicitors for the Scheme and to consider all tender applications and make recommendations to the Council to appoint suitably qualified firms to the panel.

The **Working Party on PIS Gross Fee Income Reports and Contributions** is responsible for considering and making recommendations to the Council on the appropriate action to be taken against those firms which have, in breach of the Rules, failed to submit an application for indemnity and/or a gross fee income report relating to their annual gross fee income or failed to pay their annual contributions.

All Company Directors and all Committee Members serve on a voluntary basis and receive no remuneration from either the Company or the Society.

THE SCHEME

The Scheme, subject to the conditions and exclusions set out in the Rules provides solicitors with indemnity against losses arising from claims in respect of civil liability incurred in private practice.

The Scheme's limit of indemnity for each and every claim was increased from HK\$5 million (inclusive of costs) to HK\$10 million (inclusive of costs) on 1 October, 1994.

Some firms have "top-up" insurance in place to cover claims in excess of HK\$10 million and such cover is a matter for each individual firm to determine based on the level of risk attached to the work conducted by the firm.

As at 30 September 2012, the total liability incurred by the Scheme for the 2011/12 indemnity year was HK\$33,582,455 of which HK\$3,030,378 was in respect of claim payments (including costs) and HK\$30,552,077 was in respect of claim reserves. Since the inception of the Scheme in 1986 and up to 30 September 2012, the Scheme paid a total of HK\$1,668,093,057 on claims (including costs), and the amount reserved in respect of claims is HK\$154,208,671.

INDEMNITY FUND, REINSURANCE, AND INSOLVENCY COVER

The Scheme's limit of indemnity for each and every claim is HK\$10 million (inclusive of costs). Prior to 1 October 2001, the first HK\$1 million of each claim was paid from the Fund and the remainder was provided by reinsurance. This level of retention was increased to HK\$1.5 million from 1 October 2001 to 30 September 2005. Since 1 October 2005, the Fund has entered into reinsurance arrangements with reinsurers whereby the Fund would be responsible for all claims up to an aggregate amount of HK\$100m (inclusive of costs) and all liability in excess of HK\$100m would be borne by reinsurers. The Company has further extended the programme for another 4 years from 1 October 2009 to 30 September 2013.

An insolvency cover runs in tandem with the reinsurance programme from 1 October 2008 to 30 September 2013. The cover insures the Fund against the insolvency of one or more of its reinsurers. For the first reinsurer to become insolvent, the insolvency cover indemnifies the Fund in respect of all claims, notices of intention to make a claim and circumstances notified up to the last date of the indemnity year (being 30 September) immediately preceding the date of insolvency of the first reinsurer. For the second and third reinsurer to become insolvent, the insolvency cover indemnifies the Fund in respect of all claims, notices of intention to make a claim and circumstances notified on or after 1 October 2008 up to the date of insolvency of the second and third reinsurers. Insolvency cover for claims and circumstances notified between the date of insolvency of the second and/or third reinsurer up to 30 September 2013 has been arranged with effect from 11 May 2010.

The Company also took out stop loss insurance prior to 1 October 2001 to limit the aggregate liability of its retention. Where the stop loss limit was exhausted, a drop-down policy was available to cover all claims up to the Scheme's liability limit of HK\$10 million per claim. The stop loss and drop down policies expired on 30 September 2001 and Aon was instructed to arrange renewal of cover. The quotations obtained were considered carefully by the Company and the Council but it was decided the proposed coverage was not, on balance, the best value for money. No stop loss cover was purchased until the indemnity year 1 October 2005 but the reinsurance arrangements in respect of that indemnity year could be categorized as stop loss cover without limit.

The limits of liability retained by the Indemnity Fund, the cover provided by stop loss insurance and the amounts of reinsurance premiums paid by the Fund over twenty-six indemnity years up to 2011/12 are shown in Table 1 on page 10.

THE SCHEME'S BROKER/MANAGER

A tender was conducted in 2009 and Aon and ESSAR are reappointed as the Scheme's Broker and Manager respectively from 1 April 2010 to 31 March 2014.

Aon is responsible for advising the Company on the state of the insurance market and the appropriate reinsurance arrangements and reporting on the financial viability of any underwriter who participates in the Scheme. It is also responsible for conveying the needs of the Scheme to underwriters and negotiating with them the best reinsurance terms for the Scheme.

The Fund places reinsurance with companies which have appropriate international ratings and/or which are regulated by the Hong Kong Insurance Authority.

The Manager handles claims with the assistance of Panel Solicitors and under the supervision of the Claims Committee, collects contributions and maintains proper accounting and statistical records of claims.

Under the brokerage and management agreement between Aon, ESSAR and the Company, Aon agreed to refund all brokerage commission and compensation negotiated with and received by Aon from reinsurers to the Company. A total of HK\$37,425,295.88 was rebated from 1 October 2000 to 30 September 2005 for the placement of reinsurance. All reinsurance premiums paid since 1 October 2005 do not carry any brokerage. HK\$1,800,000 was rebated as brokerage for the placement of the insolvency cover in the first 2 years of the 5 year programme.

CLAIMS HANDLING PROCEDURE

The manner in which claims are handled and reserved is contingent upon the ability to assess, as accurately as possible, the amount at which each claim is likely to be settled which, in turn, determines the true position of the Fund.

The Manager takes the initial step in opening a file upon receipt of a notification of a claim or a potential claim. As for claims (as distinct from potential claims), a reserve is placed on the claim upon completion of a preliminary investigation. Reserves are, therefore, funds set aside for unsettled claims and they represent the Fund's potential liabilities. The amount reserved is the estimated quantum of damages and costs (including defence costs) calculated on the assumption of full liability, taking into account the individual circumstances and the savings that might result from disputing either liability or quantum. As the matter proceeds and further information comes to light, the amount of reserve is adjusted accordingly. Thus, the progress of each claim for each individual year is re-assessed at six-monthly intervals until all claims for that year have been settled or otherwise disposed of. Experience shows that claims can sometimes take up to six years to finalize.

TABLE 1

PROTECTION LIMITS PROVIDED BY THE SCHEME AND REINSURANCE PREMIUMS

Indemnity Year	No. of members holding practicing certificate ¹	Limit of liability of the Indemnity Fund (HK\$)	Stop Loss Cover (HK\$)	Excess of Loss Insurance Premium (HK\$)	Stop Loss Insurance Premium (HK\$)	Insolvency Cover Premium (HK\$)	Total Insurance Premium Paid Per Year (HK\$)
1986/87	1,807	25,000,000	50,000,000	5,500,000	1,350,000	--	6,850,000
1987/88	1,998	25,000,000	25,000,000	12,500,000	1,720,000	--	14,220,000
1988/89	2,152	30,000,000	20,000,000	15,500,000	1,600,000	--	17,100,000
1989/90	2,326	30,000,000	20,000,000	19,500,000	1,500,000	--	21,000,000
1990/91	2,479	30,000,000	20,000,000	22,500,000	1,500,000	--	24,000,000
1991/92	2,721	30,000,000	40,000,000	24,700,000	5,250,000	--	29,950,000
1992/93	2,981	30,000,000	60,000,000	26,000,000	5,650,000	--	31,650,000
1993/94	3,307	30,000,000	60,000,000	29,500,000	5,650,000	--	35,150,000
1994/95	3,596	30,000,000	60,000,000	42,500,000	6,515,000	--	49,015,000
1995/96	3,896	30,000,000	60,000,000	42,500,000	7,675,000	--	50,175,000
1996/97	4,309	30,000,000	90,000,000	37,750,000	8,440,000	--	46,190,000
1997/98	4,619	30,000,000	90,000,000	45,000,000	7,755,000	--	52,755,000
1998/99	4,720	90,000,000 (for 3 years)	100,000,000 (for 3 years)	100,230,300 (for 2 years)	8,868,750 (for 3 years)	--	109,099,050
1999/2000	4,890	--	--	--	--	--	--
2000/01	5,070	--	--	83,232,650	--	--	123,253,900
				40,021,250 ²			
2001/02	5,173	--	--	95,262,865.81	--	--	95,262,865.81
2002/03	5,301	--	--	128,899,595.32	--	--	128,899,595.32
2003/04	5,422	--	--	172,230,412.38	--	--	172,230,412.38
2004/05	5,593	--	--	218,023,353.30	--	--	218,023,353.30
2005/06	5,757	100,000,000	Unlimited	--	75,000,000	--	75,000,000
2006/07	5,925	100,000,000	Unlimited	--	79,500,000	--	79,500,000
2007/08	6,205	100,000,000	Unlimited	--	79,500,000	--	79,500,000
2008/09	6,465	100,000,000	Unlimited	--	79,500,000	4,100,000	83,600,000
2009/10	6,782	100,000,000	Unlimited	--	79,500,000	7,069,503 ³	86,569,503
2010/11	7,149	100,000,000	Unlimited	--	79,500,000	11,679,500	91,179,500
2011/12	7,381	100,000,000	Unlimited	--	79,500,000	13,729,500	93,229,500

Note:

- (1) Figure as of 31 December of each year.
(2) Amount paid to reinsurers in place of HIH.
(3) Includes pro-rated premium for insolvency cover arranged with effect from 11 May 2010. Please refer to page 8 for details of insolvency cover.

CLAIMS EXPERIENCE

The statistics provided in Table 2 to Table 20 of this report should be studied in the light of the following remarks:-

- (a) The classification of claims is not an exact science as it is often difficult to determine under which category a particular claim should fall given the fact that many claims are borderline cases; therefore, the classification of claims should not be treated as conclusive;*
- (b) A claim which has been allocated to the current indemnity year may at a later time be allocated to the preceding indemnity year if there was insufficient information available at the time of the notification to determine the exact date when the Indemnified should have become aware of circumstances giving rise to the claim;*
- (c) A claim may sometimes be settled by the Indemnified without indemnity being sought from the Scheme if the cost of the claim is lower than the Indemnified firm's deductible; therefore, the statistics do not reflect claims which have been settled outside the Scheme;*
- (d) With the exception of Table 2, the claims statistics in the tables are computed on the basis of data collected to 30 September 2012 excluding the grace period for notification of claims. The statistics for the 2011/12 indemnity year are therefore to that extent incomplete;*
- (e) All data have been calculated to their nearest decimal point.*

TABLE 2**NUMBER OF CLAIMS INCLUDING NOTIFICATIONS CALCULATED AS AT 30 SEPTEMBER 2012 IN ACCORDANCE WITH THE CLAIMS CLASSIFICATION PROCEDURE ADOPTED BY ESSAR**

<i>Indemnity Year</i>	<i>Number of Claims¹</i>	<i>Percentage Increase/Decrease from previous year²</i>
1986/1987	64	-
1987/1988	58	-9%
1988/1989	126	117%
1989/1990	178	41%
1990/1991	72	-60%
1991/1992	93	29%
1992/1993	118	27%
1993/1994	143	21%
1994/1995	151	6%
1995/1996	150	-1%
1996/1997	176	17%
1997/1998	336	91%
1998/1999	483	44%
1999/2000	263	-46%
2000/2001	230	-13%
2001/2002	215	-7%
2002/2003	269	25%
2003/2004	165	-39%
2004/2005	159	-4%
2005/2006	165	4%
2006/2007	143 ³	-13%
2007/2008	309 ³	116%
2008/2009	147	-52%
2009/2010	139	-5%
2010/2011	174 ³	25%
2011/2012	125	-28%

Note : (1) Number of claims includes claims notified within the grace period.

(2) Percentage increase/decrease in the table has been calculated to the nearest decimal point.

(3) Number of claims in 2006/2007, 2007/2008 and 2010/2011 are different from the figures as of 30 September 2011 because certain claims notified in those indemnity years have been divided into multiple claims.

TABLE 3
CLAIMS PAID AND RESERVED AS AT 30 SEPTEMBER 2012

Indemnity Year	Total Claim Payments (HK\$)	Total Claim Reserves (HK\$)	Total Claim Payments & Reserves (HK\$)
1986/1987	24,843,393	-	24,843,393
1987/1988	13,673,564	-	13,673,564
1988/1989	29,291,950	-	29,291,950
1989/1990	12,470,291	-	12,470,291
1990/1991	7,581,520	-	7,581,520
1991/1992	8,663,605	-	8,663,605
1992/1993	40,361,002	170,643	40,531,645
1993/1994	33,580,438	-	33,580,438
1994/1995	47,909,079	4,383,321	52,292,400
1995/1996	80,837,814	-	80,837,814
1996/1997	77,663,694	28,689	77,692,383
1997/1998	186,907,276	956,639	187,863,915
1998/1999	393,267,634	13,537,862	406,805,496
1999/2000	81,935,556	940,662	82,876,218
2000/2001	69,990,009	398,155	70,388,164
2001/2002	85,481,576	3,095,151	88,576,727
2002/2003	74,892,386	4,182,012	79,074,398
2003/2004	63,323,339	941,769	64,265,108
2004/2005	66,973,041	1,347,855	68,320,896
2005/2006	70,713,286	8,594,972	79,308,258
2006/2007	30,117,096	16,804,871	46,921,967
2007/2008	32,270,428	6,252,640	38,523,068
2008/2009	62,025,660	3,707,737	65,733,397
2009/2010	50,891,332	33,855,286	84,746,618
2010/2011	19,397,710	24,458,330	43,856,040
2011/2012	3,030,378	30,552,077	33,582,455
Total	1,668,093,057	154,208,671	1,822,301,728

Note: (1) An indemnity year begins on 1 October and ends on 30 September of the following year. There is a grace period of 60 days for notifying claims arising or circumstances giving rise to a claim within an indemnity year: hence claims may be notified on or before 29 November in respect of the indemnity year ended on the preceding 30 September.

(2) The table shows the amount of claims paid out in respect of the indemnity year 1986/87 to 2011/12.

(3) A payment in respect of a claim notified in an indemnity year is often paid after the indemnity year in which the claim was notified. The table is NOT a representation of amounts paid within the indemnity years in question, but shows the amounts paid IN RESPECT OF the claims notified in each of those indemnity years. As further claims are paid these amounts will be adjusted.

(4) Claim payments include payments in respect of settlement or judgment of a claim, claimants' costs, costs for defending claims and indemnity investigation.

(5) Claim reserves include reserves for the quantum of a claim, reserves for claimants' costs and defence costs.

TABLE 4
APPORTIONMENT OF CLAIM PAYMENTS AS AT 30 SEPTEMBER 2012

<i>Indemnity Year</i>	<i>Total claim payments (HK\$)</i>	<i>Claim payments which fall within the Fund's retention (HK\$)</i>	<i>% of claim payments borne by the Fund</i>	<i>Claim payments borne by reinsurers (HK\$)</i>	<i>% of claim payments borne by reinsurers</i>	<i>Deductibles paid by indemnified firms (HK\$)</i>	<i>Deductibles as a % of claim payments</i>
1986/87	24,843,393	6,922,847	27.9%	16,460,546	66.3%	1,460,000	5.9%
1987/88	13,673,564	8,174,223	59.8%	2,974,341	21.8%	2,525,000	18.5%
1988/89	29,291,950	10,058,813	34.3%	17,445,224	59.6%	1,787,913	6.1%
1989/90	12,470,291	10,123,428	81.2%	1,236,863	9.9%	1,110,000	8.9%
1990/91	7,581,520	3,846,085	50.7%	3,098,303	40.9%	637,132	8.4%
1991/92	8,663,605	3,746,767	43.2%	4,000,000	46.2%	916,838	10.6%
1992/93	40,361,002	18,284,644	45.3%	19,227,867	47.6%	2,848,491	7.1%
1993/94	33,580,438	12,806,906	38.1%	13,682,797	40.7%	7,090,735	21.1%
1994/95	47,909,079	16,980,372	35.4%	28,145,036	58.7%	2,783,671	5.8%
1995/96	80,837,814	22,752,567	28.1%	54,076,003	66.9%	4,009,244	5.0%
1996/97	77,663,694	35,136,007	45.2%	36,692,472	47.2%	5,835,215	7.5%
1997/98	186,907,276	60,715,862	32.5%	117,589,329	62.9%	8,602,085	4.6%
1998/99	393,267,634	145,360,354	37.0%	227,905,751	58.0%	20,001,529	5.1%
1999/00	81,935,556	31,168,312	38.0%	45,010,668	54.9%	5,756,576	7.0%
2000/01	69,990,009	30,255,506	43.2%	34,980,822	50.0%	4,753,681	6.8%
2001/02	85,481,576	32,572,157	38.1%	49,111,612	57.5%	3,797,807	4.4%
2002/03	74,892,386	30,545,483	40.8%	40,472,960	54.0%	3,873,943	5.2%
2003/04	63,323,339	25,729,918	40.6%	34,413,724	54.3%	3,179,697	5.0%
2004/05	66,973,041	23,167,837	34.6%	40,722,755	60.8%	3,082,449	4.6%
2005/06	70,713,286	67,000,999	94.8%	-	0.0%	3,712,287	5.2%
2006/07	30,117,096	28,111,815	93.3%	-	0.0%	2,005,281	6.7%
2007/08	32,270,428	30,467,928	94.4%	-	0.0%	1,802,500	5.6%
2008/09	62,025,660	58,438,160	94.2%	-	0.0%	3,587,500	5.8%
2009/10	50,891,332	48,988,832	96.3%	-	0.0%	1,902,500	3.7%
2010/11	19,397,710	18,432,710	95.0%	-	0.0%	965,000	5.0%
2011/12	3,030,378	2,985,378	98.5%	-	0.0%	45,000	1.5%
Total	1,668,093,057	782,773,910	46.9%	787,247,073	47.2%	98,072,074	5.9%

Note: The percentages of the claim payments borne by the Fund and by the reinsurers and the deductibles are calculated to the nearest decimal point only. The aggregation of these percentages in respect of each indemnity year may not therefore add up to 100%.

TABLE 5
APPORTIONMENT OF CLAIM RESERVES AS AT 30 SEPTEMBER 2012

Indemnity Year	Total claim reserves (HK\$)	Claim reserves to be borne by the Fund (HK\$)	% of reserves borne by the Fund	Claim reserves to be borne by reinsurers (HK\$)	% of reserves borne by reinsurers
1986/87	-	-	-	-	-
1987/88	-	-	-	-	-
1988/89	-	-	-	-	-
1989/90	-	-	-	-	-
1990/91	-	-	-	-	-
1991/92	-	-	-	-	-
1992/93	170,643	170,643	100.0%	-	-
1993/94	-	-	-	-	-
1994/95	4,383,321	683,321	15.6%	3,700,000	84.4%
1995/96	-	-	-	-	-
1996/97	28,689	28,689	100.0%	-	-
1997/98	956,639	900,894	94.2%	55,745	5.8%
1998/99	13,537,862	1,062,386	7.8%	12,475,476	92.2%
1999/00	940,662	940,662	100.0%	-	-
2000/01	398,155	398,155	100.0%	-	-
2001/02	3,095,151	1,253,323	40.5%	1,841,828	59.5%
2002/03	4,182,012	3,733,649	89.3%	448,363	10.7%
2003/04	941,769	543,618	57.7%	398,151	42.3%
2004/05	1,347,855	1,347,855	100.0%	-	-
2005/06	8,594,972	8,594,972	100.0%	-	-
2006/07	16,804,871	16,804,871	100.0%	-	-
2007/08	6,252,640	6,252,640	100.0%	-	-
2008/09	3,707,737	3,707,737	100.0%	-	-
2009/10	33,855,286	33,855,286	100.0%	-	-
2010/11	24,458,330	24,458,330	100.0%	-	-
2011/12	30,552,077	30,552,077	100.0%	-	-
Total	154,208,671	135,289,108	87.7%	18,919,563	12.3%

Note : All claims notified in the 1986/87, 1987/88, 1988/89, 1989/90, 1990/91, 1991/92, 1993/94 and 1995/96 indemnity years have been settled. There is no outstanding reserve for the claims in those indemnity years.

TABLE 6**PANEL SOLICITORS' COSTS AS AT 30 SEPTEMBER 2012 AS A PROPORTION OF CLAIM PAYMENTS AND CLAIM RESERVES**

<i>Indemnity Year</i>	<i>Total claim payments (HK\$)</i>	<i>Panel Solicitors' costs (HK\$)</i>	<i>Panel Solicitors' costs as a % of claim payments</i>	<i>Total claim reserves (HK\$)</i>	<i>Reserves for Panel Solicitors' costs (HK\$)</i>	<i>Reserves for Panel Solicitors' costs as a % of claim reserves</i>
1986/87	24,843,393	5,174,616	20.8%	-	-	-
1987/88	13,673,564	5,381,029	39.4%	-	-	-
1988/89	29,291,950	7,111,194	24.3%	-	-	-
1989/90	12,470,291	7,995,055	64.1%	-	-	-
1990/91	7,581,520	3,344,250	44.1%	-	-	-
1991/92	8,663,605	3,327,344	38.4%	-	-	-
1992/93	40,361,002	9,927,565	24.6%	170,643	170,643	100.0%
1993/94	33,580,438	15,663,625	46.6%	-	-	-
1994/95	47,909,079	9,963,022	20.8%	4,383,321	383,321	8.7%
1995/96	80,837,814	19,064,073	23.6%	-	-	-
1996/97	77,663,694	21,329,509	27.5%	28,689	28,689	100.0%
1997/98	186,907,276	54,529,174	29.2%	956,639	276,639	28.9%
1998/99	393,267,634	103,866,832	26.4%	13,537,862	737,862	5.5%
1999/00	81,935,556	34,199,255	41.7%	940,662	390,662	41.5%
2000/01	69,990,009	26,638,403	38.1%	398,155	348,155	87.4%
2001/02	85,481,576	43,154,849	50.5%	3,095,151	445,151	14.4%
2002/03	74,892,386	28,639,084	38.2%	4,182,012	1,532,012	36.6%
2003/04	63,323,339	19,883,372	31.4%	941,769	891,769	94.7%
2004/05	66,973,041	12,530,100	18.7%	1,347,855	767,855	57.0%
2005/06	70,713,286	27,427,881	38.8%	8,594,972	323,625	3.8%
2006/07	30,117,096	8,733,740	29.0%	16,804,871	3,442,371	20.5%
2007/08	32,270,428	12,170,311	37.7%	6,252,640	712,640	11.4%
2008/09	62,025,660	22,492,688	36.3%	3,707,737	287,737	7.8%
2009/10	50,891,332	14,852,909	29.2%	33,855,286	6,355,286	18.8%
2010/11	19,397,710	7,985,651	41.2%	24,458,330	2,908,330	11.9%
2011/12	3,030,378	2,100,377	69.3%	30,552,077	8,802,077	28.8%
<i>Total</i>	<i>1,668,093,057</i>	<i>527,485,908</i>	<i>31.6%</i>	<i>154,208,671</i>	<i>28,804,824</i>	<i>18.7%</i>

TABLE 7**COMPARISON OF REINSURANCE PREMIUMS PAID, CONTRIBUTIONS COLLECTED AND CLAIMS LOSSES**

<i>Indemnity Year</i>	<i>Claims Losses (HK\$ million)</i>	<i>Annual Contributions (HK\$)</i>	<i>No. of Claims</i>	<i>Contractual Reinsurance Premium (HK\$)</i>	<i>Actual Reinsurance Premium (HK\$)</i>
1998/1999	406.8	112,178,110	483	109,099,050 2 years excess of loss 3 years stop loss	109,099,050
1999/2000	82.9	85,231,403	263		
2000/2001	70.4	95,910,707	230	83,232,650	123,253,900 (40,021,250 for HIH Replacement)
2001/2002	88.6	236,886,755	215	113,625,000	95,262,865.81
2002/2003	79.1	222,237,005	269	164,756,250	128,899,595.32
2003/2004	64.3	219,607,685	165	238,896,563	172,230,412.38
2004/2005	68.3	217,484,983	159	340,427,602	218,023,353.30
2005/2006	79.3	242,335,709	165	75,000,000	75,000,000
2006/2007	46.9	256,756,900	143	79,500,000	79,500,000
2007/2008	38.5	283,223,840	309	79,500,000	79,500,000
2008/2009	65.7	318,613,840	147	79,500,000	79,500,000
2009/2010	84.7	301,445,650	139	79,500,000	79,500,000
2010/2011	43.9	309,996,404	174	79,500,000	79,500,000
2011/2012	33.6	362,665,656	125	79,500,000	79,500,000

Note :

- (1) Claims Losses include claim payments and reserves and are calculated to the nearest decimal point.
- (2) Annual Contributions include claims loadings.
- (3) Contractual reinsurance premiums differ from actual premiums paid as the 5-year reinsurance programme (from 2000/2001 to 2004/2005) provided for a reduction in premium should there be a decrease in claims during the 5 years.
- (4) Contribution before reduction is used for 2010/2011 and 2011/2012 indemnity years.

TABLE 8

**COMPARISON OF CONTRIBUTIONS AND CLAIMS BY FIRM SIZE
(1 OCTOBER 2011 - 30 SEPTEMBER 2012)
(including firms which ceased practice and firms which changed names)**

No. of Solicitors in Firm	No. of Firms	No. of Firms with Claims	% of Firms with Claims	Total No. of Claims	% of Total No. of Claims	Contribution Payments (HK\$ thousand)	Claim Payments (HK\$ thousand)	Claim Reserves (HK\$ thousand)
1	191	9	4.71%	10	8.00%	12,531.6	19.9	0.0
2 to 5	422	26	6.16%	31	24.80%	88,340.5	2,294.9	23,058.3
6 to 10	115	19	16.52%	22	17.60%	51,635.9	277.0	0.0
11 to 20	64	12	18.75%	19	15.20%	48,297.8	88.9	7,139.4
21 to 30	25	4	16.00%	7	5.60%	39,575.6	144.2	0.0
31 to 50	15	2	13.33%	13	10.40%	37,026.8	0.0	0.0
Over 50	14	8	57.14%	23	18.40%	85,257.5	205.5	354.4
Total	846	80		125		362,665.7	3,030.4	30,552.1

Note: The percentages of the number of claims are calculated to the nearest decimal point only. The aggregation of these percentages may not therefore add up to 100%. Contribution before reduction is used for 2010/2011 and 2011/2012 indemnity years.

TABLE 9**CONTRIBUTIONS AND CLAIMS LOADINGS****(1 OCTOBER 2011 – 30 SEPTEMBER 2012)****(including firms which ceased practice and firms which changed names)**

No. of Solicitors in Firm	No. of Firms	No. of Firms with Claims Loadings	% of Firms with Claims Loadings	Contribution Payments (HK\$ thousand)	Claims Loadings (HK\$ thousand)	Claims Loadings as a % of Contribution Payments
1	191	5	2.62%	12,531.6	716.5	5.72%
2 to 5	422	25	5.92%	88,340.5	3,456.9	3.91%
6 to 10	115	13	11.30%	51,635.9	1,339.3	2.59%
11 to 20	64	8	12.50%	48,297.8	2,451.2	5.08%
21 to 30	25	4	16.00%	39,575.6	364.2	0.92%
31 to 50	15	4	26.67%	37,026.8	1,413.1	3.82%
Over 50	14	3	21.43%	85,257.5	1,617.2	1.90%
<i>Total</i>	846	62		362,665.7	11,358.4	3.13%

Note: Contribution before reduction is used for 2010/2011 and 2011/2012 indemnity years.

TABLE 10**COMPARISON OF CONTRIBUTIONS AND GROSS FEE INCOME AS AT 30 SEPTEMBER 2012**

Indemnity Year	Gross Fees of the Profession (HK\$)	Contribution Payments (HK\$)	Contributions as a % of Gross Fees
1997/98	11,786,875,405	106,778,078	0.91%
1998/99	13,111,052,058	112,178,110	0.86%
1999/00	11,089,453,975	85,231,403	0.77%
2000/01	11,015,561,030	95,910,707	0.87%
2001/02	11,619,410,157	236,886,755	2.04%
2002/03	11,221,835,142	355,129,255 ¹	3.16%
2003/04	10,921,884,902	219,607,685	2.01%
2004/05	10,635,107,496	217,484,983	2.04%
2005/06	11,725,199,370	242,335,709	2.07%
2006/07	12,906,183,745	256,756,900	1.99%
2007/08	15,069,395,251	283,223,840	1.88%
2008/09	18,446,786,551	318,613,840	1.73%
2009/10	18,586,558,400	301,445,650	1.62%
2010/11	18,337,954,982	309,996,404 ²	1.69%
2011/12	20,980,069,083	362,665,656 ²	1.73%

Note :

(1) Shortfall Contributions are included in the Contributions collected for the 2002/03 indemnity year.

(2) Contribution before reduction is used for 2010/2011 and 2011/2012 indemnity years.

TABLE 11**COMPARISON OF CONTRIBUTIONS AND GROSS FEE INCOME BY FIRM SIZE
(1 OCTOBER 2011 – 30 SEPTEMBER 2012)
(including firms which ceased practice)**

No. of Solicitors in Firm	No. of Firms	Gross Fees of the Profession (HK\$)	Contribution Payments (HK\$)	Contribution Payments as a % of Gross Fee Income
1	191	275,306,134	12,531,641	4.55%
2 to 5	422	2,550,042,588	88,340,493	3.46%
6 to 10	115	2,226,220,983	51,635,861	2.32%
11 to 20	64	2,525,557,081	48,297,774	1.91%
21 to 30	25	2,780,702,305	39,575,584	1.42%
31 to 50	15	2,951,571,855	37,026,829	1.25%
Over 50	14	7,670,668,137	85,257,474	1.11%
Total	846	20,980,069,083	362,665,656	1.73%

Note: Contribution before reduction is used for 2010/2011 and 2011/2012 indemnity years.

TABLE 12 - DEVELOPMENT OF CLAIMS AS AT 30 SEPTEMBER 2012

<i>Indemnity Year</i>	<i>Claims Closed</i>		<i>Claims Outstanding</i>		<i>Total</i>
	<i>With Payment</i>	<i>Without Payment</i>	<i>With Reserve or Payment</i>	<i>Without Reserve or Payment</i>	
1986/1987	26	38	0	0	64
1987/1988	27	31	0	0	58
1988/1989	41	85	0	0	126
1989/1990	117	61	0	0	178
1990/1991	15	57	0	0	72
1991/1992	22	71	0	0	93
1992/1993	50	67	1	0	118
1993/1994	66	77	0	0	143
1994/1995	36	113	2	0	151
1995/1996	44	106	0	0	150
1996/1997	59	115	2	0	176
1997/1998	117	206	11	2	336
1998/1999	198	181	103	1	483
1999/2000	63	192	5	3	263
2000/2001	55	165	8	2	230
2001/2002	53	151	8	3	215
2002/2003	35	210	21	3	269
2003/2004	35	115	7	8	165
2004/2005	24	124	4	7	159
2005/2006	22	123	5	15	165
2006/2007	15	52	12	64	143
2007/2008	21	22	8	258	309
2008/2009	17	27	14	89	147
2009/2010	15	23	11	90	139
2010/2011	4	16	13	141	174
2011/2012	0	2	14	109	125
TOTAL	1,177	2,430	249	795	4,651

TABLE 13
OUTSTANDING LIABILITIES OF THE FUND

<i>Indemnity Year</i>	<i>Total Claim Payments (HK\$)</i>	<i>Total Claim Reserves (HK\$)</i>	<i>Total Claim Payments & Reserves (HK\$)</i>	<i>Outstanding Liabilities of the Fund (HK\$)</i>
1986/1987	24,843,393	-	24,843,393	-
1987/1988	13,673,564	-	13,673,564	-
1988/1989	29,291,950	-	29,291,950	-
1989/1990	12,470,291	-	12,470,291	-
1990/1991	7,581,520	-	7,581,520	-
1991/1992	8,663,605	-	8,663,605	-
1992/1993	40,361,002	170,643	40,531,645	170,643
1993/1994	33,580,438	-	33,580,438	-
1994/1995	47,909,079	4,383,321	52,292,400	3,791,321
1995/1996	80,837,814	-	80,837,814	-
1996/1997	77,663,694	28,689	77,692,383	10,041
1997/1998	186,907,276	956,639	187,863,915	50,727
1998/1999	393,267,634	13,537,862	406,805,496	} 20,165,414
1999/2000	81,935,556	940,662	82,876,218	
2000/2001	69,990,009	398,155	70,388,164	
2001/2002	85,481,576	3,095,151	88,576,727	1,253,323
2002/2003	74,892,386	4,182,012	79,074,398	3,733,649
2003/2004	63,323,339	941,769	64,265,108	543,618
2004/2005	66,973,041	1,347,855	68,320,896	1,347,855
2005/2006	70,713,286	8,594,972	79,308,258	8,594,972
2006/2007	30,117,096	16,804,871	46,921,967	16,804,871
2007/2008	32,270,428	6,252,640	38,523,068	6,252,640
2008/2009	62,025,660	3,707,737	65,733,397	3,707,737
2009/2010	50,891,332	33,855,286	84,746,618	33,855,286
2010/2011	19,397,710	24,458,330	43,856,040	24,458,330
2011/2012	3,030,378	30,552,077	33,582,455	30,552,077
<i>Total</i>	<i>1,668,093,057</i>	<i>154,208,671</i>	<i>1,822,301,728</i>	<i>155,292,504</i>

Note : Outstanding liabilities include claim reserves to be borne by the Fund, and liabilities to be borne by the Fund as a result of the insolvency of HIH Casualty and General Insurance Ltd, FAI General Insurance Company Ltd and FAI First Pacific Insurance Co. Ltd.

TABLE 14**COMPARISON OF CONTRIBUTIONS, CLAIMS LOADINGS AND LOSSES**

Indemnity Year	Annual Contributions (HK\$)	Claims Loadings (HK\$)	Total Incurred Losses (HK\$)	Loadings as % of Losses	Loadings as % of Contributions	Recovery by way of Deductibles (HK\$)
1997/1998	106,778,078	3,996,258	187,863,915	2.13%	3.74%	8,602,085
1998/1999	112,178,110	5,815,656	406,805,496	1.43%	5.18%	20,001,529
1999/2000	85,231,403	4,187,326	82,876,218	5.05%	4.91%	5,756,576
2000/2001	95,910,707	5,547,161	70,388,164	7.88%	5.78%	4,753,681
2001/2002	236,886,755	17,716,648	88,576,727	20.00%	7.48%	3,797,807
2002/2003	222,237,005	12,044,600	79,074,398	15.23%	5.42%	3,873,943
2003/2004	219,607,685	10,909,400	64,265,108	16.98%	4.97%	3,179,697
2004/2005	217,484,983	10,485,444	68,320,896	15.35%	4.82%	3,082,449
2005/2006	242,335,709	9,119,595	79,308,258	11.50%	3.76%	3,712,287
2006/2007	256,756,900	9,946,895	46,921,967	21.20%	3.87%	2,005,281
2007/2008	283,223,840	9,504,563	38,523,068	24.67%	3.36%	1,802,500
2008/2009	318,613,840	7,765,371	65,733,397	11.81%	2.44%	3,587,500
2009/2010	301,445,650	7,518,788	84,746,618	8.87%	2.49%	1,902,500
2010/2011	309,996,404	9,017,161	43,856,040	20.56%	2.91%	965,000
2011/2012	362,665,656	11,358,408	33,582,455	33.82%	3.13%	45,000

Note :

- (1) Total incurred losses include claim payments and reserves, some of which are covered by the deductibles paid by indemnified firms.
- (2) Annual Contributions include claims loadings.
- (3) Contribution before reduction is used for 2010/2011 and 2011/2012 indemnity years.

TABLE 15**FREQUENCY OF CLAIMS BY AREA OF PRACTICE
(1 OCTOBER 2007 – 30 SEPTEMBER 2012)**

AREA OF PRACTICE	INDEMNITY YEAR											
	2007/ 08	% of Total No. of Claims	2008/ 09	% of Total No. of Claims	2009/ 10	% of Total No. of Claims	2010/ 11	% of Total No. of Claims	2011/ 12	% of Total No. of Claims	Total No. of Claims in the 5 Indemnity Years	% of Total No. of Claims in 5 Indemnity Years
COMMERCIAL	22	7.12%	19	12.93%	18	12.95%	18	10.34%	21	16.80%	98	10.96%
CONVEYANCING	218	70.55%	42	28.57%	48	34.53%	39	22.41%	36	28.80%	383	42.84%
LITIGATION	47	15.21%	53	36.05%	48	34.53%	67	38.51%	47	37.60%	262	29.31%
PROBATE	7	2.27%	2	1.36%	1	0.72%	3	1.72%	3	2.40%	16	1.79%
LANDLORD & TENANT	0	0.00%	3	2.04%	0	0.00%	1	0.57%	0	0.00%	4	0.45%
PATENTS, TRADEMARKS	8	2.59%	19	12.93%	16	11.51%	19	10.92%	4	3.20%	66	7.38%
TAX MATTERS	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
OTHERS	7	2.27%	9	6.12%	8	5.76%	27	15.52%	14	11.20%	65	7.27%
TOTAL	309		147		139		174		125		894	

Note : The percentages of the number of claims in each area of practice are calculated to the nearest decimal point only.
The aggregation of these percentages in respect of each indemnity year may not therefore add up to 100%.

TABLE 16

**VALUE OF CLAIMS BY AREA OF PRACTICE
(1 OCTOBER 2007 – 30 SEPTEMBER 2012)**

AREA OF PRACTICE	INDEMNITY YEAR											
	2007/2008 (HK\$)	% of Total Value of Claims	2008/2009 (HK\$)	% of Total Value of Claims	2009/2010 (HK\$)	% of Total Value of Claims	2010/2011 (HK\$)	% of Total Value of Claims	2011/2012 (HK\$)	% of Total Value of Claims	Total Value of Claims in 5 Indemnity Years (HK\$)	% of Total Value of Claims in 5 Indemnity Years
COMMERCIAL	2,539,685	7%	3,616,746	6%	9,120,988	11%	10,064,630	23%	25,102	0.07%	25,367,151	10%
CONVEYANCING	22,687,796	59%	41,347,349	63%	48,160,037	57%	19,321,007	44%	24,158,040	72%	155,674,229	58%
LITIGATION	13,295,587	35%	17,816,532	27%	27,251,869	32%	13,753,884	31%	622,287	2%	72,740,159	27%
PROBATE	-	-	-	-	-	-	-	-	8,500,000	25%	8,500,000	3%
LANDLORD & TENANT	-	-	296,178	0.45%	-	-	-	-	-	-	296,178	0.11%
PATENTS, TRADEMARKS	-	-	-	-	-	-	-	-	-	-	-	-
TAX MATTERS	-	-	-	-	-	-	-	-	-	-	-	-
OTHERS	-	-	2,656,592	4%	213,724	0.25%	716,519	2%	277,026	1%	3,863,861	1%
TOTAL	38,523,068		65,733,397		84,746,618		43,856,040		33,582,455		266,441,578	

Note : (1) Value of claims includes claims paid and reserved.

(2) The percentages of the value of claims in each area of practice are calculated to the nearest decimal point only.
The aggregation of these percentages in respect of each indemnity year may not therefore add up to 100%.

TABLE 17

**NUMBER OF CLAIMS BY TYPE OF ERRORS IN CONVEYANCING
(1 OCTOBER 2007 - 30 SEPTEMBER 2012)**

Type of Errors in Conveyancing	INDEMNITY YEAR					Total no. of Claims in 5 indemnity years	% of Total No. of Claims in Conveyancing
	2007/08	2008/09	2009/10	2010/11	2011/12		
	NO. OF CLAIMS						
<i>Breach of undertaking</i>	1	0	2	0	1	4	1.0%
<i>Conflict of Interest</i>	0	0	2	0	1	3	0.8%
<i>Delay irrespective of time limits</i>	1	2	1	0	0	4	1.0%
<i>Failure to spot/investigate defect</i>	0	0	0	0	0	0	0.0%
<i>Failure to act per client's instruction</i>	2	1	2	2	5	12	3.1%
<i>Failure to advise correctly</i>	192	22	12	9	10	245	64.0%
<i>Failure to answer requisitions</i>	0	2	5	4	2	13	3.4%
<i>Failure to check client's I.D.</i>	1	1	0	0	0	2	0.5%
<i>Failure to investigate title</i>	0	0	7	7	4	18	4.7%
<i>Failure to search properly</i>	0	0	1	0	0	1	0.3%
<i>Failure to supervise</i>	0	0	0	0	0	0	0.0%
<i>Failure to verify/check information</i>	5	0	0	1	3	9	2.3%
<i>Fraud by clients*</i>	1	0	2	0	4	7	1.8%
<i>Fraud by employee*</i>	0	0	0	2	0	2	0.5%
<i>Fraud by principal*</i>	0	0	0	0	0	0	0.0%
<i>Incorrect preparation/drafting</i>	1	0	3	1	1	6	1.6%
<i>Insufficient information</i>	2	0	1	0	1	4	1.0%
<i>Late notices/requisitions</i>	0	0	0	0	0	0	0.0%
<i>Late/failed registration</i>	2	0	1	0	1	4	1.0%
<i>Late/failed stamping</i>	1	0	0	1	0	2	0.5%
<i>Loss of documents</i>	0	0	1	3	0	4	1.0%
<i>Missed time limits</i>	4	2	1	0	0	7	1.8%
<i>No apparent negligence</i>	3	5	5	2	2	17	4.4%
<i>Other failure to take correct action</i>	1	6	1	7	1	16	4.2%
<i>Causes not specified</i>	1	1	1	0	0	3	0.8%
Total	218	42	48	39	36	383	

* Data only include those claims where the major cause giving rise to the claims is fraud.

TABLE 18

**VALUE OF CLAIMS BY TYPE OF ERRORS IN CONVEYANCING
(1 OCTOBER 2007 - 30 SEPTEMBER 2012)**

Type of Errors in Conveyancing	INDEMNITY YEAR					Total Value of Claims ** in 5 indemnity years (HK\$)	% of Total Value of Claims in Conveyancing
	2007/08	2008/09	2009/10	2010/2011	2011/2012		
	VALUE OF CLAIMS (HK\$)						
Breach of undertaking	119,911	-	-	-	-	119,911	0.1%
Conflict of interest	-	-	-	-	-	-	0.0%
Delay irrespective of time limits	-	8,074,867	1,211,209	-	-	9,286,076	6.0%
Failure to spot/investigate defect	-	-	-	-	-	-	0.0%
Failure to act per client's instruction	-	11,395	5,389,765	-	-	5,401,160	3.5%
Failure to advise correctly	8,910,073	30,177,268	16,620,193	1,050,029	144,196	56,901,759	36.6%
Failure to answer requisitions	-	890,253	3,422,441	4,480,440	2,557,181	11,350,315	7.3%
Failure to check client's I.D.	-	-	-	-	-	-	0.0%
Failure to investigate title	-	-	4,512,423	-	2,558,536	7,070,959	4.5%
Failure to search properly	-	-	966,907	-	-	966,907	0.6%
Failure to supervise	-	-	-	-	-	-	0.0%
Failure to verify/check information	5,643,706	-	-	-	559,842	6,203,548	4.0%
Fraud by clients*	7,047,304	-	16,032,039	-	18,228,285	41,307,628	26.5%
Fraud by employee*	-	-	-	57,993	-	57,993	0.04%
Fraud by principal*	-	-	-	-	-	-	0.0%
Incorrect preparation/drafting	-	-	-	-	-	-	0.0%
Insufficient information	-	-	-	-	-	-	0.0%
Late notices/requisitions	-	-	-	-	-	-	0.0%
Late/failed registration	-	-	-	-	-	-	0.0%
Late/failed stamping	-	-	-	-	-	-	0.0%
Loss of documents	-	-	-	-	-	-	0.0%
Missed time limits	966,802	968,874	-	-	-	1,935,676	1.2%
No apparent negligence	-	-	5,060	9,622,811	-	9,627,871	6.2%
Other failure to take correct action	-	687,027	-	4,109,734	110,000	4,906,761	3.2%
Causes not specified	-	537,665	-	-	-	537,665	0.3%
Total	22,687,796	41,347,349	48,160,037	19,321,007	24,158,040	155,674,229	

* Data only include those claims where the major cause giving rise to the claims is fraud.

** Value of claims includes claims paid and reserved.

TABLE 19**LOSS RATIOS AS AT 30 SEPTEMBER 2012**

Indemnity Year	Number of claims	Annual Contributions (HK\$)	Claims Losses (HK\$)	Loss ratio
1997/98	336	106,778,078	187,863,915	176%
1998/99	483	112,178,110	406,805,496	363%
1999/00	263	85,231,403	82,876,218	97%
2000/01	230	95,910,707	70,388,164	73%
2001/02	215	236,886,755	88,576,727	37%
2002/03	269	222,237,005	79,074,398	36%
2003/04	165	219,607,685	64,265,108	29%
2004/05	159	217,484,983	68,320,896	31%
2005/06	165	242,335,709	79,308,258	33%
2006/07	143	256,756,900	46,921,967	18%
2007/08	309	283,223,840	38,523,068	14%
2008/09	147	318,613,840	65,733,397	21%
2009/10	139	301,445,650	84,746,618	28%
2010/11	174	309,996,404	43,856,040	14%
2011/12	125	362,665,656	33,582,455	9%

Note :

- (1) *Loss ratio is the ratio of contributions to claims losses (claims paid and reserved).
100% loss ratio means the contributions equal to the incurred losses.
200% loss ratio means the amount of claims losses is double the contributions collected.*
- (2) *Whilst the higher the ratio, the greater the amount by which claims losses exceed the contributions collected, it should be borne in mind it takes about 4 years before claims are sufficiently developed to provide a figure close to a final loss ratio. The loss ratios for the 2008/09 indemnity year onwards cannot therefore be taken as the final loss ratios.*
- (3) *Contribution before reduction is used for 2010/2011 and 2011/2012 indemnity years.*

TABLE 20

ANTICIPATED MAXIMUM SHORTFALL AS A RESULT OF THE INSOLVENCY OF HIH CASUALTY AND GENERAL INSURANCE LTD. ("HIH"), FAI GENERAL INSURANCE COMPANY LTD. ("FAI") AND FAI FIRST PACIFIC INSURANCE CO. LTD. ("FAI PACIFIC") AS AT 30 SEPTEMBER 2012

(1) Outstanding claims provision recoverable from reinsurers

Indemnity Year	(a) Excess of Loss Layer			(b) Stop Loss Layer			(c) "Incurred but not reported" reserve #			Total (a)+(b)+(c)
	HIH	FAI	FAI Pacific	HIH	FAI	FAI Pacific	HIH	FAI	FAI Pacific	
1988/89	-	-	-	-	-	-	-	-	-	-
1989/90	-	-	-	-	-	-	-	-	-	-
1990/91	-	-	-	-	-	-	-	-	-	-
1991/92	-	-	-	-	-	-	-	-	-	-
1992/93	-	-	-	-	-	-	-	-	-	-
1993/94	-	-	-	-	-	-	-	-	-	-
1994/95	1,628,000	-	1,480,000	-	-	-	-	-	-	3,108,000
1995/96	-	-	-	-	-	-	-	-	-	-
1996/97	-	-	-	-	-	10,041	-	-	-	10,041
1997/98	28,429	-	22,298	-	-	-	-	-	-	50,727
1997/98-2000/2001	N/A	N/A	N/A	N/A	N/A	N/A	297	-	211	508
1998/99-1999/2000	20,165,414 *	-	-	-	-	-	-	-	-	20,165,414
1998/99-2000/2001	-	-	-	-	-	-	-	-	-	-
2001/2002	-	-	-	-	-	-	-	-	-	-
2001/02	-	-	-	-	-	-	-	-	-	-
2002/03	-	-	-	-	-	-	-	-	-	-
2003/04	-	-	-	-	-	-	-	-	-	-
2004/05	-	-	-	-	-	-	-	-	-	-
2005/06	-	-	-	-	-	-	-	-	-	-
2006/07	-	-	-	-	-	-	-	-	-	-
2007/08	-	-	-	-	-	-	-	-	-	-
2008/09	-	-	-	-	-	-	-	-	-	-
2009/10	-	-	-	-	-	-	-	-	-	-
2010/11	-	-	-	-	-	-	-	-	-	-
2011/12	-	-	-	-	-	-	-	-	-	-
	21,821,843	-	1,502,298	-	-	10,041	297	-	211	23,334,690

* including the drop down cover totalling \$10,746,430

no stop loss insurance since 2001/02

(2) Claims receivables from reinsurers

Indemnity Year	(a) Excess of Loss Layer			(b) Stop Loss Layer			(c) Drop Down Layer	Total
	HIH	FAI	FAI Pacific	HIH	FAI	FAI Pacific	HIH	(a)+(b)+(c)
1988/89-99/2000	226,107,557	1,365,851	45,846,341	N/A	N/A	N/A	N/A	273,319,749
1997/98-2000/01	N/A	N/A	N/A	37,500,000	-	8,627,254	8,933,521	55,060,775
	226,107,557	1,365,851	45,846,341	37,500,000	-	8,627,254	8,933,521	328,380,524

ONGOING ISSUES

1. HIH REINSURERS

HIH Casualty and General Insurance Ltd. ("HIH"), FAI General Insurance Company Ltd. ("FAI") and FAI First Pacific Insurance Co. Ltd. ("FAI Pacific") ("the HIH reinsurers") were the excess of loss and stop loss insurers for the Scheme from 1987 onwards. The first 2 companies were placed in provisional liquidation on 15 March 2001 and the third went into provisional liquidation on 9 April 2001. A winding-up order was subsequently made against the first 2 companies on 27 August 2001. The ultimate effect of the insolvency of the HIH group will not be known for some time; meanwhile, a provision is being made in the Fund Accounts to cover an anticipated maximum shortfall. The anticipated maximum shortfall as at 30 September 2012 is set out in table 20.

The Company has also conducted an actuarial study on the total outstanding liabilities of the Fund. Having taken into account the default of the HIH reinsurers, the total outstanding liabilities of the Fund as at 30 September 2012 was approximately HK\$380.074m.

The Company is a member of the Committees of Inspection and the Creditors' Committees of HIH and FAI. The Liquidator has commenced proceedings against various parties including the former directors, auditors and actuary of the companies in the HIH group based on his investigation and the findings of the Royal Commission in Australia. Some of the proceedings have been settled. Schemes of arrangement were implemented in respect of HIH and FAI on 30 May 2006. As of 30 April 2013, a total of US\$7,451,433.92 was paid by HIH, of which US\$643,803.48 was repaid to reinsurers who replaced HIH in accordance with the reinsurance policies. A total of US\$86,494.41 was paid by FAI as interim dividends. The Company is also a member of the Creditors' Committee of FAI Pacific in Hong Kong. A scheme of arrangement was implemented in respect of the provisional liquidation in Hong Kong on 30 November 2002. As of 30 April 2013, a total of HK\$29,364,649.08 was paid by FAI First Pacific as interim dividend and threshold payments i.e. settlements for small claims.

2. QUALIFYING INSURERS SCHEME ("QIS") OR OTHER ALTERNATIVES

At an Extraordinary General Meeting ("EGM") of the Law Society on 16 November 2004, Members voted by a majority of 316 to 255 to replace the Scheme with a QIS.

A notice of EGM, the QIS Rules, the qualifying insurer's agreement, the assigned risk pool management agreement and an explanatory note were issued to the Members on 11 April 2006.

Having considered the structure of the QIS proposed in the QIS Rules and the other documents, Members voted in the EGM on 27 April 2006 by a majority of 1873 to 506 against the implementation of such a scheme.

The Council has set up the PIS Review Working Party (“the Working Party”) to consider how to improve the Scheme or such other alternative insurance or indemnity schemes as may be viable. An actuarial analysis of the present contribution formula was performed and provided the following findings:

- ♦ The current contribution formula is sufficient to cover the total claims and expenses of administering the Scheme;*
- ♦ The three rating factors currently used in the formula, namely the average number of principals, average number of assistants and gross fee income are all positively correlated with the net incurred costs and the number of reported claims;*
- ♦ Any additional rating factors to be introduced to the formula will need to be obtained from members without causing an excessive burden and be verifiable. The Rules will also need to be amended to authorise the collection of such data;*
- ♦ As with any formula structure, cross subsidization exists and large firms were found to contribute more than the cost attributable to them. Small firms contributed less than or equal to their share of the cost while medium size firms showed mixed results.*

The Working Party also appointed Lockton Companies (Hong Kong) Limited to consider the feasibility of a master policy scheme in Hong Kong. It was noted certain features of the Scheme, such as unlimited aggregate cover, are not currently supported by commercial insurers. Additional exclusions are also likely to be imposed by commercial insurers.

In 2010, the Rules have been amended to provide contribution reductions to member firms. After consideration of actuarial advice, claims experience and the financial position of the Fund, contribution reductions of 33¼% were provided in the indemnity years of 2010/11 and 2011/12. The amount of reduction made totaled approximately HK\$220m.

The Working Party recommended to Council that cover be continued to be provided to members under the PIS. The recommendation has been adopted by Council and the Working Party has been wound up on 5 February 2013.

PERFORMANCE OF THE FUND'S INVESTMENTS

Mercer Investment Consulting Limited has been appointed as the Company's investment consultant since December 2010. In 2011, the PIS Investment Subcommittee ("Subcommittee") conducted a portfolio structure review and health check of investment managers. It was resolved that two additional global equity managers would be appointed to take over the equity portfolio managed by AllianceBernstein Hong Kong Limited ("AllianceBernstein").

The current investment managers of the Fund are as follows:

- Amundi Hong Kong Limited ("Amundi")
- AllianceBernstein
- MFS Investment Management ("MFS")
- Grantham Mayo van Otterloo ("GMO")

The Subcommittee meets every quarter to monitor the investment managers and the guidelines for the investments. The Fund adopts a conservative investment strategy where the investments are predominantly placed in fixed income securities. The investment objectives, guidelines and restrictions are summarised as follows:

Investment Objectives:

- to preserve capital and to maximize total return on the portfolio; and
- regarding the bond portfolio, to outperform the Barclays Capital Global Aggregate Index.

The Investment Guidelines and Restrictions applicable to Amundi's portfolio are as follows:

- allowable range in equities: 20% - 35%
- allowable range in bonds: 55% - 80%
- allowable range in cash: 0% - 10%

Total: 100%

Investments are made via the other three managers in the form of pooled funds, as follows:

- AllianceBernstein Global Bond Fund
- MFS Global Concentrated Equity Fund
- GMO Global Equity Allocation Fund

The net returns on the portfolios managed by the investment managers for the 12 month period ended 31 December for the past 3 years were as follows:

		<u>Net Return</u>		
	<u>Type of portfolio</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Amundi	Equity and bonds	7.08%	-2.11%	9.68%
AllianceBernstein	Bonds	8.60%	-3.44%	3.86%
MFS*	Equity	-	-	24.13%
GMO*	Equity	-	-	13.56%

*MFS and GMO were appointed in December 2011.

CONCLUSION

The Company's policy is to resolve claims promptly for the benefit of the Fund. However, unmeritorious claims are vigorously defended. Each claim is carefully considered on its own merits.

The Board of Directors of the Company would like to record their appreciation to all members of the relevant PIS Committees for their hard work during the year and the time they gave so freely to serve the profession.

ADPIS 12/13 AR (1144296)

Audited Financial Statements
Hong Kong Solicitors Indemnity Fund
30 September 2012

Independent Auditor's Report

To the Manager of
Hong Kong Solicitors Indemnity Fund
(established in Hong Kong)

We have audited the financial statements of Hong Kong Solicitors Indemnity Fund (the "Fund") set out on pages 3 to 22, which comprise the statement of financial position as at 30 September 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Manager's responsibility for the financial statements

The Manager of the Fund is responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

MAZARS CPA LIMITED
瑪澤會計師事務所有限公司

42ND FLOOR, CENTRAL PLAZA, 18 HARBOUR ROAD, WANCHAI, HONG KONG
香港灣仔港灣道18號中環廣場42樓
TEL: (852) 2909 5555 - FAX: (852) 2810 0032 - info@mazars.hk - www.mazars.cn


MEMBER •
GLOBAL ALLIANCE OF
INDEPENDENT FIRMS

Independent Auditor's Report

To the Manager of
Hong Kong Solicitors Indemnity Fund
(established in Hong Kong)

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Fund as at 30 September 2012 and of its surplus and cash flows for the year then ended in accordance with HKFRS.



Certified Public Accountants
Hong Kong, 24 March 2013

Chan Wai Man
Practising Certificate number: P02487

Hong Kong Solicitors Indemnity Fund

Statement of Comprehensive Income

Year ended 30 September 2012

	<i>Note</i>	2012 <i>HK\$</i>	2011 <i>HK\$</i>
Turnover	<i>3</i>	230,896,746	228,155,565
(Loss) Gain on disposal of financial assets at fair value through profit or loss		(41,822,560)	18,931,789
Change in fair value of financial assets at fair value through profit or loss		120,159,124	(109,848,361)
Net claims incurred		(47,411,519)	(46,870,781)
Other revenue	<i>3</i>	53,862,050	47,890,524
Operating expenses	<i>4</i>	(110,726,110)	(108,699,112)
Surplus from operations		204,957,731	29,559,624
Add: Net movement in claims provision and claims receivable relating to reinsurance contracts with HHH Group	<i>5</i>	10,022,828	11,721,291
Surplus before income tax		214,980,559	41,280,915
Income tax expense	<i>6</i>	-	-
Surplus for the year		214,980,559	41,280,915
Other comprehensive income for the year		-	-
Total comprehensive income for the year		214,980,559	41,280,915

Hong Kong Solicitors Indemnity Fund

Statement of Financial Position

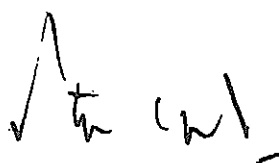
At 30 September 2012

	<i>Note</i>	2012 HK\$	2011 HK\$
Current assets			
Profit commission receivable from reinsurers	7	63,748	63,748
Claims provision recoverable and claims receivable	8	10,513,000	28,472,000
Financial assets at fair value through profit or loss	9	1,708,634,716	1,488,704,301
Amount due from Hong Kong Solicitors Indemnity Fund Limited	10	2,125,922	2,901,561
Accounts receivable	11	6,551,085	10,413,873
Prepayments		13,729,500	13,729,500
Cash at bank	12	298,841,623	207,471,167
		<u>2,040,459,594</u>	<u>1,751,756,150</u>
Current liabilities			
Outstanding claims provision		390,588,000	394,339,000
Accrued charges		187,453	171,468
Amounts payable to reinsurers		150,390	141,316
Contributions received in advance		259,432,008	182,798,498
Contributions refundable		2,893,399	2,078,083
		<u>653,251,250</u>	<u>579,528,365</u>
NET ASSETS		<u>1,387,208,344</u>	<u>1,172,227,785</u>
Reserves			
Accumulated fund		<u>1,387,208,344</u>	<u>1,172,227,785</u>

Approved and authorised for issued by the Manager on 24 March 2013



Director



Director

Hong Kong Solicitors Indemnity Fund

Statement of Changes in Equity

Year ended 30 September 2012

	Accumulated fund HK\$
At 1 October 2010	1,130,946,870
Surplus for the year and total comprehensive income for the year	<u>41,280,915</u>
At 30 September 2011 and 1 October 2011	1,172,227,785
Surplus for the year and total comprehensive income for the year	<u>214,980,559</u>
At 30 September 2012	<u><u>1,387,208,344</u></u>

Hong Kong Solicitors Indemnity Fund

Statement of Cash Flows

Year ended 30 September 2012

	<i>Note</i>	2012 <i>HK\$</i>	2011 <i>HK\$</i>
OPERATING ACTIVITIES			
Cash generated from operations	15	<u>181,613,672</u>	<u>105,045,132</u>
Net cash from operating activities		<u>181,613,672</u>	<u>105,045,132</u>
INVESTING ACTIVITIES			
Proceeds on disposal of financial assets at fair value through profit or loss		1,292,733,450	794,905,276
Purchases of financial assets at fair value through profit or loss		(1,479,203,843)	(971,525,981)
Interest received		44,560,588	43,613,062
Dividend income		<u>6,790,047</u>	<u>4,277,452</u>
Net cash used in investing activities		<u>(135,119,758)</u>	<u>(128,730,191)</u>
Net increase (decrease) in cash and cash equivalents		46,493,914	(23,685,059)
Cash and cash equivalents at beginning of year		<u>280,845,675</u>	<u>304,530,734</u>
Cash and cash equivalents at end of year	12	<u><u>327,339,589</u></u>	<u><u>280,845,675</u></u>

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2012

1. GENERAL

Hong Kong Solicitors Indemnify Fund (the "Fund") was established by The Law Society of Hong Kong to provide indemnity against such loss as is mentioned in Section 73A(1) of the Hong Kong Legal Practitioners Ordinance (Chapter 159). The Fund is managed by the Hong Kong Solicitors Indemnity Fund Limited (the "Manager"), a company limited by guarantee.

2. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong.

These financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2011 financial statements. The new / revised HKFRSs that are effective from the current year had no significant effects on the results and financial position of the Fund for the current and prior years. A summary of the principal accounting policies adopted by the Fund is set out below.

Adoption of new / revised HKFRS

HKAS 24 (Revised) - Related Party Disclosures

HKAS 24 was revised to include a new definition of related party and to provide a partial exemption from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with:

- (a) a government that has control, joint control or significant influence over the reporting entity; and
- (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

The Fund adopted the new definition in its accounting policies but such adoption does not have an effect on the disclosures made in the financial statements.

Improvements to HKFRSs 2010 - Improvements to HKFRSs 2010

The improvements comprise a number of improvements to the HKFRSs including the following that are considered to be relevant to the Fund.

Amendments to HKFRS 7 Financial Instrument Disclosures: Clarification of disclosures

The Amendments clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required for renegotiated loans. The adoption of the amendments has no impact on the Fund's results of operations and financial position.

Amendments to HKAS 1 (Revised): Presentation of Financial Statements: Clarification of Statement of Changes in Equity

The Amendments clarify that the reconciliation of each components of other comprehensive income may be presented either in the statement of changes in equity or in the notes to the financial statements. The Fund has decided to continue presenting the reconciliation on the face of the statement of changes in equity.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2012

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Basis of measurement

The measurement basis used in the preparation of these financial statements is historical cost, except for the financial assets at fair value through profit or loss which are measured at fair value as explained in the accounting policies set out below.

Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when and only when the Fund becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when and only when (i) the Fund's contractual rights to future cash flows from the financial asset expire or (ii) the Fund transfers the financial asset and the Fund has transferred substantially all the risks and rewards of ownership of the financial asset. A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

Classification and measurement

Financial assets or financial liabilities are initially recognised at their fair value plus, in the case of financial assets or financial liabilities not carried at fair value through profit or loss, transaction costs that are direct attributable to the acquisition or issue of the financial assets or financial liabilities.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. They are carried at fair value, with any resultant gain and loss recognised in profit or loss.

Financial assets are classified as held for trading if they are (i) acquired principally for the purpose of selling in the near future; (ii) part of a portfolio of identified financial instruments that the Fund manages together and has a recent actual pattern of short-term profit-taking; or (iii) derivatives that are not financial guarantee contracts or not designated and effective hedging instruments.

Financial assets are designated at initial recognition as at fair value through profit or loss only if (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or (ii) they are part of a group of financial assets and / or financial liabilities that are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in profit or loss.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2012

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities

All financial liabilities except for derivatives are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Impairment of financial assets

At the end of each reporting period, the Fund assesses whether there is objective evidence that financial assets, other than those at fair value through profit or loss, are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate. Such impairment loss is reversed in subsequent periods through profit or loss when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Cash equivalents

For the purpose of the statement of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Fund and when the revenue and costs, if applicable, can be measured reliably and on the following bases:

Contributions are accounted for proportionally over the period of coverage. Contributions received in advance represent contributions invoiced and received but not earned at the reporting date.

Dividend income from investments and investment incentive income are recognised when the Fund's rights to receive payment have been established.

Interest income from financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Foreign currency translation

The financial statements are presented in the currency of Hong Kong dollars, which is the Fund's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2012

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Provisions

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Fund expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Related parties

A related party is a person or entity that is related to the Fund.

- (a) A person or a close member of that person's family is related to the Fund if that person:
 - (i) has control or joint control over the Fund;
 - (ii) has significant influence over the Fund; or
 - (iii) is a member of the key management personnel of the Fund or of the parent of the Fund.

- (b) An entity is related to the Fund if any of the following conditions applies:
 - (i) The entity and the Fund are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Fund or an entity related to the Fund. If the Fund is itself such a plan, the sponsoring employers are also related to the Fund.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2012

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Critical accounting estimates and judgements

Estimates and assumptions concerning the future and judgements are made by the Manager in the preparation of the financial statements. They affect the application of the Fund's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

Provision for claims

The estimation of the ultimate liability arising from claims made under indemnity is the Fund's most critical accounting estimate.

Full provision is made for the estimated cost of claims notified but not settled at the end of the reporting period and for the estimated cost of claims incurred but not enough reported ("IBNER") by that date. The provision for amounts recoverable from reinsurers and from solicitors' firms is estimated and shown separately in the statement of financial position. Provision is also made for the estimated cost of servicing claims notified but not settled at the reporting date and expenses on IBNER at the end of the reporting period.

Management of the Fund takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Estimates and assumptions have been made in arriving at the provision for claims and reinsurance recoveries thereof. The actual results may be significantly different from those envisaged when these estimates were made. In particular, the estimation of IBNER is based upon actual claims experience using predetermined methodology and is generally subject to a greater degree of uncertainty.

	2012 <i>HK\$</i>	2011 <i>HK\$</i>
Case reserves	154,209,000	154,129,000
Estimated IBNER	160,364,000	167,036,000
Estimated allowance for indirect claim handling expenses	15,203,000	14,635,000
Risk margin	60,812,000	58,539,000
	<u>390,588,000</u>	<u>394,339,000</u>

Profit commission receivable from reinsurers

The estimate of the ultimate profit commission to be receivable from reinsurers involve critical accounting estimate. The Fund estimates that provision based primarily on risk premium, latest expenses, claims paid and claims received. Contingent assets not recognised in respect of the profit commission are set out in note 17 to the financial statements.

Future changes in HKFRS

At the date of authorisation of these financial statements, the HKICPA has issued a number of new / revised HKFRS that are not yet effective for the current year, which the Fund has not early adopted. The Manager anticipates that the adoption of these new / revised HKFRS in the future accounting periods will have no material impact on the results of the Fund.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2012

3. TURNOVER AND OTHER REVENUE

	2012 <i>HK\$</i>	2011 <i>HK\$</i>
Contribution earned	<u>230,896,746</u>	<u>228,155,565</u>
Turnover	<u>230,896,746</u>	<u>228,155,565</u>
Bond interest income	44,481,999	43,502,544
Deposit interest income	78,589	110,518
Dividend income	6,790,047	4,277,452
Investment incentive income	2,425,293	-
Sundry income	<u>86,122</u>	<u>10</u>
Other revenue	<u>53,862,050</u>	<u>47,890,524</u>
Total revenue	<u><u>284,758,796</u></u>	<u><u>276,046,089</u></u>

4. OPERATING EXPENSES

	2012 <i>HK\$</i>	2011 <i>HK\$</i>
Accounting fee	246,000	241,000
Auditor's remuneration	115,000	105,000
Administration fee paid to Hong Kong Solicitors Indemnity Fund Limited	11,318,551	11,235,994
Bank charges	113,231	116,919
Investments management fee	5,384,568	5,361,129
Legal and professional fees	806,479	439,848
Reinsurance premium	92,710,192	91,184,692
Sundry expenses	<u>32,089</u>	<u>14,530</u>
	<u><u>110,726,110</u></u>	<u><u>108,699,112</u></u>

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2012

5. NET MOVEMENT IN CLAIMS PROVISION AND CLAIMS RECEIVABLE RELATING TO REINSURANCE CONTRACTS WITH HIIH GROUP

In 2001, three of the major reinsurers used by the Fund, which were part of an insurance group in Australia ("HIIH Group"), were placed into liquidation. Given the limited information provided by the liquidators except for certain indications that the financial losses could be very substantial, the Manager has concluded that a full provision against the remaining amounts due from these reinsurers would be prudent. The amount provided relates to claims extending over the indemnity years 1998 to 2000. During the year, HK\$10,022,828 (2011: HK\$11,721,291) was recovered from the reinsurers and the provision for impairment previously made was reversed and credited to profit or loss.

6. INCOME TAX EXPENSE

Since the Fund is neither a person nor does it carry on a trade, profession or business for the purpose of section 14 of the Inland Revenue Ordinance (Cap. 112), it is not liable to Hong Kong taxation.

7. PROFIT COMMISSION RECEIVABLE FROM REINSURERS

The profit commission relates to slip policies covering the indemnity period from 1 October 2000 to 30 September 2005. The estimation of amount is based on risk premium, expenses, claims paid and claims reserved.

The amounts due are interest-free and in accordance with the slip policies, final calculation on profit commission receivable from reinsurer took place on 30 September 2010. The carrying amount of the amounts due approximates its fair value.

8. CLAIMS PROVISION RECOVERABLE AND CLAIMS RECEIVABLE

	Note	2012 HK\$	2011 HK\$
Claims provision recoverable from reinsurers and solicitors' firms		24,914,000	51,614,000
Less: provision for impairment – HIIH Group	(a)	<u>(14,401,000)</u>	<u>(23,142,000)</u>
		<u>10,513,000</u>	<u>28,472,000</u>

The Fund does not have any settled claims receivable at the end of the reporting period. The carrying value of claims provision recoverable is considered a reasonable approximation of its fair value.

The Fund allows a credit period of 7 days to its reinsurers. Before accepting any new reinsurers, the Manager performs check on the potential reinsurer's international ratings as well as whether they are regulated by the Hong Kong Insurance Authority.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2012

8. CLAIMS PROVISION RECOVERABLE AND CLAIMS RECEIVABLE (CONTINUED)

(a) Provision for impairment – HHH Group

The movements in the provision for impairment – HHH Group during the year are as follows:

	2012 <i>HK\$</i>	2011 <i>HK\$</i>
At beginning of reporting period	23,142,000	30,787,000
Amount recovered during the year	(10,022,828)	(11,721,291)
Decrease in provision for impairment	<u>1,281,828</u>	<u>4,076,291</u>
At the end of reporting period	<u><u>14,401,000</u></u>	<u><u>23,142,000</u></u>

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>Notes</i>	2012 <i>HK\$</i>	2011 <i>HK\$</i>
Equity investments			
- listed in Hong Kong	(a)	22,868,730	14,564,999
- listed outside Hong Kong	(a)	<u>263,299,453</u>	<u>158,315,611</u>
		<u>286,168,183</u>	<u>172,880,610</u>
Bonds listed outside Hong Kong	(a)	575,003,249	529,637,129
Quoted fund investments	(b)	818,965,318	712,812,054
Cash deposits in investment accounts (note 12)		<u>28,497,966</u>	<u>73,374,508</u>
		<u><u>1,708,634,716</u></u>	<u><u>1,488,704,301</u></u>

Notes:

- (a) The fair values are based on quoted market prices in active markets at the end of the reporting period.
- (b) The fair values of quoted fund investments are measured by reference to the prices publicly quoted by fund administrators.

10. AMOUNT DUE FROM HONG KONG SOLICITORS INDEMNITY FUND LIMITED

The amount due is unsecured, interest-free and has no fixed repayment term. The carrying amount of the amount due approximates its fair value.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2012

11. ACCOUNTS RECEIVABLE

	2012 <i>HK\$</i>	2011 <i>HK\$</i>
Contributions receivable	4,046,910	3,965,387
Other receivables	2,504,175	6,448,486
	<u>6,551,085</u>	<u>10,413,873</u>

The contributions receivable represent contributions receivable from legal practitioners. Under the Hong Kong Legal Practitioners Ordinance (Chapter 159), all the legal practitioners in Hong Kong are required to contribute to the Fund in order to get new or renewal practicing certificates from the Law Society of Hong Kong. The carrying amount of contributions receivable and other receivables are considered a reasonable approximation of its fair value.

The Fund does not allow credit period to the legal practitioners, all payments are due by 30 September except in the case of new firms, in which case payments are due on presentation of debit notes. All of the Fund's contributions receivable and other receivables have been reviewed for indication of impairment. The impaired contributions receivable are mostly from legal practitioners with are in unexpected difficult economic situations. No impairment has been recognised on receivables through the provision account for the years ended 30 September 2012 and 2011.

Included in the Fund's contributions receivable balance are debtors with a carrying amount of HK\$4,046,910 (2011: HK\$3,965,387) which are past due within 3 months as at the reporting date for which the Fund has not provided as there has not been a significant change in its good credit quality and there was no recent history of default and the amounts are still considered recoverable. The Fund does not hold any collateral over these balances.

12. CASH AND CASH EQUIVALENTS

	2012 <i>HK\$</i>	2011 <i>HK\$</i>
Cash at bank	298,841,623	207,471,167
Cash deposits in investment accounts (note 9)	28,497,966	73,374,508
As stated in statement of cash flows	<u>327,339,589</u>	<u>280,845,675</u>

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2012

13. MANAGEMENT OF RISKS

The Fund is exposed to insurance risk and financial risks because of the nature of its operations and because of the use of financial instruments in its operating activities.

The carrying amount presented in the statement of financial position relate to the following categories of financial assets and financial liabilities.

	2012 HK\$	2011 HK\$
Financial assets		
Loans and receivables:		
Profit commission receivable from reinsurers	63,748	63,748
Outstanding claims provision recoverable from reinsurers and solicitors' firms	10,513,000	28,472,000
Amounts due from Hong Kong Solicitors Indemnity Fund Limited	2,125,921	2,901,561
Accounts receivable	6,551,086	10,413,873
Cash at bank	298,841,623	207,471,167
	<u>318,095,378</u>	<u>249,322,349</u>
Financial assets at fair value through profit or loss	<u>1,708,634,716</u>	<u>1,488,704,301</u>
Financial liabilities		
Amortised costs:		
Outstanding claims provision	390,588,000	394,339,000
Amounts payable to reinsurers	150,390	141,316
Contributions refundable	2,893,399	2,078,083
	<u>393,631,789</u>	<u>396,558,399</u>

13.1 Insurance risk management

The Fund was established by The Law Society of Hong Kong. Pursuant to the Solicitors (Professional Indemnity) Rules made by the Council of The Law Society of Hong Kong under Section 73A(1) of the Hong Kong Legal Practitioners Ordinance to provide solicitors with indemnity against loss arising from claims in respect of civil liability incurred in private practice.

The principal risk that the Fund faces is that the actual claims exceed the carrying amount of the claims provision. This could occur when the frequency or severity of claims are greater than estimated. Events under indemnity are random and the actual number and amount of claims will vary from year to year from the estimate established using statistical techniques.

Management of the Fund attempts to diversify this risk by entering into reinsurance with reinsurers. Reinsurance does not discharge the Fund's liability as the primary obligor under the indemnity. Failure of reinsurers to honor their obligations could result in losses to the Fund. In order to minimise losses from reinsurers' defaults, the Fund only places reinsurance with companies which have appropriate international ratings and/or which are regulated by the Hong Kong Insurance Authority. To minimise the risk of reinsurer defaults, HKSIFL has put in place insolvency insurance cover. The cover insures the Fund against the insolvency of one or more of its reinsurers.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2012

13. MANAGEMENT OF RISKS (CONTINUED)

13.2 Financial risk management

The financial risks to which the Fund is exposed include market risk (including currency risk, interest risk and other price risk), credit risk and liquidity risk.

The objective of financial risk management is to ensure that the Fund's overall financial risk is at an acceptable level and that appropriate returns are earned for the level or risk assumed. The Manager appointed four investment managers who operate independently of each other and with a certain degree of discretion with the investment guidelines prescribed for them. The Fund adopts a conservative investment guidelines prescribed for them. The Fund adopts a conservative investment strategy where the investments are predominantly placed in fixed income securities. The strategy is to achieve an optimal return without incurring a risk of substantial fluctuations in the value of the accumulated reserves.

(a) Foreign currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instruments will fluctuate because of changes in foreign exchange rates. The Fund's exposures to currency risk arise from its bank balances and financial assets at fair value through profit or loss, which are primarily denominated in Australian Dollars ("AUD"), United States Dollars ("USD"), British Pounds ("GBP"), Japanese Yen ("JPY"), Singapore Dollars ("SGD") and Euro ("EUR").

The Fund does not hedge its foreign currency risks. However, the Fund's investment managers monitor the foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

The following table provides details of the Fund's exposure at the end of the reporting period to foreign exchange risk arising from recognised assets and liabilities denominated in a currency other than the functional currency of the Fund:

	As at 30 September 2012			As at 30 September 2011		
	Financial assets at fair value through profit or loss	Cash at bank	Overall net exposure	Financial assets at fair value through profit or loss	Cash at bank	Overall net exposure
AUD	5,728,931	-	5,728,931	4,931,835	-	4,931,835
CHF	1,272,742	-	1,272,742	212,523	-	212,523
EUR	22,818,529	-	22,818,529	25,101,801	-	25,101,801
GBP	5,408,098	-	5,408,098	6,768,970	-	6,768,970
JPY	275,436,534	-	275,436,534	28,593,865	-	28,593,865
KRW	1,604,650,000	-	1,604,650,000	1,363,715,849	-	1,363,715,849
MYR	-	-	-	6,000,312	-	6,000,312
NZD	66	-	66	65	-	65
RMB	25,612,138	-	25,612,138	-	-	-
SGD	29,134,418	-	29,134,418	4,295,240	-	4,295,240
THB	86,288,060	-	86,288,060	1,945,636	-	1,945,636
TWD	19,553,426	-	19,553,426	15,176	-	15,176
USD	640,459,205	488,866	640,948,071	133,997,341	386,924	134,384,265

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2012

13. MANAGEMENT OF RISKS (CONTINUED)

13.2 Financial risk management (Continued)

(a) Foreign currency risk (Continued)

The following table indicates the approximate change in the Fund's surplus after income tax in response to reasonably possible changes in the foreign exchange rates of the following foreign currencies against Hong Kong Dollar to which the Fund has significant exposure at the end of the reporting period.

	2012		2011	
	Increase/decrease in foreign exchange rates %	Increase/decrease in surplus after income tax HK\$	Increase/decrease in foreign exchange rates %	Increase/decrease in surplus after income tax HK\$
AUD	5	2,305,924	5	1,882,087
USD	1	49,704,882	1	10,473,103
GBP	5	3,390,661	5	4,122,201
JPY	5	1,370,297	5	145,400
SGD	5	9,205,019	5	1,292,201
EUR	5	11,379,714	5	13,305,222

This analysis assumes that all other variables remain constant. A depreciation in the Fund's functional currencies against the respective foreign currencies would have the same magnitude on the Fund's surplus for the year and equity but of opposite effect.

Exchange differences arising from financial assets at fair value through profit or loss are classified as gain/loss on disposal of financial assets at fair value through profit or loss or change in fair value of financial assets at fair value through profit or loss.

(b) Interest rate risk

The Fund's earnings are affected by changes in the market interest rates due to the impact such changes have on interest income from cash and cash equivalents and financial assets. Investment guidelines are in place and reviewed regularly to provide the general direction for the Fund's investment managers and to monitor the risk undertaken.

At 30 September 2012, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would increase/decrease the Fund's surplus after income tax and accumulated surplus by approximately HK\$1,494,208 (2011: HK\$1,037,356). The 50 basis point increase/decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next reporting date.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2012

13. MANAGEMENT OF RISKS (CONTINUED)

13.2 Financial risk management (Continued)

(c) Other price risk

Other price risk relates to the risk that the fair values or future cash flows of a financial instruments will fluctuate because of changes in market prices (other than changes in interest rates and foreign exchange rates). The Fund is exposed to change in market prices of listed equity and debt securities in respect of its investments in listed equity and debt securities classified as financial assets at fair value through profit and loss.

Investments in equity must be confined to publicly listed widely held and traded securities and there are limits on the exposure to an overseas stock market other than a recognised stock exchange and on the equity of any one company.

The following table indicates the approximate change in the Fund's surplus after income tax in response to reasonably possible changes in the quoted prices for financial assets at fair value through profit or loss to which the Fund has significant exposure at the end of the reporting period.

	2012		2011	
	Increase/ decrease in quoted prices %	Increase/ decrease in surplus after income tax HK\$	Increase/ decrease in quoted prices %	Increase/ decrease in surplus after income tax HK\$
Equity investments	10	28,616,813	10	17,288,061
Bonds listed outside Hong Kong	5	28,750,162	5	26,481,856
Quoted fund investments	5	40,948,266	5	35,640,603

(d) Liquidity risk

The Fund manages its liquidity and cash flow profiles to ensure the operations maintain optimum level of liquidity at all times sufficient to meet its obligations as and when they fall due.

All of the Fund's financial liabilities will be settled within one year from the reporting date. This is based on the remaining period at the reporting date to the contractual maturity date and at the earliest date the Fund can be required to pay.

(e) Credit risk

The Fund's credit risk is primarily attributable to cash and cash equivalents and receivables from reinsurers and solicitor's firm.

Cash and cash equivalents are normally placed at financial institutions that have sound credit rating and the Fund considers the credit risk to be insignificant.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2012

13. MANAGEMENT OF RISKS (CONTINUED)

13.2 Financial risk management (Continued)

(e) Credit risk (continued)

Management has a credit policy in place for selection of its reinsurers and approving the credit limits and the exposures to credit risk are monitored such that any outstanding debts are reviewed and followed up on an ongoing basis.

As at the reporting date, the Fund does not hold any collateral from the reinsurers and the Fund has no significant concentration of credit risk, with exposure spread over a number of reinsurers and counterparties.

Hence, the maximum exposure to credit risk is represented by the carrying amounts of each class of financial assets. The Fund does not provide any other guarantees which would expose the Fund to credit risk.

(f) Fair value measurements recognised in the statement of financial position

The financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

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

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

2012	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
Financial assets at fair value through profit or loss:				
Trading securities	<u>1,708,634,716</u>	<u>-</u>	<u>-</u>	<u>1,708,634,716</u>
2011	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
Financial assets at fair value through profit or loss:				
Trading securities	<u>1,488,704,301</u>	<u>-</u>	<u>-</u>	<u>1,488,704,301</u>

During the years ended 30 September 2012 and 2011, there were no transfer between Level 1 and Level 2 fair value measurements, and no transfer into and out of Level 3 fair value measurements.

The fair values have been determined by reference to their quoted bid prices at the reporting date and have been translated using the spot foreign currency rates at the end of the reporting period where appropriate.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2012

14. CAPITAL MANAGEMENT

The Fund's capital management objective is to ensure the Fund's ability to continue as a going concern in order to provide indemnity against such loss as is mentioned in Section 73A(1) of the Hong Kong legal Practitioners Ordinance (Chapter 159).

The Fund has no share capital. The Manager of the Fund will actively and regularly review its accumulated surplus and make adjustment on the contributions receivable from legal practitioners in line of change in economic conditions.

15. CASH GENERATED FROM OPERATIONS

	2012 HK\$	2011 HK\$
Surplus before income tax	214,980,559	41,280,915
Change in fair value of financial assets at fair value through profit or loss	(120,159,124)	109,848,361
Loss (Gain) on disposal of financial assets at fair value through profit or loss	41,822,560	(18,931,789)
Interest income	(44,560,588)	(43,613,062)
Dividend income from financial assets at fair value through profit or loss	(6,790,047)	(4,277,452)
Changes in working capital:		
Decrease in profit commission receivable from reinsurers	-	69,251,543
Decrease in outstanding claims provision recoverable from reinsurers and solicitor's firm	17,959,000	45,409,000
Decrease (Increase) in accounts receivable	3,862,788	(4,179,048)
Increase in prepayments	-	(2,044,808)
Decrease (Increase) in amount due from Hong Kong Solicitors Indemnity Fund Limited	775,639	(284,440)
Decrease in outstanding claims provision	(3,751,000)	(86,719,000)
Increase (Decrease) in accrued charged	15,985	(40,630)
Increase (Decrease) in amounts payable to reinsurers	9,074	(1,154,158)
Increase (Decrease) in contributions received in advance	76,633,510	(792,661)
Increase in contributions refundable	815,316	1,292,361
Cash generated from operations	181,613,672	105,045,132

16. RELATED PARTY TRANSACTIONS

During the year, the Fund incurred an administrative fee of HK\$11,318,551 (2011: HK\$11,235,994) payable to Hong Kong Solicitors Indemnity Fund Limited. As at 30 September 2012, the amount due from Hong Kong Solicitors Indemnity Fund Limited was HK\$2,125,922 (2011: HK\$2,901,561). The Company and the Fund are under common control of the Law Society of Hong Kong. The carrying amount of the amount due approximates its fair value.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2012

17. CONTINGENT ASSETS

	2012	2011
	<i>HK\$</i>	<i>HK\$</i>
Profit commission from reinsurers	<u>127,200,000</u>	<u>95,400,000</u>

The profit commission relates to slip policies covering the indemnity period from 1 October 2008 to 30 September 2013. The calculation of profit commission shall take place on 30 September 2017. Under the slip policies, the Fund shall not be entitled to any profit sharing if the slip policies are cancelled before 30 September 2013 except for certain events. No contingent assets have been recognised.

HONG KONG SOLICITORS INDEMNITY FUND LIMITED
(Incorporated by The Law Society of Hong Kong with limited liability)



PROFESSIONAL INDEMNITY SCHEME
2012/2013 ANNUAL REPORT

Every year a copy of the PIS Annual Report is sent to all Senior Partners of Hong Kong law firms. If you do not wish to receive the PIS Annual Report in the future or prefer to receive a scanned copy by email, please let us know by email at maggie@hklawsoc.org.hk

ISSUED June 2014

**HONG KONG SOLICITORS INDEMNITY
FUND LIMITED**

Directors:-

Peter R. Griffiths (Chairman)
Denis G. Brock
Albert B.K. Dan
Christopher G. Howse
Brian W. Gilchrist
Peter C.L. Lo
Patrick R. Moss
Amirali B. Nasir
Ng Wai Yan
Kevin C.K. Shum
David G. Smyth
Norris H.C. Yang

Members:-

Peter R. Griffiths
Heidi K.P. Chu
Christopher G. Howse
Peter C.L. Lo
Patrick R. Moss
Amirali B. Nasir
Norris H.C. Yang
The Law Society of Hong Kong

Company Secretary:-

ESSAR Insurance Services Ltd.
("ESSAR")

PIS CLAIMS COMMITTEE

Members:-

Brian W. Gilchrist (Chairman)
Colin B. Cohen (Vice-Chairman)
Charles W. Allen
Keith M. Brandt
Tony K.W. Chow
Simon P. Clarke
George D. Lamplough
Jeffrey H. Lane
Ronald W.T. Tong

Secretary:-

ESSAR

**PROFESSIONAL INDEMNITY
ADVISORY COMMITTEE**

Members:-

Robin S. Peard (Chairman)
Kevin R. Bowers
*Lawrence Y.H. Lee**
Susan P.S.K. Liang
Ng Wai Yan
Peter K.H. Ngai
David G. Smyth
Thomas S.T. So
*Fiona J. Stewart***
Gareth H. Thomas
Norris H.C. Yang

* *Consultant of Aon Hong Kong Ltd.*

** *Account Director, ESSAR*

Secretary:-

*Gigi Liu, Assistant Director, Professional
Indemnity Scheme ("ADPIS")*

PIS INVESTMENT SUB-COMMITTEE

Members:-

Peter C.L. Lo (Chairman)
John S. Gale
Ip Shing Hing
Elen Lau
Kher Sheng Lee
Kevin C.K. Shum
Norris H.C. Yang

Secretary:-

ADPIS

PIS PANEL SOLICITORS SELECTION BOARD

Members:-

Wong Kwai Huen (Chairman)
Stephen W.S. Hung
Kenneth S.Y. Ng
Amirali B. Nasir

Secretary:-

ADPIS

WORKING PARTY ON PIS GROSS FEE INCOME REPORTS AND CONTRIBUTIONS

Members:-

Ip Shing Hing (Chairman)
Albert B.K. Dan
Ng Wai Yan
Wong Kwai Huen

Secretary:-

ADPIS

- AUDITORS** : Mazars CPA Limited
- BANKERS** : Credit Agricole Corporate & Investment Bank
The Standard Chartered Bank Limited
- INVESTMENT MANAGERS** : Amundi Hong Kong Limited
AllianceBernstein Hong Kong Limited
MFS Investment Management
Grantham Mayo Van Otterloo
- BROKER** : Aon Hong Kong Limited ("Aon")
- CLAIMS AND SCHEME MANAGER** : ESSAR
(a subsidiary of the Aon Group of Companies)
- PANEL SOLICITORS** : Bird & Bird
(appointed for the period from Deacons
1 February 2013 to 31 January 2018) Fred Kan & Co
Gall
Howse Williams Bowers
P.C. Woo & Co.
Reed Smith Richards Butler
Smyth & Co

Hong Kong Solicitors Indemnity Fund Limited

Registered Office : 3rd Floor, Wing On House, 71 Des Voeux Road, Central, Hong Kong (DX-009100 Central 1)

Registered No. 248603, Company Limited by Guarantee Tel : 2846-0500 Fax : 2845-0387

E-Mail : sg@hklawsoc.org.hk

Home Page : <http://www.hklawsoc.org.hk>

INDEX

THE COMPANY -----	6
THE SCHEME -----	7
INDEMNITY FUND, REINSURANCE, AND INSOLVENCY COVER -----	8
THE SCHEME'S BROKER/MANAGER -----	8
CLAIMS HANDLING PROCEDURE -----	9
TABLE 1 : PROTECTION LIMITS PROVIDED BY THE SCHEME AND REINSURANCE PREMIUMS-----	10
CLAIMS EXPERIENCE	
TABLE 2 : NUMBER OF CLAIMS-----	12
TABLE 3 : CLAIMS PAID AND RESERVED-----	13
TABLE 4 : APPORTIONMENT OF CLAIM PAYMENTS-----	14
TABLE 5 : APPORTIONMENT OF CLAIM RESERVES -----	15
TABLE 6 : PANEL SOLICITORS' COSTS AS A PROPORTION OF CLAIM PAYMENTS AND RESERVES-----	16
TABLE 7 : COMPARISON OF REINSURANCE PREMIUMS PAID, CONTRIBUTIONS COLLECTED AND CLAIMS LOSSES -----	17
TABLE 8 : COMPARISON OF CONTRIBUTIONS AND CLAIMS BY FIRM SIZE----	18
TABLE 9 : CONTRIBUTIONS AND CLAIMS LOADINGS-----	19
TABLE 10 : COMPARISON OF CONTRIBUTIONS AND GROSS FEE INCOME----	20
TABLE 11 : COMPARISON OF CONTRIBUTIONS AND GROSS FEE INCOME BY FIRM SIZE-----	21
TABLE 12 : DEVELOPMENT OF CLAIMS-----	22
TABLE 13 : OUTSTANDING LIABILITIES OF THE FUND -----	23
TABLE 14 : COMPARISON OF CONTRIBUTIONS, CLAIM LOADINGS AND LOSSES -----	24
TABLE 15 : FREQUENCY OF CLAIMS BY AREA OF PRACTICE-----	25
TABLE 16 : VALUE OF CLAIMS BY AREA OF PRACTICE-----	26
TABLE 17 : NUMBER OF CLAIMS BY TYPE OF ERRORS IN CONVEYANCING ---	27

TABLE 18:	VALUE OF CLAIMS BY TYPE OF ERRORS IN CONVEYANCING -----	28
TABLE 19:	LOSS RATIOS -----	29
TABLE 20:	ANTICIPATED MAXIMUM SHORTFALL AS A RESULT OF THE INSOLVENCY OF HIH CASUALTY AND GENERAL INSURANCE LTD. ("HIH"), FAI GENERAL INSURANCE COMPANY LIMITED ("FAI") AND FAI FIRST PACIFIC INSURANCE CO. LTD. ("FAI PACIFIC") AS AT 30 SEPTEMBER 2013 -----	30
 ONGOING ISSUES		
1.	HIH REINSURERS -----	31
2.	QUALIFYING INSURERS SCHEME OR OTHER ALTERNATIVES -----	31
 PERFORMANCE OF THE FUND'S INVESTMENTS -----		33
 CONCLUSION -----		34
 AUDITED FINANCIAL STATEMENTS OF THE FUND -----		35

THE COMPANY

The Hong Kong Solicitors Indemnity Fund Ltd. ("the Company") is a company limited by guarantee with no share capital. It was set up by The Law Society of Hong Kong ("the Society") on 14 April, 1989 to hold, manage and administer the Solicitors Indemnity Fund ("the Fund") under the Professional Indemnity Scheme ("the Scheme"). As the Company's business is to manage the Scheme and provide indemnity to members through the Fund, and not to operate an insurance business, it does not fall within the provisions of the Insurance Companies Ordinance Cap. 41.

This report from the Directors of the Company gives an account of the activities of the Scheme. The Scheme began operation as an indemnity fund scheme in 1986 after having operated for six years as an ordinary insurance scheme under which firms were issued insurance policies by an independent insurance company on terms negotiated by the Society. During those six years, a significant number of claims were made against solicitors resulting in substantial payments. The underwriters demanded a substantial increase in premiums and the statutory indemnity fund scheme was established to provide the necessary cover by the Society. The Scheme is governed by the Solicitors (Professional Indemnity) Rules ("the Rules") Cap. 159M which set out the scope and conditions of cover.

Since the Fund is neither a person nor does it carry on a trade, profession or business for the purpose of S14 of the Inland Revenue Ordinance, Cap. 112, it is not liable to Hong Kong taxation.

The Directors are responsible for the production of accounts for each indemnity year to provide a true and fair view of the Fund's financial transactions and of the disposition of the Fund's assets and liabilities. It is also the responsibility of the Directors to ensure that proper accounting records are kept which disclose with reasonable accuracy at any time the Fund's financial transactions and assets and liabilities.

Although the auditing of the accounts of the Fund is not a statutory requirement, the Council of the Society considers that in the interests of the Society and its Members the Fund's financial position should be annually audited. There is included in this report a reproduction of the audited accounts of the Fund for the indemnity year ended 30 September 2013.

There is a division of responsibility between the Company and the Society's Council.

The **Company** is concerned with the management and administration of the Fund subject to directions by the Council. It considers the recommendations of the Claims Committee, the Professional Indemnity Advisory Committee and the PIS Investment Sub-Committee and advises the Council on matters pertaining to the smooth and effective operation of the Scheme.

The **Council** is responsible for the appointment of the Company's Directors, Panel Solicitors and Committee Members and the enforcement of the Rules. It also supervises the PIS Investment Sub-Committee and monitors the investments of the Fund in conjunction with the Company.

The **Claims Committee** supervises the conduct and settlement of claims.

*The **Professional Indemnity Advisory Committee** reviews, examines and advises on any issue relating to professional indemnity referred to it by the Council, the Company and the Claims Committee.*

*The **PIS Investment Sub-Committee** was established by the Company for the purpose of reviewing the investment guidelines and performance of the investments of the Fund.*

*The **PIS Panel Solicitors Selection Board** was established by the Council. Its responsibilities are to establish the procedures necessary for the tendering of panel solicitors for the Scheme and to consider all tender applications and make recommendations to the Council to appoint suitably qualified firms to the panel.*

*The **Working Party on PIS Gross Fee Income Reports and Contributions** is responsible for considering and making recommendations to the Council on the appropriate action to be taken against those firms which have, in breach of the Rules, failed to submit an application for indemnity and/or a gross fee income report relating to their annual gross fee income or failed to pay their annual contributions.*

All Company Directors and all Committee Members serve on a voluntary basis and receive no remuneration from either the Company or the Society.

THE SCHEME

The Scheme, subject to the conditions and exclusions set out in the Rules, provides solicitors with indemnity against losses arising from claims in respect of civil liability incurred in private practice.

The Scheme's limit of indemnity for each and every claim was increased from HK\$5 million (inclusive of costs) to HK\$10 million (inclusive of costs) on 1 October, 1994.

Some firms have "top-up" insurance in place to cover claims in excess of HK\$10 million. The procurement of such cover, and the amount of the top-up cover, are matters for each individual firm to determine based on the level of risk attached to the work conducted by the firm.

As at 30 September 2013, the total liability incurred by the Scheme for the 2012/13 indemnity year was HK\$22,451,176 of which HK\$3,008,370 was in respect of claim payments (including costs) and HK\$19,442,806 was in respect of claim reserves. Since the inception of the Scheme in 1986 and up to 30 September 2013, the Scheme paid a total of HK\$1,720,849,120 on claims (including costs), and the amount reserved in respect of claims is HK\$165,419,872.

INDEMNITY FUND, REINSURANCE, AND INSOLVENCY COVER

The Scheme's limit of indemnity for each and every claim is HK\$10 million (inclusive of costs). Prior to 1 October 2001, the first HK\$1 million of each claim was paid from the Fund and the remainder was provided by reinsurance. This level of retention was increased to HK\$1.5 million from 1 October 2001 to 30 September 2005.

On 1 October 2005, the Fund has entered into reinsurance arrangements with reinsurers whereby the Fund would be responsible for all claims up to an aggregate amount of HK\$100m (inclusive of costs) and all liability in excess of HK\$100m would be borne by reinsurers. The Company has further extended the programme for another 4 years from 1 October 2009 to 30 September 2013.

On 1 October 2013, the Fund's reinsurance arrangements were renewed with reinsurers for 5 years up to 30 September 2018. Under the new arrangements, the Fund would be responsible for all claims up to an annual aggregate amount of HK\$125m (inclusive of costs) and all liability in excess of HK\$125m would be borne by reinsurers.

An insolvency cover runs in tandem with the reinsurance programme from 1 October 2008 to 30 September 2013. It covers the Fund against the insolvency of one or more of its reinsurers and has been renewed for 5 years up to 30 September 2018.

The Company also took out stop loss insurance prior to 1 October 2001 to limit the aggregate liability of its retention. Where the stop loss limit was exhausted, a drop-down policy was available to cover all claims up to the Scheme's liability limit of HK\$10 million per claim. The stop loss and drop down policies expired on 30 September 2001 and Aon was instructed to arrange renewal of cover. The quotations obtained were considered carefully by the Company and the Council but it was decided the proposed coverage was not, on balance, the best value for money. No stop loss cover was purchased until 1 October 2005 when the above reinsurance arrangements, which could be categorised as stop loss cover without limit, was put in place.

The limits of liability retained by the Indemnity Fund, the cover provided by stop loss insurance and the amounts of reinsurance premiums paid by the Fund over twenty-seven indemnity years up to 2012/13 are shown in Table 1 on page 10.

THE SCHEME'S BROKER/MANAGER

A tender was conducted in 2009 and Aon and ESSAR are reappointed as the Scheme's Broker and Manager respectively from 1 April 2010 to 31 March 2014.

Aon is responsible for advising the Company on the state of the insurance market and the appropriate reinsurance arrangements and reporting on the financial viability of any underwriter who participates in the Scheme. It is also responsible for conveying the needs of the Scheme to underwriters and negotiating with them the best reinsurance terms for the Scheme.

The Fund places reinsurance with companies which have appropriate international ratings and/or which are regulated by the Hong Kong Insurance Authority.

The Manager handles claims with the assistance of Panel Solicitors and under the supervision of the Claims Committee, collects contributions and maintains proper accounting and statistical records of claims.

Under the brokerage and management agreement between Aon, ESSAR and the Company, Aon agreed to refund all brokerage commission and compensation negotiated with and received by Aon from reinsurers to the Company. A total of HK\$37,425,295.88 was rebated from 1 October 2000 to 30 September 2005 for the placement of reinsurance. All reinsurance premiums paid since 1 October 2005 do not carry any brokerage. HK\$1,800,000 was rebated as brokerage for the placement of the insolvency cover in the first 2 years of the 5 year programme.

CLAIMS HANDLING PROCEDURE

The manner in which claims are handled and reserved is contingent upon the ability to assess, as accurately as possible, the amount at which each claim is likely to be settled which, in turn, determines the true position of the Fund.

The Manager takes the initial step in opening a file upon receipt of a notification of a claim or a potential claim. As for claims (as distinct from potential claims), a reserve is placed on the claim upon completion of a preliminary investigation. Reserves are, therefore, funds set aside for unsettled claims and they represent the Fund's potential liabilities. The amount reserved is the estimated quantum of damages and costs (including defence costs) calculated on the assumption of full liability, taking into account the individual circumstances and the savings that might result from disputing either liability or quantum or both. As the matter proceeds and further information becomes available, the amount of reserve is adjusted accordingly. Thus, the progress of each claim for each individual year is re-assessed at regular (six-monthly) intervals until all claims for that year have been settled or otherwise disposed of. Experience shows that claims can sometimes take up to six years to finalize.

TABLE 1

PROTECTION LIMITS PROVIDED BY THE SCHEME AND REINSURANCE PREMIUMS

<i>Indemnity Year</i>	<i>No. of members holding practising certificate¹</i>	<i>Limit of liability of the Indemnity Fund (HK\$)</i>	<i>Stop Loss Cover (HK\$)</i>	<i>Excess of Loss Insurance Premium (HK\$)</i>	<i>Stop Loss Insurance Premium (HK\$)</i>	<i>Insolvency Cover Premium (HK\$)</i>	<i>Total Insurance Premium Paid Per Year (HK\$)</i>
1986/87	1,807	25,000,000	50,000,000	5,500,000	1,350,000	--	6,850,000
1987/88	1,998	25,000,000	25,000,000	12,500,000	1,720,000	--	14,220,000
1988/89	2,152	30,000,000	20,000,000	15,500,000	1,600,000	--	17,100,000
1989/90	2,326	30,000,000	20,000,000	19,500,000	1,500,000	--	21,000,000
1990/91	2,479	30,000,000	20,000,000	22,500,000	1,500,000	--	24,000,000
1991/92	2,721	30,000,000	40,000,000	24,700,000	5,250,000	--	29,950,000
1992/93	2,981	30,000,000	60,000,000	26,000,000	5,650,000	--	31,650,000
1993/94	3,307	30,000,000	60,000,000	29,500,000	5,650,000	--	35,150,000
1994/95	3,596	30,000,000	60,000,000	42,500,000	6,515,000	--	49,015,000
1995/96	3,896	30,000,000	60,000,000	42,500,000	7,675,000	--	50,175,000
1996/97	4,309	30,000,000	90,000,000	37,750,000	8,440,000	--	46,190,000
1997/98	4,619	30,000,000	90,000,000	45,000,000	7,755,000	--	52,755,000
1998/99	4,720	90,000,000 (for 3 years)	100,000,000 (for 3 years)	100,230,300 (for 2 years)	8,868,750 (for 3 years)	--	109,099,050
1999/2000	4,890	--	--	--	--	--	--
2000/01	5,070	--	--	83,232,650	--	--	123,253,900
				40,021,250 ²			
2001/02	5,173	--	--	95,262,865.81	--	--	95,262,865.81
2002/03	5,301	--	--	128,899,595.32	--	--	128,899,595.32
2003/04	5,422	--	--	172,230,412.38	--	--	172,230,412.38
2004/05	5,593	--	--	218,023,353.30	--	--	218,023,353.30
2005/06	5,757	100,000,000	Unlimited	--	75,000,000	--	75,000,000
2006/07	5,925	100,000,000	Unlimited	--	79,500,000	--	79,500,000
2007/08	6,205	100,000,000	Unlimited	--	79,500,000	--	79,500,000
2008/09	6,465	100,000,000	Unlimited	--	79,500,000	4,100,000	83,600,000
2009/10	6,782	100,000,000	Unlimited	--	79,500,000	7,069,503 ³	86,569,503
2010/11	7,149	100,000,000	Unlimited	--	79,500,000	11,679,500	91,179,500
2011/12	7,381	100,000,000	Unlimited	--	79,500,000	13,729,500	93,229,500
2012/13	7,717	100,000,000	Unlimited	--	79,500,000	13,729,500	93,229,500

Note:

(1) Figure as of 31 December of each year.

(2) Amount paid to reinsurers in place of HIH.

(3) Includes pro-rated premium for insolvency cover arranged with effect from 11 May 2010. Please refer to page 8 for details of insolvency cover.

CLAIMS EXPERIENCE

The statistics in Table 2 to Table 20 of this report are set out with the following remarks:-

- (a) It is often difficult to determine under which category a particular claim should fall, given the fact that, among other things, many claims are borderline cases; therefore, the classification of claims should not be treated as conclusive;*
- (b) A claim which has been allocated to the current indemnity year may at a later time be allocated to the preceding indemnity year if there was insufficient information available at the time of the notification to determine the exact date when the Indemnified should have become aware of circumstances giving rise to the claim;*
- (c) A claim may sometimes be settled by the Indemnified without indemnity being sought from the Scheme if the cost of the claim is lower than the Indemnified firm's deductible. The statistics therefore do not include all those claims which have been lodged but settled outside the Scheme;*
- (d) With the exception of Table 2, the claims statistics in the tables are computed on the basis of data collected up to 30 September 2013 excluding the grace period for notification of claims. The statistics for the 2012/13 indemnity year are therefore to that extent incomplete;*
- (e) All data have been calculated to their nearest decimal point.*

TABLE 2
NUMBER OF CLAIMS INCLUDING NOTIFICATIONS CALCULATED AS AT 30 SEPTEMBER
2013 IN ACCORDANCE WITH THE CLAIMS CLASSIFICATION PROCEDURE ADOPTED BY
ESSAR

<i>Indemnity Year</i>	<i>Number of Claims</i>	<i>Percentage Increase/Decrease from previous year</i>
1986/1987	64	-
1987/1988	58	-9%
1988/1989	126	117%
1989/1990	178	41%
1990/1991	72	-60%
1991/1992	93	29%
1992/1993	118	27%
1993/1994	143	21%
1994/1995	151	6%
1995/1996	150	-1%
1996/1997	176	17%
1997/1998	336	91%
1998/1999	483	44%
1999/2000	263	-46%
2000/2001	230	-13%
2001/2002	215	-7%
2002/2003	269	25%
2003/2004	165	-39%
2004/2005	159	-4%
2005/2006	165	4%
2006/2007	142	-14%
2007/2008	309	118%
2008/2009	147	-52%
2009/2010	139	-5%
2010/2011	174	25%
2011/2012	126	-28%
2012/2013	240	90%

Note : (1) Number of claims includes claims notified within the grace period.

(2) Percentage increase/decrease in the table has been calculated to the nearest decimal point.

TABLE 3
CLAIMS PAID AND RESERVED AS AT 30 SEPTEMBER 2013

Indemnity Year	Total Claim Payments (HK\$)	Total Claim Reserves (HK\$)	Total Claim Payments & Reserves (HK\$)
1986/1987	24,843,393	-	24,843,393
1987/1988	13,673,564	-	13,673,564
1988/1989	29,291,950	-	29,291,950
1989/1990	12,470,291	-	12,470,291
1990/1991	7,581,520	-	7,581,520
1991/1992	8,663,605	-	8,663,605
1992/1993	40,361,002	-	40,361,002
1993/1994	33,580,438	-	33,580,438
1994/1995	54,971,235	1,218,359	56,189,594
1995/1996	80,837,814	-	80,837,814
1996/1997	77,663,694	28,689	77,692,383
1997/1998	186,915,392	-	186,915,392
1998/1999	399,262,911	6,552,956	405,815,867
1999/2000	81,996,879	146,085	82,142,964
2000/2001	70,085,264	-	70,085,264
2001/2002	84,997,271	2,869,385	87,866,656
2002/2003	73,905,531	2,678,129	76,583,660
2003/2004	63,334,401	532,556	63,866,957
2004/2005	67,419,967	196,740	67,616,707
2005/2006	74,586,332	4,221,925	78,808,257
2006/2007	32,174,692	14,361,590	46,536,282
2007/2008	33,306,303	5,240,166	38,546,469
2008/2009	62,911,235	7,258,268	70,169,503
2009/2010	54,840,426	21,926,471	76,766,897
2010/2011	26,164,456	31,825,219	57,989,675
2011/2012	22,001,184	46,920,528	68,921,712
2012/2013	3,008,370	19,442,806	22,451,176
Total	1,720,849,120	165,419,872	1,886,268,992

- Note: (1) An indemnity year begins on 1 October and ends on 30 September of the following year. There is a grace period of 60 days for notifying claims arising or circumstances giving rise to a claim within an indemnity year: hence claims may be notified on or before 29 November in respect of the indemnity year ended on the preceding 30 September.
- (2) The table shows the amount of claims paid out in respect of the indemnity year 1986/87 to 2012/13.
- (3) A payment in respect of a claim notified in an indemnity year is often paid after the indemnity year in which the claim was notified. The table is NOT a representation of amounts paid within the indemnity years in question, but shows the amounts paid IN RESPECT OF the claims notified in each of those indemnity years. As further claims are paid these amounts will be adjusted.
- (4) Claim payments include payments in respect of settlement or judgment of a claim, claimants' costs, costs for defending claims and indemnity investigation.
- (5) Claim reserves include reserves for the quantum of a claim, reserves for claimants' costs and defence costs.

TABLE 4
APPORTIONMENT OF CLAIM PAYMENTS AS AT 30 SEPTEMBER 2013

<i>Indemnity Year</i>	<i>Total claim payments (HK\$)</i>	<i>Claim payments which fall within the Fund's retention (HK\$)</i>	<i>% of claim payments borne by the Fund</i>	<i>Claim payments borne by reinsurers (HK\$)</i>	<i>% of claim payments borne by reinsurers</i>	<i>Deductibles paid by indemnified firms (HK\$)</i>	<i>Deductibles as a % of claim payments</i>
1986/87	24,843,393	6,922,847	27.9%	16,460,546	66.3%	1,460,000	5.9%
1987/88	13,673,564	8,174,223	59.8%	2,974,341	21.8%	2,525,000	18.5%
1988/89	29,291,950	10,058,813	34.3%	17,445,224	59.6%	1,787,913	6.1%
1989/90	12,470,291	10,123,428	81.2%	1,236,863	9.9%	1,110,000	8.9%
1990/91	7,581,520	3,846,085	50.7%	3,098,303	40.9%	637,132	8.4%
1991/92	8,663,605	3,746,767	43.2%	4,000,000	46.2%	916,838	10.6%
1992/93	40,361,002	18,284,644	45.3%	19,227,867	47.6%	2,848,491	7.1%
1993/94	33,580,438	12,806,906	38.1%	13,682,797	40.7%	7,090,735	21.1%
1994/95	54,971,235	17,890,174	32.5%	34,222,390	62.3%	2,858,671	5.2%
1995/96	80,837,814	22,752,567	28.1%	54,076,003	66.9%	4,009,244	5.0%
1996/97	77,663,694	35,136,007	45.2%	36,692,472	47.2%	5,835,215	7.5%
1997/98	186,915,392	60,723,978	32.5%	117,589,329	62.9%	8,602,085	4.6%
1998/99	399,262,911	145,360,354	36.4%	233,901,028	58.6%	20,001,529	5.0%
1999/00	81,996,879	31,229,635	38.1%	45,010,668	54.9%	5,756,576	7.0%
2000/01	70,085,264	30,317,113	43.3%	35,014,470	50.0%	4,753,681	6.8%
2001/02	84,997,271	32,905,555	38.7%	48,293,909	56.8%	3,797,807	4.5%
2002/03	73,905,531	30,457,605	41.2%	39,483,073	53.4%	3,964,853	5.4%
2003/04	63,334,401	25,445,980	40.2%	34,413,724	54.3%	3,474,697	5.5%
2004/05	67,419,967	23,441,312	34.8%	40,722,755	60.4%	3,255,900	4.8%
2005/06	74,586,332	70,864,742	95.0%	-	0.0%	3,721,590	5.0%
2006/07	32,174,692	29,936,738	93.0%	-	0.0%	2,237,954	7.0%
2007/08	33,306,303	31,085,558	93.3%	-	0.0%	2,220,745	6.7%
2008/09	62,911,235	58,438,735	92.9%	-	0.0%	4,472,500	7.1%
2009/10	54,840,426	52,668,364	96.0%	-	0.0%	2,172,062	4.0%
2010/11	26,164,456	24,431,126	93.4%	-	0.0%	1,733,330	6.6%
2011/12	22,001,184	19,749,671	89.8%	-	0.0%	2,251,513	10.2%
2012/13	3,008,370	2,818,370	93.7%	-	0.0%	190,000	6.3%
Total	1,720,849,120	819,617,297	47.6%	797,545,762	46.3%	103,686,061	6.0%

Note: The percentages of the claim payments borne by the Fund and by the reinsurers and the deductibles are calculated to the nearest decimal point only. The aggregation of these percentages in respect of each indemnity year may not therefore add up to 100%.

TABLE 5
APPORTIONMENT OF CLAIM RESERVES AS AT 30 SEPTEMBER 2013

Indemnity Year	Total claim reserves (HK\$)	Claim reserves to be borne by the Fund (HK\$)	% of reserves borne by the Fund	Claim reserves to be borne by reinsurers (HK\$)	% of reserves borne by reinsurers
1986/87	-	-	-	-	-
1987/88	-	-	-	-	-
1988/89	-	-	-	-	-
1989/90	-	-	-	-	-
1990/91	-	-	-	-	-
1991/92	-	-	-	-	-
1992/93	-	-	-	-	-
1993/94	-	-	-	-	-
1994/95	1,218,359	95,713	7.9%	1,122,646	92.1%
1995/96	-	-	-	-	-
1996/97	28,689	28,689	100.0%	-	-
1997/98	-	-	-	-	-
1998/99	6,552,956	1,062,386	16.2%	5,490,570	83.8%
1999/00	146,085	146,085	100.0%	-	-
2000/01	-	-	-	-	-
2001/02	2,869,385	927,557	32.3%	1,941,828	67.7%
2002/03	2,678,129	2,578,129	96.3%	100,000	3.7%
2003/04	532,556	532,556	100.0%	-	-
2004/05	196,740	196,740	100.0%	-	-
2005/06	4,221,925	4,221,925	100.0%	-	-
2006/07	14,361,590	14,361,590	100.0%	-	-
2007/08	5,240,166	5,240,166	100.0%	-	-
2008/09	7,258,268	7,258,268	100.0%	-	-
2009/10	21,926,471	21,926,471	100.0%	-	-
2010/11	31,825,219	31,825,219	100.0%	-	-
2011/12	46,920,528	46,920,528	100.0%	-	-
2012/13	19,442,806	19,442,806	100.0%	-	-
Total	165,419,872	156,764,828	94.8%	8,655,044	5.2%

Note: All claims notified in the 1986/87, 1987/88, 1988/89, 1989/90, 1990/91, 1991/92, 1992/93, 1993/94 and 1995/96 indemnity years have been settled. There is no outstanding reserve for the claims in those indemnity years.

TABLE 6
PANEL SOLICITORS' COSTS AS AT 30 SEPTEMBER 2013 AS A PROPORTION OF
CLAIM PAYMENTS AND CLAIM RESERVES

<i>Indemnity Year</i>	<i>Total claim payments (HK\$)</i>	<i>Panel Solicitors' costs (HK\$)</i>	<i>Panel Solicitors' costs as a % of claim payments</i>	<i>Total claim reserves (HK\$)</i>	<i>Reserves for Panel Solicitors' costs (HK\$)</i>	<i>Reserves for Panel Solicitors' costs as a % of claim reserves</i>
1986/87	24,843,393	5,174,616	20.8%	-	-	-
1987/88	13,673,564	5,381,029	39.4%	-	-	-
1988/89	29,291,950	7,111,194	24.3%	-	-	-
1989/90	12,470,291	7,995,055	64.1%	-	-	-
1990/91	7,581,520	3,344,250	44.1%	-	-	-
1991/92	8,663,605	3,327,344	38.4%	-	-	-
1992/93	40,361,002	9,927,565	24.6%	-	-	-
1993/94	33,580,438	15,663,625	46.6%	-	-	-
1994/95	54,971,235	11,058,275	20.1%	1,218,359	1,185,261	97.3%
1995/96	80,837,814	19,064,073	23.6%	-	-	-
1996/97	77,663,694	21,329,509	27.5%	28,689	28,689	100.0%
1997/98	186,915,392	54,537,290	29.2%	-	-	-
1998/99	399,262,911	104,652,852	26.2%	6,552,956	1,462,213	22.3%
1999/00	81,996,879	34,260,578	41.8%	146,085	96,085	65.8%
2000/01	70,085,264	26,733,658	38.1%	-	-	-
2001/02	84,997,271	42,670,544	50.2%	2,869,385	219,385	7.6%
2002/03	73,905,531	27,652,230	37.4%	2,678,129	778,129	29.1%
2003/04	63,334,401	19,894,434	31.4%	532,556	482,556	90.6%
2004/05	67,419,967	12,977,025	19.2%	196,740	196,740	100.0%
2005/06	74,586,332	31,300,928	42.0%	4,221,925	2,721,925	64.5%
2006/07	32,174,692	9,191,336	28.6%	14,361,590	3,399,090	23.7%
2007/08	33,306,303	13,091,186	39.3%	5,240,166	257,666	4.9%
2008/09	62,911,235	23,378,263	37.2%	7,258,268	1,458,268	20.1%
2009/10	54,840,426	18,802,002	34.3%	21,926,471	6,526,471	29.8%
2010/11	26,164,456	14,752,397	56.4%	31,825,219	3,775,219	11.9%
2011/12	22,001,184	9,697,226	44.1%	46,920,528	17,241,324	36.7%
2012/13	3,008,370	2,893,370	96.2%	19,442,806	3,133,106	16.1%
<i>Total</i>	<i>1,720,849,120</i>	<i>555,861,854</i>	<i>32.3%</i>	<i>165,419,872</i>	<i>42,962,127</i>	<i>26.0%</i>

TABLE 7**COMPARISON OF REINSURANCE PREMIUMS PAID, CONTRIBUTIONS COLLECTED AND CLAIMS LOSSES**

Indemnity Year	Claims Losses (HK\$ million)	Annual Contributions (HK\$)	No. of Claims	Contractual Reinsurance Premium (HK\$)	Actual Reinsurance Premium (HK\$)
1998/1999	405.8	112,178,110	483	109,099,050 2 years excess of loss 3 years stop loss	109,099,050
1999/2000	82.1	85,231,403	263		
2000/2001	70.1	95,910,707	230	83,232,650	123,253,900 (40,021,250 for HIH Replacement)
2001/2002	87.9	236,886,755	215	113,625,000	95,262,865.81
2002/2003	76.6	222,237,005	269	164,756,250	128,899,595.32
2003/2004	63.9	219,607,685	165	238,896,563	172,230,412.38
2004/2005	67.6	217,484,983	159	340,427,602	218,023,353.30
2005/2006	78.8	242,335,709	165	79,500,000	79,500,000
2006/2007	46.5	256,756,900	142	79,500,000	79,500,000
2007/2008	38.5	283,223,840	309	79,500,000	79,500,000
2008/2009	70.2	318,613,840	147	79,500,000	79,500,000
2009/2010	76.8	301,445,650	139	79,500,000	79,500,000
2010/2011	58.0	309,996,404	174	79,500,000	79,500,000
2011/2012	68.9	362,665,656	126	79,500,000	79,500,000
2012/2013	22.5	365,956,472	240	79,500,000	79,500,000

Note :

- (1) Claims Losses include claim payments and reserves and are calculated to the nearest decimal point.
- (2) Annual Contributions include claims loadings.
- (3) Contractual reinsurance premiums differ from actual premiums paid as the 5-year reinsurance programme (from 2000/2001 to 2004/2005) provided for a reduction in premium should there be a decrease in claims during the 5 years.
- (4) Contribution before reduction is used for 2010/2011 and 2011/2012 indemnity years.

TABLE 8**COMPARISON OF CONTRIBUTIONS AND CLAIMS BY FIRM SIZE****(1 OCTOBER 2012 - 30 SEPTEMBER 2013)****(including firms which ceased practice and firms which changed names)**

No. of Solicitors in Firm	No. of Firms	No. of Firms with Claims	% of Firms with Claims	Total No. of Claims	% of Total No. of Claims	Contribution Payments (HK\$ thousand)	Claim Payments (HK\$ thousand)	Claim Reserves (HK\$ thousand)
1	170	7	4.12%	8	3.33%	11,469.4	821.3	85.0
2 to 5	434	25	5.76%	32	13.33%	84,883.2	1,396.1	7,306.4
6 to 10	122	20	16.39%	27	11.25%	55,570.9	495.9	1,389.7
11 to 20	56	16	28.57%	21	8.75%	41,122.0	0.0	0.0
21 to 30	31	6	19.35%	12	5.00%	52,593.2	271.1	10,461.7
31 to 50	16	6	37.50%	95	39.58%	34,490.1	0.0	0.0
Over 50	15	11	73.33%	45	18.75%	85,827.7	24.0	200.0
Total	844	91	10.78%	240		365,956.5	3,008.4	19,442.8

*Note: The percentages of the number of claims are calculated to the nearest decimal point only.
The aggregation of these percentages may not therefore add up to 100%.*

TABLE 9**CONTRIBUTIONS AND CLAIMS LOADINGS****(1 OCTOBER 2012 – 30 SEPTEMBER 2013)****(including firms which ceased practice and firms which changed names)**

No. of Solicitors in Firm	No. of Firms	No. of Firms with Claims Loadings	% of Firms with Claims Loadings	Contribution Payments (HK\$ thousand)	Claims Loadings (HK\$ thousand)	Claims Loadings as a % of Contribution Payments
1	170	7	4.12%	11,469.4	599.9	5.23%
2 to 5	434	28	6.45%	84,883.2	4,421.2	5.21%
6 to 10	122	16	13.11%	55,570.9	1,984.9	3.57%
11 to 20	56	5	8.93%	41,122.0	1,504.0	3.66%
21 to 30	31	5	16.13%	52,593.2	1,810.6	3.44%
31 to 50	16	4	25.00%	34,490.1	1,421.6	4.12%
Over 50	15	5	33.33%	85,827.7	2,309.8	2.69%
Total	844	70	8.29%	365,956.5	14,052.0	3.84%

TABLE 10**COMPARISON OF CONTRIBUTIONS AND GROSS FEE INCOME AS AT 30 SEPTEMBER 2013**

Indemnity Year	Gross Fees of the Profession (HK\$)	Contribution Payments (HK\$)	Contributions as a % of Gross Fees
1997/98	11,786,875,405	106,778,078	0.91%
1998/99	13,111,052,058	112,178,110	0.86%
1999/00	11,089,453,975	85,231,403	0.77%
2000/01	11,015,561,030	95,910,707	0.87%
2001/02	11,619,410,157	236,886,755	2.04%
2002/03	11,221,835,142	355,129,255 ¹	3.16%
2003/04	10,921,884,902	219,607,685	2.01%
2004/05	10,635,107,496	217,484,983	2.04%
2005/06	11,725,199,370	242,335,709	2.07%
2006/07	12,906,183,745	256,756,900	1.99%
2007/08	15,069,395,251	283,223,840	1.88%
2008/09	18,446,786,551	318,613,840	1.73%
2009/10	18,586,558,400	301,445,650	1.62%
2010/11	18,337,954,982	309,996,404	1.69%
2011/12	20,980,069,083	362,665,656	1.73%
2012/13	22,091,586,220	365,956,472	1.66%

Note:

(1) Shortfall Contributions are included in the Contributions collected for the 2002/03 indemnity year.

(2) Contribution before reduction is used for 2010/2011 and 2011/2012 indemnity years.

TABLE 11**COMPARISON OF CONTRIBUTIONS AND GROSS FEE INCOME BY FIRM SIZE
(1 OCTOBER 2012 – 30 SEPTEMBER 2013)
(including firms which ceased practice)**

No. of Solicitors in Firm	No. of Firms	Gross Fees of the Profession (HK\$)	Contribution Payments (HK\$)	Contribution Payments as a % of Gross Fee Income
1	170	255,931,895	11,469,431	4.48%
2 to 5	434	2,444,082,790	84,883,141	3.47%
6 to 10	122	2,491,921,852	55,570,897	2.23%
11 to 20	56	2,159,963,583	41,122,007	1.90%
21 to 30	31	3,736,871,273	52,593,189	1.41%
31 to 50	16	2,909,945,068	34,490,078	1.19%
Over 50	15	8,092,869,759	85,827,729	1.06%
<i>Total</i>	844	22,091,586,220	365,956,472	1.66%

TABLE 12 - DEVELOPMENT OF CLAIMS AS AT 30 SEPTEMBER 2013

<i>Indemnity Year</i>	<i>Claims Closed</i>		<i>Claims Outstanding</i>		<i>Total</i>
	<i>With Payment</i>	<i>Without Payment</i>	<i>With Reserve or Payment</i>	<i>Without Reserve or Payment</i>	
1986/1987	26	38	0	0	64
1987/1988	27	31	0	0	58
1988/1989	41	85	0	0	126
1989/1990	117	61	0	0	178
1990/1991	15	57	0	0	72
1991/1992	22	71	0	0	93
1992/1993	51	67	0	0	118
1993/1994	66	77	0	0	143
1994/1995	36	113	2	0	151
1995/1996	44	106	0	0	150
1996/1997	59	115	2	0	176
1997/1998	128	207	0	1	336
1998/1999	290	182	11	0	483
1999/2000	66	192	2	3	263
2000/2001	58	165	5	2	230
2001/2002	57	151	4	3	215
2002/2003	42	210	14	3	269
2003/2004	35	116	7	7	165
2004/2005	26	125	2	6	159
2005/2006	23	131	4	7	165
2006/2007	19	97	8	18	142
2007/2008	22	29	8	250	309
2008/2009	23	32	8	84	147
2009/2010	16	32	9	82	139
2010/2011	6	28	12	128	174
2011/2012	6	10	21	89	126
2012/2013	0	7	17	216	240
TOTAL	1,321	2,535	136	899	4,891

TABLE 13
OUTSTANDING LIABILITIES OF THE FUND

<i>Indemnity Year</i>	<i>Total Claim Payments (HK\$)</i>	<i>Total Claim Reserves (HK\$)</i>	<i>Total Claim Payments & Reserves (HK\$)</i>	<i>Outstanding Liabilities of the Fund (HK\$)</i>
1986/1987	24,843,393	-	24,843,393	-
1987/1988	13,673,564	-	13,673,564	-
1988/1989	29,291,950	-	29,291,950	-
1989/1990	12,470,291	-	12,470,291	-
1990/1991	7,581,520	-	7,581,520	-
1991/1992	8,663,605	-	8,663,605	-
1992/1993	40,361,002	-	40,361,002	-
1993/1994	33,580,438	-	33,580,438	-
1994/1995	54,971,235	1,218,359	56,189,594	1,038,736
1995/1996	80,837,814	-	80,837,814	-
1996/1997	77,663,694	28,689	77,692,383	10,041
1997/1998	186,915,392	-	186,915,392	-
1998/1999	399,262,911	6,552,956	405,815,867	} 14,037,598
1999/2000	81,996,879	146,085	82,142,964	
2000/2001	70,085,264	-	70,085,264	
2001/2002	84,997,271	2,869,385	87,866,656	927,557
2002/2003	73,905,531	2,678,129	76,583,660	2,578,129
2003/2004	63,334,401	532,556	63,866,957	532,556
2004/2005	67,419,967	196,740	67,616,707	196,740
2005/2006	74,586,332	4,221,925	78,808,257	4,221,925
2006/2007	32,174,692	14,361,590	46,536,282	14,361,590
2007/2008	33,306,303	5,240,166	38,546,469	5,240,166
2008/2009	62,911,235	7,258,268	70,169,503	7,258,268
2009/2010	54,840,426	21,926,471	76,766,897	21,926,471
2010/2011	26,164,456	31,825,219	57,989,675	31,825,219
2011/2012	22,001,184	46,920,528	68,921,712	46,920,528
2012/2013	3,008,370	19,442,806	22,451,176	19,442,806
<i>Total</i>	<i>1,720,849,120</i>	<i>165,419,872</i>	<i>1,886,268,992</i>	<i>170,518,330</i>

Note : Outstanding liabilities include claim reserves to be borne by the Fund, and liabilities to be borne by the Fund as a result of the insolvency of HIH Casualty and General Insurance Ltd, FAI General Insurance Company Ltd and FAI First Pacific Insurance Co. Ltd.

TABLE 14**COMPARISON OF CONTRIBUTIONS, CLAIMS LOADINGS AND LOSSES**

Indemnity Year	Annual Contributions (HK\$)	Claims Loadings (HK\$)	Total Incurred Losses (HK\$)	Loadings as % of Losses	Loadings as % of Contributions	Recovery by way of Deductibles (HK\$)
1997/1998	106,778,078	3,996,258	186,915,392	2.14%	3.74%	8,602,085
1998/1999	112,178,110	5,815,656	405,815,867	1.43%	5.18%	20,001,529
1999/2000	85,231,403	4,187,326	82,142,964	5.10%	4.91%	5,756,576
2000/2001	95,910,707	5,547,161	70,085,264	7.91%	5.78%	4,753,681
2001/2002	236,886,755	17,716,648	87,866,656	20.16%	7.48%	3,797,807
2002/2003	222,237,005	12,044,600	76,583,660	15.73%	5.42%	3,964,853
2003/2004	219,607,685	10,909,400	63,866,957	17.08%	4.97%	3,474,697
2004/2005	217,484,983	10,485,444	67,616,707	15.51%	4.82%	3,255,900
2005/2006	242,335,709	9,119,595	78,808,257	11.57%	3.76%	3,721,590
2006/2007	256,756,900	9,946,895	46,536,282	21.37%	3.87%	2,237,954
2007/2008	283,223,840	9,504,563	38,546,469	24.66%	3.36%	2,220,745
2008/2009	318,613,840	7,765,371	70,169,503	11.07%	2.44%	4,472,500
2009/2010	301,445,650	7,518,788	76,766,897	9.79%	2.49%	2,172,062
2010/2011	309,996,404	9,017,161	57,989,675	15.55%	2.91%	1,733,330
2011/2012	362,665,656	11,358,408	68,921,712	16.48%	3.13%	2,251,513
2012/2013	365,956,472	14,052,008	22,451,176	62.59%	3.84%	190,000

Note :

- (1) Total incurred losses include claim payments and reserves, some of which are covered by the deductibles paid by indemnified firms.
- (2) Annual Contributions include claims loadings.
- (3) Contribution before reduction is used for 2010/2011 and 2011/2012 indemnity years.

TABLE 15

**FREQUENCY OF CLAIMS BY AREA OF PRACTICE
(1 OCTOBER 2008 – 30 SEPTEMBER 2013)**

AREA OF PRACTICE	INDEMNITY YEAR											
	2008/09	% of Total No. of Claims	2009/10	% of Total No. of Claims	2010/11	% of Total No. of Claims	2011/12	% of Total No. of Claims	2012/13	% of Total No. of Claims	Total No. of Claims in the 5 Indemnity Years	% of Total No. of Claims in 5 Indemnity Years
COMMERCIAL	19	12.93%	18	12.95%	18	10.34%	22	17.46%	20	8.33%	97	11.74%
CONVEYANCING	42	28.57%	48	34.53%	39	22.41%	36	28.57%	114	47.50%	279	33.78%
LITIGATION	53	36.05%	48	34.53%	67	38.51%	47	37.30%	61	25.42%	276	33.41%
PROBATE	2	1.36%	1	0.72%	3	1.72%	3	2.38%	12	5.00%	21	2.54%
LANDLORD & TENANT	3	2.04%	0	0.00%	1	0.57%	0	0.00%	6	2.50%	10	1.21%
PATENTS, TRADEMARKS	19	12.93%	16	11.51%	19	10.92%	5	3.97%	13	5.42%	72	8.72%
TAX MATTERS	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
BREACH OF CONFIDENTIAL INFORMATION ²	0	0.00%	0	0.00%	0	0.00%	0	0.00%	5	2.08%	5	0.61%
DATA BREACH ²	0	0.00%	0	0.00%	0	0.00%	0	0.00%	1	0.42%	1	0.12%
OTHERS	9	6.12%	8	5.76%	27	15.52%	13	10.32%	8	3.33%	65	7.87%
TOTAL	147		139		174		126		240		826	

Note : (1) The percentages of the number of claims in each area of practice are calculated to the nearest decimal point only. The aggregation of these percentages in respect of each indemnity year may not therefore add up to 100%.

(2) "Breach of Confidential Information" and "Data Breach" are newly classified and are added as new items in 2012/2013 indemnity year.

TABLE 16

**VALUE OF CLAIMS BY AREA OF PRACTICE
(1 OCTOBER 2008 – 30 SEPTEMBER 2013)**

AREA OF PRACTICE	INDEMNITY YEAR											
	2007/2008 (HK\$)	% of Total Value of Claims	2008/2009 (HK\$)	% of Total Value of Claims	2009/2010 (HK\$)	% of Total Value of Claims	2010/2011 (HK\$)	% of Total Value of Claims	2011/2012 (HK\$)	% of Total Value of Claims	Total Value of Claims in 5 Indemnity Years (HK\$)	% of Total Value of Claims in 5 Indemnity Years
COMMERCIAL	3,601,951	5.13%	11,820,988	15.40%	10,156,286	17.51%	23,225,461	33.70%	10,265,896	45.73%	59,070,582	19.94%
CONVEYANCING	44,548,250	63.49%	36,268,127	47.24%	20,647,021	35.60%	33,263,624	48.26%	7,928,777	35.32%	142,655,799	48.15%
LITIGATION	17,816,532	25.39%	28,397,161	36.99%	26,657,880	45.97%	5,166,035	7.50%	4,061,989	18.09%	82,099,597	27.71%
PROBATE	-	-	-	-	-	-	5,675,958	8.24%	194,514	0.87%	5,870,472	1.98%
LANDLORD & TENANT	296,178	0.42%	-	-	-	-	-	-	-	-	296,178	0.10%
PATENTS, TRADEMARKS	-	-	-	-	-	-	-	-	-	-	-	-
TAX MATTERS	-	-	-	-	-	-	-	-	-	-	-	-
BREACH OF CONFIDENTIAL INFORMATION²	-	-	-	-	-	-	-	-	-	-	-	-
DATA BREACH²	-	-	-	-	-	-	-	-	-	-	-	-
OTHERS	3,906,592	5.57%	280,621	0.37%	528,488	0.91%	1,590,634	2.31%	-	-	6,306,335	2.13%
TOTAL	70,169,503		76,766,897		57,989,675		68,921,712		22,451,176		296,298,963	

Note : (1) Value of claims includes claims paid and reserved.
The percentages of the value of claims in each area of practice are calculated to the nearest decimal point only. The aggregation of these percentages in respect of each indemnity year may not therefore add up to 100%.

(2) "Breach of Confidential Information" and "Data Breach" are newly classified and are added as new items in 2012/2013 indemnity year.

TABLE 17

**NUMBER OF CLAIMS BY TYPE OF ERRORS IN CONVEYANCING
(1 OCTOBER 2008 - 30 SEPTEMBER 2013)**

Type of Errors in Conveyancing	INDEMNITY YEAR					Total no. of Claims in 5 indemnity years	% of Total No. of Claims in Conveyancing
	2008/09	2009/10	2010/11	2011/12	2012/13		
	NO. OF CLAIMS						
<i>Breach of undertaking</i>	0	2	0	1	0	3	1.1%
<i>Conflict of Interest</i>	0	2	0	1	2	5	1.8%
<i>Defective service</i>	0	0	0	0	74	74	26.5%
<i>Delay irrespective of time limits</i>	2	1	0	0	2	5	1.8%
<i>Failure to spot/investigate defect</i>	0	0	0	0	0	0	0.0%
<i>Failure to act per client's instruction</i>	1	2	2	5	3	13	4.7%
<i>Failure to advise correctly</i>	22	12	9	10	17	70	25.1%
<i>Failure to answer requisitions</i>	2	5	4	2	2	15	5.4%
<i>Failure to check client's I.D.</i>	1	0	0	0	0	1	0.4%
<i>Failure to investigate title</i>	0	7	7	4	1	19	6.8%
<i>Failure to search properly</i>	0	1	0	0	0	1	0.4%
<i>Failure to supervise</i>	0	0	0	0	0	0	0.0%
<i>Failure to verify/check information</i>	0	0	1	3	0	4	1.4%
<i>Fraud by clients*</i>	0	2	0	4	5	11	3.9%
<i>Fraud by employee*</i>	0	0	3	0	1	4	1.4%
<i>Fraud by principal*</i>	0	0	0	0	0	0	0.0%
<i>Incorrect preparation/drafting</i>	0	3	1	1	3	8	2.9%
<i>Insufficient information</i>	0	1	0	1	1	3	1.1%
<i>Late notices/requisitions</i>	0	0	0	0	0	0	0.0%
<i>Late/failed registration</i>	0	1	0	1	0	2	0.7%
<i>Late/failed stamping</i>	0	0	1	0	0	1	0.4%
<i>Loss of documents</i>	0	1	3	0	0	4	1.4%
<i>Missed time limits</i>	2	1	0	0	1	4	1.4%
<i>No apparent negligence</i>	5	5	2	2	1	15	5.4%
<i>Other failure to take correct action</i>	6	1	6	1	1	15	5.4%
<i>Causes not specified</i>	1	1	0	0	0	2	0.7%
Total	42	48	39	36	114	279	

* Data only include those claims where the major cause giving rise to the claims is fraud.

TABLE 18

**VALUE OF CLAIMS BY TYPE OF ERRORS IN CONVEYANCING
(1 OCTOBER 2008 - 30 SEPTEMBER 2013)**

Type of Errors in Conveyancing	INDEMNITY YEAR					Total Value of Claims ** in 5 indemnity years (HK\$)	% of Total Value of Claims in Conveyancing
	2008/09	2009/10	2010/2011	2011/2012	2012/2013		
	VALUE OF CLAIMS (HK\$)						
Breach of undertaking	-	-	-	-	-	-	0.0%
Conflict of interest	-	-	-	-	-	-	0.0%
Defective service	-	-	-	-	-	-	0.0%
Delay irrespective of time limits	8,074,867	1,211,209	-	-	-	9,286,076	6.5%
Failure to spot/investigate defect	-	-	-	-	-	-	0.0%
Failure to act per client's instruction	11,395	5,197,855	-	4,827,327	2,096,475	12,133,052	8.5%
Failure to advise correctly	33,097,111	16,920,193	1,183,965	802,218	4,632,302	56,635,789	39.7%
Failure to answer requisitions	1,171,311	3,422,441	5,480,439	5,559,564	500,000	16,133,755	11.3%
Failure to check client's I.D.	-	-	-	-	-	-	0.0%
Failure to investigate title	-	4,512,423	-	2,558,536	-	7,070,959	5.0%
Failure to search properly	-	966,907	-	-	-	966,907	0.7%
Failure to supervise	-	-	-	-	-	-	0.0%
Failure to verify/check information	-	-	-	559,842	-	559,842	0.4%
Fraud by clients*	-	4,032,039	-	18,663,885	-	22,695,924	15.9%
Fraud by employee*	-	-	164,420	-	700,000	864,420	0.6%
Fraud by principal*	-	-	-	-	-	-	0.0%
Incorrect preparation/drafting	-	-	-	-	-	-	0.0%
Insufficient information	-	-	-	-	-	-	0.0%
Late notices/requisitions	-	-	-	-	-	-	0.0%
Late/failed registration	-	-	-	-	-	-	0.0%
Late/failed stamping	-	-	-	-	-	-	0.0%
Loss of documents	-	-	-	-	-	-	0.0%
Missed time limits	968,874	-	-	-	-	968,874	0.7%
No apparent negligence	-	5,060	9,669,939	182,252	-	9,857,251	6.9%
Other failure to take correct action	687,027	-	4,148,258	110,000	-	4,945,285	3.5%
Causes not specified	537,665	-	-	-	-	537,665	0.4%
Total	44,548,250	36,268,127	20,647,021	33,263,624	7,928,777	142,655,799	

* Data only include those claims where the major cause giving rise to the claims is fraud.

** Value of claims includes claims paid and reserved.

TABLE 19**LOSS RATIOS AS AT 30 SEPTEMBER 2013**

Indemnity Year	Number of claims	Annual Contributions (HK\$)	Claims Losses (HK\$)	Loss ratio
1997/98	336	106,778,078	186,915,392	175%
1998/99	483	112,178,110	405,815,867	362%
1999/00	263	85,231,403	82,142,964	96%
2000/01	230	95,910,707	70,085,264	73%
2001/02	215	236,886,755	87,866,656	37%
2002/03	269	222,237,005	76,583,660	34%
2003/04	165	219,607,685	63,866,957	29%
2004/05	159	217,484,983	67,616,707	31%
2005/06	165	242,335,709	78,808,257	33%
2006/07	142	256,756,900	46,536,282	18%
2007/08	309	283,223,840	38,546,469	14%
2008/09	147	318,613,840	70,169,503	22%
2009/10	139	301,445,650	76,766,897	25%
2010/11	174	309,996,404	57,989,675	19%
2011/12	126	362,665,656	68,921,712	19%
2012/13	240	365,956,472	22,451,176	6%

Note :

- (1) Loss ratio is the ratio of contributions to claims losses (claims paid and reserved).
100% loss ratio means the contributions equal to the incurred losses.
200% loss ratio means the amount of claims losses is double the contributions collected.
- (2) Whilst the higher the ratio, the greater the amount by which claims losses exceed the contributions collected, it should be borne in mind it takes about 4 years before claims are sufficiently developed to provide a figure close to a final loss ratio. The loss ratios for the 2009/10 indemnity year onwards cannot therefore be taken as the final loss ratios.
- (3) Contribution before reduction is used for 2010/2011 and 2011/2012 indemnity years.

TABLE 20

ANTICIPATED MAXIMUM SHORTFALL AS A RESULT OF THE INSOLVENCY OF HIH CASUALTY AND GENERAL INSURANCE LTD. ("HIH"), FAI GENERAL INSURANCE COMPANY LTD. ("FAI") AND FAI FIRST PACIFIC INSURANCE CO. LTD. ("FAI PACIFIC") AS AT 30 SEPTEMBER 2013

(1) Outstanding claims provision recoverable from reinsurers

Indemnity Year	(a) Excess of Loss Layer			(b) Stop Loss Layer			(c) "Incurred but not reported" reserve #			Total (a)+(b)+(c)
	HIH	FAI	FAI Pacific	HIH	FAI	FAI Pacific	HIH	FAI	FAI Pacific	
1988/89	-	-	-	-	-	-	-	-	-	-
1989/90	-	-	-	-	-	-	-	-	-	-
1990/91	-	-	-	-	-	-	-	-	-	-
1991/92	-	-	-	-	-	-	-	-	-	-
1992/93	-	-	-	-	-	-	-	-	-	-
1993/94	-	-	-	-	-	-	-	-	-	-
1994/95	493,964	-	449,058	-	-	-	(284)	-	(258)	942,480
1995/96	-	-	-	-	-	-	-	-	-	-
1996/97	-	-	-	-	-	10,041	-	-	-	10,041
1997/98	-	-	-	-	-	-	-	-	-	-
1997/98~2000/2001	N/A	N/A	N/A	N/A	N/A	N/A	-	-	-	-
1998/99~1999/2000	14,037,598 #	-	-	-	-	-	-	-	-	14,037,598
1998/99~2000/2001	-	-	-	-	-	-	(208)	-	109	(99)
2001/2002	-	-	-	-	-	-	-	-	-	-
2001/02	-	-	-	-	-	-	-	-	-	-
2002/03	-	-	-	-	-	-	-	-	-	-
2003/04	-	-	-	-	-	-	-	-	-	-
2004/05	-	-	-	-	-	-	-	-	-	-
2005/06	-	-	-	-	-	-	-	-	-	-
2006/07	-	-	-	-	-	-	-	-	-	-
2007/08	-	-	-	-	-	-	-	-	-	-
2008/09	-	-	-	-	-	-	-	-	-	-
2009/10	-	-	-	-	-	-	-	-	-	-
2010/11	-	-	-	-	-	-	-	-	-	-
2011/12	-	-	-	-	-	-	-	-	-	-
2012/13	-	-	-	-	-	-	-	-	-	-
	14,531,562	-	449,058	-	-	10,041	(492)	-	(149)	14,990,020

* including the drop down cover totalling \$9,892,217

no stop loss insurance since 2001/02

(2) Claims receivables from reinsurers

Indemnity Year	(a) Excess of Loss Layer			(b) Stop Loss Layer			(c) Drop Down Layer	Total (a)+(b)+(c)
	HIH	FAI	FAI Pacific	HIH	FAI	FAI Pacific	HIH	
1988/89-99/2000	231,473,483	1,365,851	48,372,796	N/A	N/A	N/A	N/A	281,212,130
1997/98-2000/01	N/A	N/A	N/A	37,500,000	-	8,627,254	8,979,821	55,107,075
	231,473,483	1,365,851	48,372,796	37,500,000	-	8,627,254	8,979,821	336,319,205

ONGOING ISSUES

1. HIH REINSURERS

HIH Casualty and General Insurance Ltd. ("HIH"), FAI General Insurance Company Ltd. ("FAI") and FAI First Pacific Insurance Co. Ltd. ("FAI Pacific") ("the HIH reinsurers") were the excess of loss and stop loss insurers for the Scheme from 1987 onwards. The first 2 above-mentioned companies were placed in provisional liquidation on 15 March 2001 and the third went into provisional liquidation on 9 April 2001. A winding-up order was subsequently made against the first 2 companies on 27 August 2001. The ultimate effect of the insolvency of the HIH group will not be known for some time; meanwhile, a provision is being made in the Fund Accounts to cover an anticipated maximum shortfall. The anticipated maximum shortfall as at 30 September 2013 is set out in table 20.

The Company has also conducted an actuarial study on the total outstanding liabilities of the Fund. Having taken into account the default of the HIH reinsurers, the total outstanding liabilities of the Fund as at 30 September 2013 was approximately HK\$360.868m.

The Company is a member of the Committees of Inspection and the Creditors' Committees of HIH and FAI. The Liquidator has commenced proceedings against various parties including the former directors, auditors and actuary of the companies in the HIH group based on his investigation and the findings of the Royal Commission in Australia. Some of the proceedings have been settled. Schemes of arrangement were implemented in respect of HIH and FAI on 30 May 2006. As of 15 April 2014, a total of US\$11,157,061.07 was paid by HIH, of which US\$738,260.82 was repaid to reinsurers who replaced HIH in accordance with the reinsurance policies. A total of US\$92,293.72 was paid by FAI as interim dividends. The Company is also a member of the Creditors' Committee of FAI Pacific in Hong Kong. A scheme of arrangement was implemented in respect of the provisional liquidation in Hong Kong on 30 November 2002. As of 15 April 2014, a total of HK\$29,364,649.08 was paid by FAI First Pacific as interim dividend and threshold payments i.e. settlements for small claims.

The HIH scheme of arrangement has entered its final stages. The estimation date at which all outstanding claims should be valued was set at 31 May 2013. Under the terms of the scheme, the scheme administrators must determine all claims by 2 December 2013 and notify the relevant scheme creditors of their decision.

2. QUALIFYING INSURERS SCHEME ("QIS") OR OTHER ALTERNATIVES

At an Extraordinary General Meeting ("EGM") of the Law Society on 16 November 2004, Members voted by a majority of 316 to 255 to replace the Scheme with a QIS.

A notice of EGM, the QIS Rules, the qualifying insurer's agreement, the assigned risk pool management agreement and an explanatory note were issued to the Members on 11 April 2006.

Having considered the structure of the QIS proposed in the QIS Rules and the other documents, Members voted in the EGM on 27 April 2006 by a majority of 1873 to 506 against the implementation of such a scheme.

The Council has set up the PIS Review Working Party ("the Working Party") to consider how to improve the Scheme or such other alternative insurance or indemnity schemes as may be viable. An actuarial analysis of the present contribution formula was performed and provided the following findings:

- ◆ The current contribution formula is sufficient to cover the total claims and expenses of administering the Scheme;*
- ◆ The three rating factors currently used in the formula, namely the average number of principals, average number of assistants and gross fee income are all positively correlated with the net incurred costs and the number of reported claims;*
- ◆ Any additional rating factors to be introduced to the formula will need to be obtained from members without causing an excessive burden and be verifiable. The Rules will also need to be amended to authorise the collection of such data;*
- ◆ As with any formula structure, cross subsidization exists and large firms were found to contribute more than the cost attributable to them. Small firms contributed less than or equal to their share of the cost while medium size firms showed mixed results.*

The Working Party also appointed Lockton Companies (Hong Kong) Limited to consider the feasibility of a master policy scheme in Hong Kong. It was noted certain features of the Scheme, such as unlimited aggregate cover, are not currently supported by commercial insurers. Additional exclusions are also likely to be imposed by commercial insurers.

In 2010, the Rules have been amended to provide contribution reductions to member firms. After consideration of actuarial advice, claims experience and the financial position of the Fund, contribution reductions of 33½% were provided in the indemnity years of 2010/11, 2011/12 and 2013/14. The amount of reduction made totaled approximately HK\$342m.

The Working Party recommended to Council that cover be continued to be provided to members under the PIS. The recommendation has been adopted by Council and the Working Party was then disbanded on 5 February 2013.

PERFORMANCE OF THE FUND'S INVESTMENTS

Mercer Investment Consulting Limited has been the Company's investment consultant since December 2010. In 2011, the PIS Investment Subcommittee ("Subcommittee") conducted a portfolio structure review and health check of investment managers. It was resolved that two additional global equity managers would be appointed to take over the equity portfolio managed by AllianceBernstein Hong Kong Limited ("AllianceBernstein").

The current investment managers of the Fund are as follows:

- Amundi Hong Kong Limited ("Amundi")
- AllianceBernstein
- MFS Investment Management ("MFS")
- Grantham Mayo van Otterloo ("GMO")

The Subcommittee meets every quarter to monitor the investment managers and the guidelines for the investments. The Fund adopts a conservative investment strategy where the investments are predominantly placed in fixed income securities. The investment objectives, guidelines and restrictions are summarised as follows:

Investment Objectives:

- to preserve capital and to maximize total return on the portfolio; and
- regarding the bond portfolio, to outperform the Barclays Capital Global Aggregate Index.

Amundi's portfolio consists of both equities and bonds and the portfolio Investment Guidelines and Restrictions are as follows:

- allowable range in equities: 20% - 35%
- allowable range in bonds: 55% - 80%
- allowable range in cash: 0% - 10%

Total: 100%

The AllianceBernstein portfolio consists of bonds only.

Investments made via the other two managers are in the form of equity pooled funds, as follows:

- MFS Global Concentrated Equity Fund
- GMO Global Equity Allocation Fund

The net returns on the portfolios managed by the investment managers for the 12 month period ended 31 December for the past 3 years were as follows:

			<u>Net Return</u>		
	<u>Type of portfolio</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	
Amundi	Equity and bonds	-2.11%	9.68%	6.44%	
AllianceBernstein	Bonds	-3.44%	3.86%	0.27%	
MFS*	Equity	-	24.13%	29.55%	
GMO*	Equity	-	13.56%	19.95%	

*MFS and GMO were appointed in December 2011.

CONCLUSION

The Company's policy is to resolve claims promptly for the benefit of the Fund. However, unmeritorious claims are vigorously defended. Each claim is carefully considered on its own merits.

The Board of Directors of the Company would like to record their appreciation to all members of the relevant PIS Committees and Working Parties for their hard work during the year and the time they gave so freely to serve the profession.

ADPIS 13/14 AR (1678605)

Audited Financial Statements
Hong Kong Solicitors Indemnity Fund
30 September 2013

Independent Auditor's Report

To the Manager of
Hong Kong Solicitors Indemnity Fund
(established in Hong Kong)

We have audited the financial statements of Hong Kong Solicitors Indemnity Fund (the "Fund") set out on pages 3 to 21, which comprise the statement of financial position as at 30 September 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Manager's responsibility for the financial statements

The Manager of the Fund is responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

To the Manager of
Hong Kong Solicitors Indemnity Fund
(established in Hong Kong)

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Fund as at 30 September 2013 and of its surplus and cash flows for the year then ended in accordance with HKFRS.



Certified Public Accountants
Hong Kong, 26 February 2014

Chan Wai Man
Practising Certificate number: P02487

Hong Kong Solicitors Indemnity Fund

Statement of Comprehensive Income Year ended 30 September 2013

	<i>Note</i>	2013 <i>HK\$</i>	2012 <i>HK\$</i>
Turnover	3	360,096,338	230,896,746
Gain (Loss) on disposal of financial assets at fair value through profit or loss		44,860,762	(41,822,560)
Change in fair value of financial assets at fair value through profit or loss		26,592,445	120,159,124
Net claims incurred		(27,813,545)	(47,411,519)
Other revenue	3	222,270,486	53,862,050
Operating expenses	4	(113,370,283)	(110,726,110)
Surplus from operations		512,636,203	204,957,731
Add: Net movement in claims provision and claims receivable relating to reinsurance contracts with HIH Group	5	20,871,242	10,022,828
Surplus before income tax		533,507,445	214,980,559
Income tax expense	6	-	-
Surplus for the year		533,507,445	214,980,559
Other comprehensive income for the year		-	-
Total comprehensive income for the year		533,507,445	214,980,559

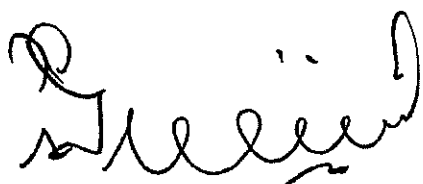
Hong Kong Solicitors Indemnity Fund

Statement of Financial Position

At 30 September 2013

	Note	2013 HK\$	2012 HK\$
Non-current assets			
Profit commission receivable from reinsurers	7	159,000,000	-
Current assets			
Profit commission receivable from reinsurers		-	63,748
Claims receivable from reinsurers		8,116	-
Claims provision recoverable and claims receivable	8	37,520,000	10,513,000
Financial assets at fair value through profit or loss	9	2,053,920,041	1,708,634,716
Amount due from Hong Kong Solicitors Indemnity Fund Limited	10	1,760,712	2,125,922
Accounts receivable	11	6,076,798	6,551,085
Prepayments		65,212,500	13,729,500
Cash at bank	12	214,627,352	298,841,623
		<u>2,379,125,519</u>	<u>2,040,459,594</u>
Current liabilities			
Outstanding claims provision		398,388,000	390,588,000
Accrued charges		213,541	187,453
Amounts payable to reinsurers		-	150,390
Contributions received in advance		217,443,596	259,432,008
Contributions refundable		1,364,593	2,893,399
		<u>617,409,730</u>	<u>653,251,250</u>
Net current assets		<u>1,761,715,789</u>	<u>1,387,208,344</u>
NET ASSETS		<u>1,920,715,789</u>	<u>1,387,208,344</u>
Reserves			
Accumulated fund		<u>1,920,715,789</u>	<u>1,387,208,344</u>

Approved and authorised for issued by the Manager on 26 February 2014



Director



Director

Hong Kong Solicitors Indemnity Fund

Statement of Changes in Equity

Year ended 30 September 2013

	Accumulated fund HK\$
At 1 October 2011	1,172,227,785
Surplus for the year and total comprehensive income for the year	<u>214,980,559</u>
At 30 September 2012 and 1 October 2012	1,387,208,344
Surplus for the year and total comprehensive income for the year	<u>533,507,445</u>
At 30 September 2013	<u><u>1,920,715,789</u></u>

Hong Kong Solicitors Indemnity Fund

Statement of Cash Flows Year ended 30 September 2013

	<i>Note</i>	2013 <i>HK\$</i>	2012 <i>HK\$</i>
OPERATING ACTIVITIES			
Cash generated from operations	15	<u>134,929,415</u>	<u>181,613,672</u>
Net cash from operating activities		<u>134,929,415</u>	<u>181,613,672</u>
INVESTING ACTIVITIES			
Proceeds on disposal of financial assets at fair value through profit or loss		1,055,453,068	1,292,733,450
Purchases of financial assets at fair value through profit or loss		(1,267,064,193)	(1,479,203,843)
Interest received		40,545,028	44,560,588
Dividend income		<u>14,143,404</u>	<u>6,790,047</u>
Net cash used in investing activities		<u>(156,922,693)</u>	<u>(135,119,758)</u>
Net (decrease) increase in cash and cash equivalents		<u>(21,993,278)</u>	<u>46,493,914</u>
Cash and cash equivalents at beginning of year		<u>327,339,589</u>	<u>280,845,675</u>
Cash and cash equivalents at end of year	12	<u><u>305,346,311</u></u>	<u><u>327,339,589</u></u>

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2013

1. GENERAL

Hong Kong Solicitors Indemnify Fund (the “Fund”) was established by The Law Society of Hong Kong to provide indemnity against such loss as is mentioned in Section 73A(1) of the Hong Kong Legal Practitioners Ordinance (Chapter 159). The Fund is managed by the Hong Kong Solicitors Indemnity Fund Limited (the “Manager”), a company limited by guarantee.

2. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and accounting principles generally accepted in Hong Kong.

These financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2012 financial statements. The new / revised HKFRSs that are relevant to the Fund and effective from the current year had no significant effects on the results and financial position of the Fund for the current and prior years. A summary of the principal accounting policies adopted by the Fund is set out below.

Basis of measurement

The measurement basis used in the preparation of these financial statements is historical cost, except for the financial assets at fair value through profit or loss which are measured at fair value as explained in the accounting policies set out below.

Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when and only when the Fund becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when and only when (i) the Fund’s contractual rights to future cash flows from the financial asset expire or (ii) the Fund transfers the financial asset and the Fund has transferred substantially all the risks and rewards of ownership of the financial asset. A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

Classification and measurement

Financial assets or financial liabilities are initially recognised at their fair value plus, in the case of financial assets or financial liabilities not carried at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2013

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. They are carried at fair value, with any resultant gain and loss recognised in profit or loss.

Financial assets are classified as held for trading if they are (i) acquired principally for the purpose of selling in the near future; (ii) part of a portfolio of identified financial instruments that the Fund manages together and has a recent actual pattern of short-term profit-taking; or (iii) derivatives that are not financial guarantee contracts or not designated and effective hedging instruments.

Financial assets are designated at initial recognition as at fair value through profit or loss only if (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or (ii) they are part of a group of financial assets and / or financial liabilities that are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in profit or loss.

Financial liabilities

All financial liabilities except for derivatives are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Impairment of financial assets

At the end of each reporting period, the Fund assesses whether there is objective evidence that financial assets, other than those at fair value through profit or loss, are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate. Such impairment loss is reversed in subsequent periods through profit or loss when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Cash equivalents

For the purpose of the statement of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2013

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Fund and when the revenue and costs, if applicable, can be measured reliably and on the following bases:

Contributions are accounted for proportionally over the period of coverage. Contributions received in advance represent contributions invoiced and received but not earned at the end of reporting period.

Dividend income from investments and investment incentive income are recognised when the Fund's rights to receive payment have been established.

Interest income from financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Foreign currency translation

The financial statements are presented in the currency of Hong Kong dollars, which is the Fund's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Provisions

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Fund expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Related parties

A related party is a person or entity that is related to the Fund.

- (a) A person or a close member of that person's family is related to the Fund if that person:
 - (i) has control or joint control over the Fund;
 - (ii) has significant influence over the Fund; or
 - (iii) is a member of the key management personnel of the Fund.

- (b) An entity is related to the Fund if any of the following conditions applies:
 - (i) The entity is controlled or jointly controlled by a person identified in (a).
 - (ii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2013

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Related parties (Continued)

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of that person or that person's spouse or domestic partner.

Critical accounting estimates and judgements

Estimates and assumptions concerning the future and judgements are made by the Manager in the preparation of the financial statements. They affect the application of the Fund's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

Provision for claims

The estimation of the ultimate liability arising from claims made under indemnity is the Fund's most critical accounting estimate.

Full provision is made for the estimated cost of claims notified but not settled at the end of the reporting period and for the estimated cost of claims incurred but not enough reported ("IBNER") by that date. The provision for amounts recoverable from reinsurers and from solicitors' firms is estimated and shown separately in the statement of financial position. Provision is also made for the estimated cost of servicing claims notified but not settled at the reporting date and expenses on IBNER at the end of the reporting period.

Management of the Fund takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Estimates and assumptions have been made in arriving at the provision for claims and reinsurance recoveries thereof. The actual results may be significantly different from those envisaged when these estimates were made. In particular, the estimation of IBNER is based upon actual claims experience using predetermined methodology and is generally subject to a greater degree of uncertainty.

	2013 HK\$	2012 HK\$
Case reserves	165,420,000	154,209,000
Estimated IBNER	160,794,000	160,364,000
Estimated allowance for indirect claim handling expenses	14,435,000	15,203,000
Risk margin	57,739,000	60,812,000
	<u>398,388,000</u>	<u>390,588,000</u>

Profit commission receivable from reinsurers

The estimate of the ultimate profit commission to be receivable from reinsurers involve critical accounting estimate. The Fund estimates that provision based primarily on risk premium, latest expenses, claims paid and claims reserved. Details of profit commission receivable from reinsurers recognised are set out in note 7 to the financial statements.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2013

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Future changes in HKFRS

At the date of authorisation of these financial statements, the HKICPA has issued a number of new / revised HKFRS that are not yet effective for the current year, which the Fund has not early adopted. The Manager anticipates that the adoption of these new / revised HKFRS in the future accounting periods will have no material impact on the results of the Fund.

3. TURNOVER AND OTHER REVENUE

	2013 HK\$	2012 HK\$
Contribution earned	360,096,338	230,896,746
Turnover	360,096,338	230,896,746
Bond interest income	40,466,163	44,481,999
Deposit interest income	78,865	78,589
Dividend income	14,143,404	6,790,047
Investment incentive income	8,493,619	2,425,293
Profit commission on reinsurance	159,000,000	-
Sundry income	88,435	86,122
Other revenue	222,270,486	53,862,050
Total revenue	582,366,824	284,758,796

4. OPERATING EXPENSES

	2013 HK\$	2012 HK\$
Accounting fee	252,000	246,000
Auditor's remuneration	120,000	115,000
Administration fee paid to Hong Kong Solicitors Indemnity Fund Limited	11,134,041	11,318,551
Bank charges	193,907	113,231
Investments management fee	7,156,298	5,384,568
Legal and professional fees	1,536,229	806,479
Reinsurance premium	92,856,375	92,710,192
Sundry expenses	57,685	32,089
Write-off of profit commission receivable from reinsurers	63,748	-
	113,370,283	110,726,110

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2013

5. NET MOVEMENT IN CLAIMS PROVISION AND CLAIMS RECEIVABLE RELATING TO REINSURANCE CONTRACTS WITH HHH GROUP

In 2001, three of the major reinsurers used by the Fund, which were part of an insurance group in Australia (“HHH Group”), were placed into liquidation. Given the limited information provided by the liquidators except for certain indications that the financial losses could be very substantial, the Manager has concluded that a full provision against the remaining amounts due from these reinsurers would be appropriate. The amount provided relates to claims extending over the indemnity years 1998 to 2000. During the year, HK\$20,871,242 (2012: HK\$10,022,828) was recovered from the reinsurers and the provision for impairment previously made was reversed and credited to profit or loss.

6. INCOME TAX EXPENSE

Since the Fund is neither a person nor does it carry on a trade, profession or business for the purpose of section 14 of the Inland Revenue Ordinance (Cap. 112), it is not liable to Hong Kong taxation.

7. PROFIT COMMISSION RECEIVABLE FROM REINSURERS

The profit commission relates to slip policies covering the indemnity period from 1 October 2008 to 30 September 2013. The estimation of amount is based on risk premium, expenses, claims paid and claims reserved. Under the slip policies, the Fund shall be entitled to the profit sharing if the slip policies are not cancelled before 30 September 2013. As at 30 September 2012, HK\$127 million was disclosed as a contingent asset since the inflow of economic benefit was then not virtually certain.

The amounts due are interest-free and calculated in accordance with the slip policies, final calculation on profit commission receivable from reinsurers will take place on 30 September 2017. The carrying amount of the amounts due approximates its fair value.

8. CLAIMS PROVISION RECOVERABLE AND CLAIMS RECEIVABLE

	Note	2013 HK\$	2012 HK\$
Claims provision recoverable from reinsurers and solicitors' firms		43,530,000	24,914,000
Less: provision for impairment – HHH Group	(a)	<u>(6,010,000)</u>	<u>(14,401,000)</u>
		<u>37,520,000</u>	<u>10,513,000</u>

The Fund does not have any settled claims receivable at the end of the reporting period. The carrying value of claims provision recoverable is considered a reasonable approximation of its fair value.

The Fund allows a credit period of 7 days to its reinsurers. Before accepting any new reinsurers, the Manager performs check on the potential reinsurer's international ratings as well as whether they are regulated by the Hong Kong Insurance Authority.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2013

8. CLAIMS PROVISION RECOVERABLE AND CLAIMS RECEIVABLE (CONTINUED)

(a) Provision for impairment – HIH Group

The movements in the provision for impairment – HIH Group during the year are as follows:

	2013 <i>HK\$</i>	2012 <i>HK\$</i>
At beginning of reporting period	14,401,000	23,142,000
Amount recovered during the year	(20,871,242)	(10,022,828)
Increase in provision for impairment	12,480,242	1,281,828
	<u>6,010,000</u>	<u>14,401,000</u>

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>Notes</i>	2013 <i>HK\$</i>	2012 <i>HK\$</i>
Equity investments			
- listed in Hong Kong	<i>(a)</i>	96,292,342	22,868,730
- listed outside Hong Kong	<i>(a)</i>	231,936,867	263,299,453
		<u>328,229,209</u>	<u>286,168,183</u>
Bonds listed outside Hong Kong	<i>(a)</i>	1,284,760,667	575,003,249
Quoted fund investments	<i>(b)</i>	350,211,206	818,965,318
Cash deposits in investment accounts (note 12)		90,718,959	28,497,966
		<u>2,053,920,041</u>	<u>1,708,634,716</u>

Notes:

- (a) The fair values are based on quoted market prices in active markets at the end of the reporting period.
- (b) The fair values of quoted fund investments are measured by reference to the prices publicly quoted by fund administrators.

10. AMOUNT DUE FROM HONG KONG SOLICITORS INDEMNITY FUND LIMITED

The amount due is unsecured, interest-free and has no fixed repayment term. The carrying amount of the amount due approximates its fair value.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2013

11. ACCOUNTS RECEIVABLE

	2013 <i>HK\$</i>	2012 <i>HK\$</i>
Contributions receivable	1,889,278	4,046,910
Other receivables	<u>4,187,520</u>	<u>2,504,175</u>
	<u>6,076,798</u>	<u>6,551,085</u>

The contributions receivable represent contributions receivable from legal practitioners. Under the Hong Kong Legal Practitioners Ordinance (Chapter 159), all the legal practitioners in Hong Kong are required to maintain indemnity with the Fund in order to obtain new or renewal practicing certificates from the Law Society of Hong Kong. The carrying amount of contributions receivable and other receivables are considered a reasonable approximation of its fair value.

No credit period is provided by the Fund and all payments are due by 30 September except in the case of new firms, in which case payments are due on presentation of debit notes. All of the Fund's contributions receivable and other receivables have been reviewed for indication of impairment.

Included in the Fund's contributions receivable balance are amounts receivable from legal practitioners with a carrying amount of HK\$1,889,278 (2012: HK\$4,046,910) which are past due within 3 months as at the reporting date for which the Fund has not impaired as there has not been a significant change in its good credit quality and there was no recent history of default and the amounts are still considered recoverable. The Fund does not hold any collateral over these balances.

12. CASH AND CASH EQUIVALENTS

	2013 <i>HK\$</i>	2012 <i>HK\$</i>
Cash at bank	214,627,352	298,841,623
Cash deposits in investment accounts (note 9)	<u>90,718,959</u>	<u>28,497,966</u>
As stated in statement of cash flows	<u>305,346,311</u>	<u>327,339,589</u>

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2013

13. MANAGEMENT OF RISKS

The Fund is exposed to insurance risk and financial risks because of the nature of its operations and because of the use of financial instruments in its operating activities.

The carrying amount presented in the statement of financial position relate to the following categories of financial assets and financial liabilities.

	2013 <i>HK\$</i>	2012 <i>HK\$</i>
Financial assets		
Loans and receivables:		
Claims receivable from reinsurers	8,116	-
Profit commission receivable from reinsurers	159,000,000	63,748
Outstanding claims provision recoverable from reinsurers and solicitors' firms	37,520,000	10,513,000
Amounts due from Hong Kong Solicitors Indemnity Fund Limited	1,760,712	2,125,921
Accounts receivable	6,076,798	6,551,086
Cash at bank	214,627,352	298,841,623
	<u>418,992,978</u>	<u>318,095,378</u>
Financial assets at fair value through profit or loss	<u>2,053,920,041</u>	<u>1,708,634,716</u>
Financial liabilities		
Amortised costs:		
Outstanding claims provision	398,388,000	390,588,000
Amounts payable to reinsurers	-	150,390
Contributions refundable	1,364,593	2,893,399
	<u>399,752,593</u>	<u>393,631,789</u>

13.1 Insurance risk management

The Fund was established by The Law Society of Hong Kong. Pursuant to the Solicitors (Professional Indemnity) Rules made by the Council of The Law Society of Hong Kong under Section 73A(1) of the Hong Kong Legal Practitioners Ordinance, solicitors are provided with indemnity against loss arising from claims in respect of civil liability incurred in private practices.

The principal risk that the Fund faces is the possibility of the actual claims exceeding the carrying amount of the claims provision. This could occur when the frequency or severity of claims are greater than estimated. Events under indemnity are random and the actual number and amount of claims will vary from year to year from the estimate established using statistical techniques.

Management of the Fund attempts to diversify this risk by entering into reinsurance with reinsurers. Reinsurance does not discharge the Fund's liability as the primary obligor under the indemnity. Failure of reinsurers to honor their obligations could result in losses to the Fund. In order to minimise losses from reinsurers' defaults, the Fund only places reinsurance with companies which have appropriate international ratings and/or which are regulated by the Hong Kong Insurance Authority. To minimise the risk of reinsurer defaults, the Fund has put in place insolvency insurance cover. The cover insures the Fund against the insolvency of one or more of its reinsurers.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2013

13. MANAGEMENT OF RISKS (CONTINUED)

13.2 Financial risk management

The financial risks to which the Fund is exposed include market risk (including currency risk, interest risk and other price risk), credit risk and liquidity risk.

The objective of financial risk management is to ensure that the Fund's overall financial risk is at an acceptable level and that appropriate returns are earned for the level of risk assumed. The Manager appointed four investment managers who operate independently of each other. Two investment managers operate under discretionary investment management agreements which allow them to manage their portfolio within guidelines prescribed by the Company. The remaining two managers offer equity pooled funds which the Fund has invested in since November 2011. The Fund adopts a conservative investment strategy where the investments are predominantly placed in fixed income securities. The strategy is to achieve an optimal return without incurring a risk of substantial fluctuations in the value of the accumulated reserves.

(a) Foreign currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instruments will fluctuate because of changes in foreign exchange rates. The Fund's exposures to currency risk arise from its bank balances and financial assets at fair value through profit or loss, which are primarily denominated in Australian Dollars ("AUD"), United States Dollars ("USD"), British Pounds ("GBP"), Japanese Yen ("JPY"), Singapore Dollars ("SGD"), Renminbi ("RMB") and Euro ("EUR").

The Fund does not hedge its foreign currency risks. However, the Fund's investment managers monitor the foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

The following table provides details of the Fund's exposure at the end of the reporting period to foreign exchange risk arising from recognised assets and liabilities denominated in a currency other than the functional currency of the Fund:

	As at 30 September 2013			As at 30 September 2012		
	Financial assets at fair value through profit or loss HK\$	Cash at bank HK\$	Overall net exposure HK\$	Financial assets at fair value through profit or loss HK\$	Cash at bank HK\$	Overall net exposure HK\$
AUD	47,473,237	-	47,473,237	46,118,471	-	46,118,471
EUR	209,799,129	-	209,799,129	227,594,287	-	227,594,287
GBP	95,410,666	-	95,410,666	67,813,220	-	67,813,220
JPY	39,265,876	-	39,265,876	27,405,935	-	27,405,935
RMB	32,124,173	-	32,124,173	31,431,216	-	31,431,216
SGD	27,944,806	-	27,944,806	184,100,386	-	184,100,386
USD	1,473,730,084	24,568,976	1,498,299,060	4,966,697,088	3,791,106	4,970,488,194

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2013

13. MANAGEMENT OF RISKS (CONTINUED)

13.2 Financial risk management (Continued)

(a) Foreign currency risk (continued)

The following table indicates the approximate change in the Fund's surplus after income tax in response to reasonably possible changes in the foreign exchange rates of the following foreign currencies against Hong Kong Dollar to which the Fund has significant exposure at the end of the reporting period.

	2013		2012	
	Increase/decrease in foreign exchange rates %	Increase/decrease in surplus after income tax HK\$	Increase/decrease in foreign exchange rates %	Increase/decrease in surplus after income tax HK\$
AUD	5	2,373,662	5	2,305,924
USD	1	14,982,991	1	49,704,882
GBP	5	4,770,533	5	3,390,661
JPY	5	1,963,294	5	1,370,297
SGD	5	1,397,240	5	9,205,019
RMB	3	963,725	3	942,936
EUR	5	10,489,956	5	11,379,714

This analysis assumes that all other variables remain constant.

Exchange differences arising from financial assets at fair value through profit or loss are classified as change in fair value of financial assets at fair value through profit or loss.

(b) Interest rate risk

The Fund's earnings are affected by changes in the market interest rates due to the impact such changes have on interest income from cash and cash equivalents and financial assets. Investment guidelines are in place and reviewed regularly to provide the general direction for the Fund's investment managers and to monitor the risk undertaken.

At 30 September 2013, it is estimated that a general increase/decrease of 5 basis points (2012: 50 basis points) in interest rates, with all other variables held constant, would increase/decrease the Fund's surplus after income tax and accumulated surplus by approximately HK\$153,000 (2012: HK\$1,636,698). The increase/decrease in basis points represents management's assessment of a reasonably possible change in interest rates over the period until the next reporting date.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2013

13. MANAGEMENT OF RISKS (CONTINUED)

13.2 Financial risk management (Continued)

(c) Other price risk

Other price risk relates to the risk that the fair values or future cash flows of a financial instruments will fluctuate because of changes in market prices (other than changes in interest rates and foreign exchange rates). The Fund is exposed to change in market prices of listed equity and debt securities in respect of its investments in listed equity and debt securities classified as financial assets at fair value through profit and loss.

Investments in equity must be confined to publicly listed widely held and traded securities and there are limits on the exposure to an overseas stock market other than a recognised stock exchange and on the equity of any one company.

The following table indicates the approximate change in the Fund's surplus after income tax in response to reasonably possible changes in the quoted prices for financial assets at fair value through profit or loss to which the Fund has significant exposure at the end of the reporting period.

	2013		2012	
	Increase/ decrease in quoted prices %	Increase/ decrease in surplus after income tax HK\$	Increase/ decrease in quoted prices %	Increase/ decrease in surplus after income tax HK\$
Equity investments	10	32,822,921	10	28,616,813
Bonds listed outside Hong Kong	5	64,238,033	5	28,750,162
Quoted fund investments	5	17,510,560	5	40,948,266

(d) Liquidity risk

The Fund manages its liquidity and cash flow profiles to ensure the operations maintain optimum level of liquidity at all times sufficient to meet its obligations as and when they fall due.

All of the Fund's financial liabilities will be settled within one year from the reporting date. This is based on the remaining period at the reporting date to the contractual maturity date and at the earliest date the Fund can be required to pay.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2013

13. MANAGEMENT OF RISKS (CONTINUED)

13.2 Financial risk management (Continued)

(e) Credit risk

The Fund's credit risk is principally attributable to cash and cash equivalents and receivables from reinsurers and solicitor firms.

Cash and cash equivalents are normally placed at financial institutions that have sound credit rating and the Fund considers the credit risk to be insignificant.

Management has a credit policy in place for selection of its reinsurers and approving the credit limits and the exposures to credit risk are monitored such that any outstanding debts are reviewed and followed up on an ongoing basis.

As at the reporting date, the Fund does not hold any collateral from the reinsurers and the Fund has no significant concentration of credit risk, with exposure spreading over a number of reinsurers and counterparties.

Hence, the maximum exposure to credit risk is represented by the carrying amounts of each class of financial assets. The Fund does not provide any other guarantees which would expose the Fund to credit risk.

(f) Fair value measurements recognised in the statement of financial position

The financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

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

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

2013

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
Financial assets at fair value through profit or loss:				
Trading securities	<u>2,053,920,041</u>	<u>-</u>	<u>-</u>	<u>2,053,920,041</u>

2012

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
Financial assets at fair value through profit or loss:				
Trading securities	<u>1,708,634,716</u>	<u>-</u>	<u>-</u>	<u>1,708,634,716</u>

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2013

13. MANAGEMENT OF RISKS (CONTINUED)

13.2 Financial risk management (Continued)

(f) Fair value measurements recognised in the statement of financial position (continued)

During the years ended 30 September 2013 and 2012, there were no transfer between Level 1 and Level 2 fair value measurements, and no transfer into and out of Level 3 fair value measurements.

The fair values have been determined by reference to their quoted bid prices at the reporting date and have been translated using the spot foreign currency rates at the end of the reporting period where appropriate.

14. CAPITAL MANAGEMENT

The Fund's capital management objective is to ensure the Fund's ability to continue as a going concern in order to provide indemnity against such loss as is mentioned in Section 73A(1) of the Hong Kong legal Practitioners Ordinance (Chapter 159).

The Fund has no share capital. The Manager of the Fund will actively and regularly review its accumulated surplus and make adjustment on the contributions receivable from legal practitioners in line of change in economic conditions.

15. CASH GENERATED FROM OPERATIONS

	2013 HK\$	2012 HK\$
Surplus before income tax	533,507,445	214,980,559
Change in fair value of financial assets at fair value through profit or loss	(26,592,445)	(120,159,124)
(Gain) Loss on disposal of financial assets at fair value through profit or loss	(44,860,762)	41,822,560
Interest income	(40,545,028)	(44,560,588)
Dividend income from financial assets at fair value through profit or loss	(14,143,404)	(6,790,047)
Profit commission on reinsurance	(159,000,000)	-
Write-off of profit commission receivable from reinsurers	63,748	-
Changes in working capital:		
Increase in claims receivable from reinsurers	(8,116)	-
(Increase) Decrease in outstanding claims provision recoverable from reinsurers and solicitor's firm	(27,007,000)	17,959,000
Decrease in accounts receivable	474,287	3,862,788
Increase in prepayments	(51,483,000)	-
Decrease in amount due from Hong Kong Solicitors Indemnity Fund Limited	365,210	775,639
Increase (Decrease) in outstanding claims provision	7,800,000	(3,751,000)
Increase in accrued charges	26,088	15,985
(Decrease) Increase in amounts payable to reinsurers	(150,390)	9,074
(Decrease) Increase in contributions received in advance	(41,988,412)	76,633,510
(Decrease) Increase in contributions refundable	(1,528,806)	815,316
Cash generated from operations	134,929,415	181,613,672

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2013

16. RELATED PARTY TRANSACTIONS

During the year, the Fund incurred an administrative fee of HK\$11,134,041 (2012: HK\$11,318,551) payable to Hong Kong Solicitors Indemnity Fund Limited. As at 30 September 2013, the amount due from Hong Kong Solicitors Indemnity Fund Limited ("HKSIFL") was HK\$1,760,712 (2012: HK\$2,125,922). The Fund and HKSIFL are under common control of The Law Society of Hong Kong. The carrying amount of the amount due approximates its fair value.

HONG KONG SOLICITORS INDEMNITY FUND LIMITED
(Incorporated by The Law Society of Hong Kong with limited liability)



PROFESSIONAL INDEMNITY SCHEME
2013/2014 ANNUAL REPORT

Every year a copy of the PIS Annual Report is sent to the Senior Partner of every Hong Kong law firms. If you prefer to receive a scanned copy by email or do not wish to receive a copy, please let us know by email at maggie@hklawsoc.org.hk.

ISSUED June 2015

**HONG KONG SOLICITORS INDEMNITY
FUND LIMITED**

Directors:-

Peter R. Griffiths (Chairman)
Denis G. Brock
Albert B.K. Dan
Christopher G. Howse
Brian W. Gilchrist
Peter C.L. Lo
Patrick R. Moss
Amirali B. Nasir
Ng Wai Yan
Kevin C.K. Shum
David G. Smyth
Norris H.C. Yang

Members:-

Peter R. Griffiths
Heidi K.P. Chu
Christopher G. Howse
Peter C.L. Lo
Patrick R. Moss
Amirali B. Nasir
Norris H.C. Yang
The Law Society of Hong Kong

Company Secretary:-

ESSAR Insurance Services Ltd.
("ESSAR")

PIS CLAIMS COMMITTEE

Members:-

Brian W. Gilchrist (Chairman)
Colin B. Cohen (Vice-Chairman)
Charles W. Allen
Keith M. Brandt
Tony K.W. Chow
Simon P. Clarke
George D. Lamplough
Jeffrey H. Lane
Ronald W.T. Tong

Secretary:-

ESSAR

**PROFESSIONAL INDEMNITY
ADVISORY COMMITTEE**

Members:-

David G. Smyth (Appointed Chairman on
12/11/2014)
Robin S. Peard (Resigned as Chairman on
12/11/2014)
Kevin R. Bowers
Richard Keady (Appointed on 21/1/2015)
Lawrence Y.H. Lee* (Resigned on
12/11/2014)
Susan P.S.K. Liang
Ng Wai Yan (Resigned on 13/11/2014 and re-
appointed on 21/1/2015)
Peter K.H. Ngai
Thomas S.T. So
Fiona J. Stewart**
Gareth H. Thomas
Norris H.C. Yang (Resigned on 14/11/2014)

* Consultant of Aon Hong Kong Ltd.

** Account Director, ESSAR

Secretary:-

Gigi Liu, Assistant Director, Professional
Indemnity Scheme ("ADPIS")

PIS INVESTMENT SUB-COMMITTEE

Members:-

Peter C.L. Lo (Chairman)
John S. Gale
Ip Shing Hing
Elen Lau
Kher Sheng Lee
Kevin C.K. Shum
Norris H.C. Yang

Secretary:-

ADPIS

PIS PANEL SOLICITORS SELECTION BOARD

Members:-

Wong Kwai Huen (Chairman)
Stephen W.S. Hung
Kenneth S.Y. Ng
Amirali B. Nasir

Secretary:-

ADPIS

WORKING PARTY ON PIS GROSS FEE INCOME REPORTS AND CONTRIBUTIONS

Members:-

Ip Shing Hing (Chairman)
Albert B.K. Dan
Ng Wai Yan
Wong Kwai Huen

Secretary:-

ADPIS

- AUDITORS** : Mazars CPA Limited
- BANKERS** : Credit Agricole Corporate & Investment Bank
The Standard Chartered Bank Limited
- INVESTMENT MANAGERS** : Amundi Hong Kong Limited
AllianceBernstein Hong Kong Limited
MFS Investment Management
Grantham Mayo Van Otterloo
- BROKER** : Aon Hong Kong Limited ("Aon")
- CLAIMS AND SCHEME MANAGER** : ESSAR
(a subsidiary of the Aon Group of Companies)
- PANEL SOLICITORS** : Bird & Bird
(appointed for the period from Deacons
1 February 2013 to 31 January 2018) Fred Kan & Co
Gall
Howse Williams Bowers
P.C. Woo & Co.
Reed Smith Richards Butler
Smyth & Co

Hong Kong Solicitors Indemnity Fund Limited

Registered Office : 3rd Floor, Wing On House, 71 Des Voeux Road, Central, Hong Kong (DX-009100 Central 1)

Registered No. 248603, Company Limited by Guarantee Tel : 2846-0500 Fax : 2845-0387

E-Mail : sg@hklawsoc.org.hk Home Page : <http://www.hklawsoc.org.hk>

INDEX

THE COMPANY -----	6
THE SCHEME -----	7
INDEMNITY FUND, REINSURANCE, AND INSOLVENCY COVER -----	8
THE SCHEME'S BROKER/MANAGER -----	8
CLAIMS HANDLING PROCEDURE -----	9
TABLE 1 : PROTECTION LIMITS PROVIDED BY THE SCHEME AND REINSURANCE PREMIUMS-----	10
CLAIMS EXPERIENCE	
TABLE 2 : NUMBER OF CLAIMS-----	12
TABLE 3 : CLAIMS PAID AND RESERVED-----	13
TABLE 4 : APPORTIONMENT OF CLAIM PAYMENTS-----	14
TABLE 5 : APPORTIONMENT OF CLAIM RESERVES-----	15
TABLE 6 : PANEL SOLICITORS' COSTS AS A PROPORTION OF CLAIM PAYMENTS AND RESERVES-----	16
TABLE 7 : COMPARISON OF REINSURANCE PREMIUMS PAID, CONTRIBUTIONS COLLECTED AND CLAIMS LOSSES-----	17
TABLE 8 : COMPARISON OF CONTRIBUTIONS AND CLAIMS BY FIRM SIZE----	18
TABLE 9 : CONTRIBUTIONS AND CLAIMS LOADINGS-----	19
TABLE 10 : COMPARISON OF CONTRIBUTIONS AND GROSS FEE INCOME----	20
TABLE 11 : COMPARISON OF CONTRIBUTIONS AND GROSS FEE INCOME BY FIRM SIZE-----	21
TABLE 12 : DEVELOPMENT OF CLAIMS-----	22
TABLE 13 : OUTSTANDING LIABILITIES OF THE FUND-----	23
TABLE 14 : COMPARISON OF CONTRIBUTIONS, CLAIM LOADINGS AND LOSSES-----	24
TABLE 15 : FREQUENCY OF CLAIMS BY AREA OF PRACTICE-----	25
TABLE 16 : VALUE OF CLAIMS BY AREA OF PRACTICE-----	26
TABLE 17 : NUMBER OF CLAIMS BY TYPE OF ERRORS IN CONVEYANCING ---	27

TABLE 18:	VALUE OF CLAIMS BY TYPE OF ERRORS IN CONVEYANCING -----	28
TABLE 19:	LOSS RATIOS -----	29
TABLE 20:	ANTICIPATED MAXIMUM SHORTFALL AS A RESULT OF THE INSOLVENCY OF HIH CASUALTY AND GENERAL INSURANCE LTD. ("HIH"), FAI GENERAL INSURANCE COMPANY LIMITED ("FAI") AND FAI FIRST PACIFIC INSURANCE CO. LTD. ("FAI PACIFIC") AS AT 30 SEPTEMBER 2013 -----	30
 ONGOING ISSUES		
1.	HIH REINSURERS -----	31
2.	QUALIFYING INSURERS SCHEME OR OTHER ALTERNATIVES -----	31
PERFORMANCE OF THE FUND'S INVESTMENTS -----		33
CONCLUSION -----		34
AUDITED FINANCIAL STATEMENTS OF THE FUND -----		35

THE COMPANY

The Hong Kong Solicitors Indemnity Fund Ltd. ("the Company") is a company limited by guarantee with no share capital. It was set up by The Law Society of Hong Kong ("the Society") on 14 April, 1989 to hold, manage and administer the Solicitors Indemnity Fund ("the Fund") under the Professional Indemnity Scheme ("the Scheme"). As the Company's business is to manage the Scheme and provide indemnity to members through the Fund, and not to operate an insurance business, it does not fall within the provisions of the Insurance Companies Ordinance Cap. 41.

This report from the Directors of the Company gives an account of the activities of the Scheme. The Scheme began operation as an indemnity fund scheme in 1986 after having operated for six years as an ordinary insurance scheme under which firms were issued insurance policies by an independent insurance company on terms negotiated by the Society. During those six years, a significant number of claims were made against solicitors resulting in substantial payments. The underwriters demanded a substantial increase in premiums and the statutory indemnity fund scheme was established to provide the necessary cover by the Society. The Scheme is governed by the Solicitors (Professional Indemnity) Rules ("the Rules") Cap. 159M which set out the scope and conditions of cover.

Since the Fund is neither a person nor does it carry on a trade, profession or business for the purpose of S14 of the Inland Revenue Ordinance, Cap. 112, it is not liable to Hong Kong taxation.

The Directors are responsible for the production of accounts for each indemnity year to provide a true and fair view of the Fund's financial transactions and of the disposition of the Fund's assets and liabilities. It is also the responsibility of the Directors to ensure that proper accounting records are kept which disclose with reasonable accuracy at any time the Fund's financial transactions and assets and liabilities.

Although the auditing of the accounts of the Fund is not a statutory requirement, the Council of the Society considers that in the interests of the Society and its members the Fund's financial position should be annually audited. There is included in this report a reproduction of the audited accounts of the Fund for the indemnity year ended 30 September 2014.

There is a division of responsibility between the Company and the Society's Council.

*The **Company** is concerned with the management and administration of the Fund subject to directions by the Council. It considers the recommendations of the Claims Committee, the Professional Indemnity Advisory Committee and the PIS Investment Sub-Committee and advises the Council on matters pertaining to the smooth and effective operation of the Scheme.*

*The **Council** is responsible for the appointment of the Company's Directors, Panel Solicitors and Committee Members and the enforcement of the Rules. It also supervises the PIS Investment Sub-Committee and monitors the investments of the Fund in conjunction with the Company.*

*The **Claims Committee** supervises the conduct and settlement of claims.*

*The **Professional Indemnity Advisory Committee** reviews, examines and advises on any issue relating to professional indemnity referred to it by the Council, the Company and the Claims Committee.*

*The **PIS Investment Sub-Committee** was established by the Company for the purpose of reviewing the investment guidelines and performance of the investments of the Fund.*

*The **PIS Panel Solicitors Selection Board** was established by the Council. Its responsibilities are to establish the procedures necessary for the tendering of panel solicitors for the Scheme and to consider all tender applications and make recommendations to the Council to appoint suitably qualified firms to the panel.*

*The **Working Party on PIS Gross Fee Income Reports and Contributions** is responsible for considering and making recommendations to the Council on the appropriate action to be taken against those firms which have, in breach of the Rules, failed to submit an application for indemnity and/or a gross fee income report relating to their annual gross fee income or failed to pay their annual contributions.*

All Company Directors and all Committee Members serve on a voluntary basis and receive no remuneration from either the Company or the Society.

THE SCHEME

The Scheme, subject to the conditions and exclusions set out in the Rules, provides solicitors with indemnity against losses arising from claims in respect of civil liability incurred in private practice.

The Scheme's limit of indemnity for each and every claim was increased from HK\$5 million (inclusive of costs) to HK\$10 million (inclusive of costs) on 1 October, 1994.

Some firms have "top-up" insurance in place to cover claims in excess of HK\$10 million. The procurement of such cover, and the amount of the top-up cover, are matters for each individual firm to determine based on the level of risk attached to the work conducted by the firm.

As at 30 September 2014, the total liability incurred by the Scheme for the 2013/14 indemnity year was HK\$39,308,417 of which HK\$5,364,438 was in respect of claim payments (including costs) and HK\$33,943,979 was in respect of claim reserves. Since the inception of the Scheme in 1986 and up to 30 September 2014, the Scheme paid a total of HK\$1,775,742,484 on claims (including costs), and the amount reserved in respect of claims is HK\$191,364,617.

INDEMNITY FUND, REINSURANCE, AND INSOLVENCY COVER

The Scheme's limit of indemnity for each and every claim is HK\$10 million (inclusive of costs). Prior to 1 October 2001, the first HK\$1 million of each claim was paid from the Fund and the remainder was provided by reinsurance. This level of retention was increased to HK\$1.5 million from 1 October 2001 to 30 September 2005.

On 1 October 2005, the Fund has entered into reinsurance arrangements with reinsurers whereby the Fund would be responsible for all claims up to an aggregate amount of HK\$100m (inclusive of costs) and all liability in excess of HK\$100m would be borne by reinsurers. The Company has further extended the programme for another 4 years from 1 October 2009 to 30 September 2013.

On 1 October 2013, the Fund's reinsurance arrangements were renewed with reinsurers for 5 years up to 30 September 2018. Under the new arrangements, the Fund would be responsible for all claims up to an annual aggregate amount of HK\$125m (inclusive of costs) and all liability in excess of HK\$125m would be borne by reinsurers.

An insolvency cover runs in tandem with the reinsurance programme from 1 October 2008 to 30 September 2013. It covers the Fund against the insolvency of one or more of its reinsurers and has been renewed for 5 years up to 30 September 2018.

The Company also took out stop loss insurance prior to 1 October 2001 to limit the aggregate liability of its retention. Where the stop loss limit was exhausted, a drop-down policy was available to cover all claims up to the Scheme's liability limit of HK\$10 million per claim. The stop loss and drop down policies expired on 30 September 2001 and Aon was instructed to arrange renewal of cover. The quotations obtained were considered carefully by the Company and the Council but it was decided the proposed coverage was not, on balance, the best value for money. No stop loss cover was purchased until 1 October 2005 when the above reinsurance arrangements, which could be categorised as stop loss cover without limit, was put in place.

The limits of liability retained by the Indemnity Fund, the cover provided by stop loss insurance and the amounts of reinsurance premiums paid by the Fund over twenty-eight indemnity years up to 2013/14 are shown in Table 1 on page 10.

THE SCHEME'S BROKER/MANAGER

A tender was conducted in 2009 and Aon and ESSAR had been reappointed as the Scheme's Broker and Manager respectively for the period from 1 April 2010 to 31 March 2014. In 2013, the contract has been extended for 4 years up to 31 March 2018.

Aon is responsible for advising the Company on the state of the insurance market and the appropriate reinsurance arrangements and reporting on the financial viability of any underwriter who participates in the Scheme. It is also responsible for conveying the needs of the Scheme to underwriters and negotiating with them the best reinsurance terms for the Scheme.

The Fund places reinsurance with companies which have appropriate international ratings and/or which are regulated by the Hong Kong Insurance Authority.

The Manager handles claims with the assistance of Panel Solicitors and under the supervision of the Claims Committee, collects contributions and maintains proper accounting and statistical records of claims.

Under the brokerage and management agreement between Aon, ESSAR and the Company, Aon agreed to refund all brokerage commission and compensation negotiated with and received by Aon from reinsurers to the Company. A total of HK\$37,425,295.88 was rebated from 1 October 2000 to 30 September 2005 for the placement of reinsurance. All reinsurance premiums paid since 1 October 2005 do not carry any brokerage. HK\$1,800,000 was rebated as brokerage for the placement of the insolvency cover in the first 2 years of the 5 year programme.

CLAIMS HANDLING PROCEDURE

The manner in which claims are handled and reserved is contingent upon the ability to assess, as accurately as possible, the amount at which each claim is likely to be settled which, in turn, determines the true position of the Fund.

The Manager takes the initial step in opening a file upon receipt of a notification of a claim or a potential claim. As for claims (as distinct from potential claims), a reserve is placed on the claim upon completion of a preliminary investigation. Reserves are, therefore, funds set aside for unsettled claims and they represent the Fund's potential liabilities. The amount reserved is the estimated quantum of damages and costs (including defence costs) calculated on the assumption of full liability, taking into account the individual circumstances and the savings that might result from disputing either liability or quantum or both. As the matter proceeds and further information becomes available, the amount of reserve is adjusted accordingly. Thus, the progress of each claim for each individual year is re-assessed at regular (six-monthly) intervals until all claims for that year have been settled or otherwise disposed of. Experience shows that claims can sometimes take up to six years to finalize.

TABLE 1

PROTECTION LIMITS PROVIDED BY THE SCHEME AND REINSURANCE PREMIUMS

Indemnity Year	No. of members holding practising certificate	Limit of liability of the Indemnity Fund (HK\$)	Stop Loss Cover (HK\$)	Excess of Loss Insurance Premium (HK\$)	Stop Loss Insurance Premium (HK\$)	Insolvency Cover Premium (HK\$)	Total Insurance Premium Paid Per Year (HK\$)
1986/87	1,807	25,000,000	50,000,000	5,500,000	1,350,000	--	6,850,000
1987/88	1,998	25,000,000	25,000,000	12,500,000	1,720,000	--	14,220,000
1988/89	2,152	30,000,000	20,000,000	15,500,000	1,600,000	--	17,100,000
1989/90	2,326	30,000,000	20,000,000	19,500,000	1,500,000	--	21,000,000
1990/91	2,479	30,000,000	20,000,000	22,500,000	1,500,000	--	24,000,000
1991/92	2,721	30,000,000	40,000,000	24,700,000	5,250,000	--	29,950,000
1992/93	2,981	30,000,000	60,000,000	26,000,000	5,650,000	--	31,650,000
1993/94	3,307	30,000,000	60,000,000	29,500,000	5,650,000	--	35,150,000
1994/95	3,596	30,000,000	60,000,000	42,500,000	6,515,000	--	49,015,000
1995/96	3,896	30,000,000	60,000,000	42,500,000	7,675,000	--	50,175,000
1996/97	4,309	30,000,000	90,000,000	37,750,000	8,440,000	--	46,190,000
1997/98	4,619	30,000,000	90,000,000	45,000,000	7,755,000	--	52,755,000
1998/99	4,720	90,000,000 (for 3 years)	100,000,000 (for 3 years)	100,230,300 (for 2 years)	8,868,750 (for 3 years)	--	109,099,050
1999/2000	4,890	--	--	--	--	--	--
2000/01	5,070	--	--	83,232,650	--	--	123,253,900
				40,021,250 ¹	--	--	
2001/02	5,173	--	--	95,262,865.81	--	--	95,262,865.81
2002/03	5,301	--	--	128,899,595.32	--	--	128,899,595.32
2003/04	5,422	--	--	172,230,412.38	--	--	172,230,412.38
2004/05	5,593	--	--	218,023,353.30	--	--	218,023,353.30
2005/06	5,757	100,000,000	Unlimited	--	75,000,000	--	75,000,000
2006/07	5,925	100,000,000	Unlimited	--	79,500,000	--	79,500,000
2007/08	6,205	100,000,000	Unlimited	--	79,500,000	--	79,500,000
2008/09	6,465	100,000,000	Unlimited	--	79,500,000	4,100,000	83,600,000
2009/10	6,782	100,000,000	Unlimited	--	79,500,000	7,069,503 ²	86,569,503
2010/11	7,149	100,000,000	Unlimited	--	79,500,000	11,679,500	91,179,500
2011/12	7,381	100,000,000	Unlimited	--	79,500,000	13,729,500	93,229,500
2012/13	7,717	100,000,000	Unlimited	--	79,500,000	13,729,500	93,229,500
2013/14	8,111	125,000,000	Unlimited	--	65,000,000	9,500,000	74,500,000

Note:

(1) Amount paid to reinsurers in place of HIH.

(2) Includes pro-rated premium for insolvency cover arranged with effect from 11 May 2010. Please refer to page 8 for details of insolvency cover.

CLAIMS EXPERIENCE

The statistics in Table 2 to Table 20 of this report are set out with the following remarks:-

- (a) It is often difficult to determine under which category a particular claim should fall, given the fact that, among other things, many claims are borderline cases; therefore, the classification of claims should not be treated as conclusive;*
- (b) A claim which has been allocated to the current indemnity year may at a later time be allocated to the preceding indemnity year if there was insufficient information available at the time of the notification to determine the exact date when the Indemnified should have become aware of circumstances giving rise to the claim;*
- (c) A claim may sometimes be settled by the Indemnified without indemnity being sought from the Scheme if the cost of the claim is lower than the Indemnified firm's deductible. The statistics therefore do not include all those claims which have been lodged but settled outside the Scheme;*
- (d) With the exception of Table 2, the claims statistics in the tables are computed on the basis of data collected up to 30 September 2014 excluding the grace period for notification of claims. The statistics for the 2013/14 indemnity year are therefore to that extent incomplete;*
- (e) All data have been calculated to their nearest decimal point.*

TABLE 2

NUMBER OF CLAIMS INCLUDING NOTIFICATIONS CALCULATED AS AT 30 SEPTEMBER 2014 IN ACCORDANCE WITH THE CLAIMS CLASSIFICATION PROCEDURE ADOPTED BY ESSAR

<i>Indemnity Year</i>	<i>Number of Claims</i>	<i>Percentage Increase/Decrease from previous year</i>
1986/1987	64	-
1987/1988	58	-9%
1988/1989	126	117%
1989/1990	178	41%
1990/1991	72	-60%
1991/1992	93	29%
1992/1993	118	27%
1993/1994	143	21%
1994/1995	151	6%
1995/1996	150	-1%
1996/1997	176	17%
1997/1998	336	91%
1998/1999	483	44%
1999/2000	263	-46%
2000/2001	230	-13%
2001/2002	215	-7%
2002/2003	269	25%
2003/2004	165	-39%
2004/2005	159	-4%
2005/2006	165	4%
2006/2007	142	-14%
2007/2008	309	118%
2008/2009	147	-52%
2009/2010	139	-5%
2010/2011	174	25%
2011/2012	126	-28%
2012/2013	240	90%
2013/2014	147	-39%

Note : (1) Number of claims includes claims notified within the grace period.

(2) Percentage increase/decrease in the table has been calculated to the nearest decimal point.

TABLE 3
CLAIMS PAID AND RESERVED AS AT 30 SEPTEMBER 2014

Indemnity Year	Total Claim Payments (HK\$)	Total Claim Reserves (HK\$)	Total Claim Payments & Reserves (HK\$)
1986/1987	24,843,393	-	24,843,393
1987/1988	13,673,564	-	13,673,564
1988/1989	29,291,950	-	29,291,950
1989/1990	12,470,291	-	12,470,291
1990/1991	7,581,520	-	7,581,520
1991/1992	8,663,605	-	8,663,605
1992/1993	40,361,002	-	40,361,002
1993/1994	33,580,438	-	33,580,438
1994/1995	55,392,583	1,216,919	56,609,502
1995/1996	80,837,814	-	80,837,814
1996/1997	77,667,007	25,376	77,692,383
1997/1998	186,915,392	-	186,915,392
1998/1999	399,131,115	4,324,271	403,455,386
1999/2000	81,996,879	146,085	82,142,964
2000/2001	66,801,589	100,000	66,901,589
2001/2002	85,127,971	2,444,385	87,572,356
2002/2003	74,175,332	2,360,048	76,535,380
2003/2004	63,334,834	176,990	63,511,824
2004/2005	68,056,455	960,251	69,016,706
2005/2006	76,985,798	1,822,459	78,808,257
2006/2007	32,629,934	7,650,160	40,280,094
2007/2008	34,997,203	6,484,482	41,481,685
2008/2009	65,092,558	5,658,268	70,750,826
2009/2010	65,343,501	17,463,301	82,806,802
2010/2011	40,415,511	37,166,296	77,581,807
2011/2012	30,016,618	26,453,841	56,470,459
2012/2013	14,994,189	42,967,506	57,961,695
2013/2014	5,364,438	33,943,979	39,308,417
Total	1,775,742,484	191,364,617	1,967,107,101

- Note: (1) An indemnity year begins on 1 October and ends on 30 September of the following year. There is a grace period of 60 days for notifying claims arising or circumstances giving rise to a claim within an indemnity year: hence claims may be notified on or before 29 November in respect of the indemnity year ended on the preceding 30 September.
- (2) The table shows the amount of claims paid out in respect of the indemnity year 1986/87 to 2013/14.
- (3) A payment in respect of a claim notified in an indemnity year is often paid after the indemnity year in which the claim was notified. The table is NOT a representation of amounts paid within the indemnity years in question, but shows the amounts paid IN RESPECT OF the claims notified in each of those indemnity years. As further claims are paid these amounts will be adjusted.
- (4) Claim payments include payments in respect of settlement or judgment of a claim, claimants' costs, costs for defending claims and indemnity investigation.
- (5) Claim reserves include reserves for the quantum of a claim, reserves for claimants' costs and defence costs.

TABLE 4
APPORTIONMENT OF CLAIM PAYMENTS AS AT 30 SEPTEMBER 2014

Indemnity Year	Total claim payments (HK\$)	Claim payments which fall within the Fund's retention (HK\$)	% of claim payments borne by the Fund	Claim payments borne by reinsurers (HK\$)	% of claim payments borne by reinsurers	Deductibles paid by indemnified firms (HK\$)	Deductibles as a % of claim payments
1986/87	24,843,393	6,922,847	27.9%	16,460,546	66.3%	1,460,000	5.9%
1987/88	13,673,564	8,174,223	59.8%	2,974,341	21.8%	2,525,000	18.5%
1988/89	29,291,950	10,058,813	34.3%	17,445,224	59.6%	1,787,913	6.1%
1989/90	12,470,291	10,123,428	81.2%	1,236,863	9.9%	1,110,000	8.9%
1990/91	7,581,520	3,846,085	50.7%	3,098,303	40.9%	637,132	8.4%
1991/92	8,663,605	3,746,767	43.2%	4,000,000	46.2%	916,838	10.6%
1992/93	40,361,002	18,284,644	45.3%	19,227,867	47.6%	2,848,491	7.1%
1993/94	33,580,438	12,806,906	38.1%	13,682,797	40.7%	7,090,735	21.1%
1994/95	55,392,583	18,310,082	33.1%	34,223,830	61.8%	2,858,671	5.2%
1995/96	80,837,814	22,752,567	28.1%	54,076,003	66.9%	4,009,244	5.0%
1996/97	77,667,007	35,139,320	45.2%	36,692,472	47.2%	5,835,215	7.5%
1997/98	186,915,392	60,723,978	32.5%	117,589,329	62.9%	8,602,085	4.6%
1998/99	399,131,115	145,360,354	36.4%	233,769,232	58.6%	20,001,529	5.0%
1999/00	81,996,879	31,229,635	38.1%	45,010,668	54.9%	5,756,576	7.0%
2000/01	66,801,589	29,490,587	44.1%	32,557,321	48.7%	4,753,681	7.1%
2001/02	85,127,971	32,905,555	38.7%	48,424,609	56.9%	3,797,807	4.5%
2002/03	74,175,332	30,634,780	41.3%	39,575,699	53.4%	3,964,853	5.3%
2003/04	63,334,834	25,450,457	40.2%	34,409,680	54.3%	3,474,697	5.5%
2004/05	68,056,455	24,077,800	35.4%	40,722,755	59.8%	3,255,900	4.8%
2005/06	76,985,798	73,264,208	95.2%	-	0.0%	3,721,590	4.8%
2006/07	32,629,934	30,329,989	93.0%	-	0.0%	2,299,945	7.0%
2007/08	34,997,203	32,416,458	92.6%	-	0.0%	2,580,745	7.4%
2008/09	65,092,558	60,480,058	92.9%	-	0.0%	4,612,500	7.1%
2009/10	65,343,501	62,981,439	96.4%	-	0.0%	2,362,062	3.6%
2010/11	40,415,511	37,817,181	93.6%	-	0.0%	2,598,330	6.4%
2011/12	30,016,618	26,949,287	89.8%	-	0.0%	3,067,331	10.2%
2012/13	14,994,189	13,973,237	93.2%	-	0.0%	1,020,952	6.8%
2013/14	5,364,438	5,244,438	97.8%	-	0.0%	120,000	2.2%
Total	1,775,742,484	873,495,123	49.2%	795,177,539	44.8%	107,069,822	6.0%

Note: The percentages of the claim payments borne by the Fund and by the reinsurers and the deductibles are calculated to the nearest decimal point only. The aggregation of these percentages in respect of each indemnity year may not therefore add up to 100%.

TABLE 5
APPORTIONMENT OF CLAIM RESERVES AS AT 30 SEPTEMBER 2014

Indemnity Year	Total claim reserves (HK\$)	Claim reserves to be borne by the Fund (HK\$)	% of reserves borne by the Fund	Claim reserves to be borne by reinsurers (HK\$)	% of reserves borne by reinsurers
1986/87	-	-	-	-	-
1987/88	-	-	-	-	-
1988/89	-	-	-	-	-
1989/90	-	-	-	-	-
1990/91	-	-	-	-	-
1991/92	-	-	-	-	-
1992/93	-	-	-	-	-
1993/94	-	-	-	-	-
1994/95	1,216,919	95,713	7.9%	1,121,206	92.1%
1995/96	-	-	-	-	-
1996/97	25,376	25,376	100.0%	-	-
1997/98	-	-	-	-	-
1998/99	4,324,271	4,676	0.1%	4,319,595	99.9%
1999/00	146,085	146,085	100.0%	-	-
2000/01	100,000	100,000	100.0%	-	-
2001/02	2,444,385	502,557	20.6%	1,941,828	79.4%
2002/03	2,360,048	2,260,048	95.8%	100,000	4.2%
2003/04	176,990	176,990	100.0%	-	-
2004/05	960,251	960,251	100.0%	-	-
2005/06	1,822,459	1,822,459	100.0%	-	-
2006/07	7,650,160	7,650,160	100.0%	-	-
2007/08	6,484,482	6,484,482	100.0%	-	-
2008/09	5,658,268	5,658,268	100.0%	-	-
2009/10	17,463,301	17,463,301	100.0%	-	-
2010/11	37,166,296	37,166,296	100.0%	-	-
2011/12	26,453,841	26,453,841	100.0%	-	-
2012/13	42,967,506	42,967,506	100.0%	-	-
2013/14	33,943,979	33,943,979	100.0%	-	-
Total	191,364,617	183,881,988	96.1%	7,482,629	3.9%

Note: All claims notified in the 1986/87, 1987/88, 1988/89, 1989/90, 1990/91, 1991/92, 1992/93, 1993/94, 1995/96 and 1997/98 indemnity years have been settled. There is no outstanding reserve for the claims in those indemnity years.

TABLE 6
PANEL SOLICITORS' COSTS AS AT 30 SEPTEMBER 2014 AS A PROPORTION OF
CLAIM PAYMENTS AND CLAIM RESERVES

<i>Indemnity Year</i>	<i>Total claim payments (HK\$)</i>	<i>Panel Solicitors' costs (HK\$)</i>	<i>Panel Solicitors' costs as a % of claim payments</i>	<i>Total claim reserves (HK\$)</i>	<i>Reserves for Panel Solicitors' costs (HK\$)</i>	<i>Reserves for Panel Solicitors' costs as a % of claim reserves</i>
1986/87	24,843,393	5,174,616	20.8%	-	-	-
1987/88	13,673,564	5,381,029	39.4%	-	-	-
1988/89	29,291,950	7,111,194	24.3%	-	-	-
1989/90	12,470,291	7,995,055	64.1%	-	-	-
1990/91	7,581,520	3,344,250	44.1%	-	-	-
1991/92	8,663,605	3,327,344	38.4%	-	-	-
1992/93	40,361,002	9,927,565	24.6%	-	-	-
1993/94	33,580,438	15,663,625	46.6%	-	-	-
1994/95	55,392,583	11,479,623	20.7%	1,216,919	1,183,821	97.3%
1995/96	80,837,814	19,064,073	23.6%	-	-	-
1996/97	77,667,007	21,332,822	27.5%	25,376	25,376	100.0%
1997/98	186,915,392	54,537,290	29.2%	-	-	-
1998/99	399,131,115	104,521,056	26.2%	4,324,271	324,271	7.5%
1999/00	81,996,879	34,260,578	41.8%	146,085	96,085	65.8%
2000/01	66,801,589	26,799,982	40.1%	100,000	100,000	100.0%
2001/02	85,127,971	42,801,244	50.3%	2,444,385	219,385	9.0%
2002/03	74,175,332	27,922,031	37.6%	2,360,048	460,048	19.5%
2003/04	63,334,834	19,894,867	31.4%	176,990	126,990	71.7%
2004/05	68,056,455	13,613,514	20.0%	960,251	960,251	100.0%
2005/06	76,985,798	33,700,395	43.8%	1,822,459	322,459	17.7%
2006/07	32,629,934	9,646,579	29.6%	7,650,160	1,187,660	15.5%
2007/08	34,997,203	14,060,738	40.2%	6,484,482	484,482	7.5%
2008/09	65,092,558	23,959,586	36.8%	5,658,268	1,458,268	25.8%
2009/10	65,343,501	24,362,673	37.3%	17,463,301	2,799,907	16.0%
2010/11	40,415,511	19,305,205	47.8%	37,166,296	3,676,296	9.9%
2011/12	30,016,618	14,165,406	47.2%	26,453,841	2,989,529	11.3%
2012/13	14,994,189	10,705,179	71.4%	42,967,506	5,517,506	12.8%
2013/14	5,364,438	4,324,437	80.6%	33,943,979	8,398,579	24.7%
<i>Total</i>	<i>1,775,742,484</i>	<i>588,381,956</i>	<i>33.1%</i>	<i>191,364,617</i>	<i>30,330,913</i>	<i>15.8%</i>

TABLE 7**COMPARISON OF REINSURANCE PREMIUMS PAID, CONTRIBUTIONS COLLECTED AND CLAIMS LOSSES**

Indemnity Year	Claims Losses (HK\$ million)	Annual Contributions (HK\$)	No. of Claims	Contractual Reinsurance Premium (HK\$)	Actual Reinsurance Premium (HK\$)
1998/1999	403.5	112,178,110	483	109,099,050 2 years excess of loss 3 years stop loss	109,099,050
1999/2000	82.1	85,231,403	263		
2000/2001	66.9	95,910,707	230	83,232,650	123,253,900 (40,021,250 for HIH Replacement)
2001/2002	87.6	236,886,755	215	113,625,000	95,262,865.81
2002/2003	76.5	222,237,005	269	164,756,250	128,899,595.32
2003/2004	63.5	219,607,685	165	238,896,563	172,230,412.38
2004/2005	69.0	217,611,219	159	340,427,602	218,023,353.30
2005/2006	78.8	242,335,709	165	75,000,000	75,000,000
2006/2007	40.3	256,756,900	142	79,500,000	79,500,000
2007/2008	41.5	283,223,840	309	79,500,000	79,500,000
2008/2009	70.8	318,613,840	147	79,500,000	79,500,000
2009/2010	82.8	301,445,650	139	79,500,000	79,500,000
2010/2011	77.6	309,996,404	174	79,500,000	79,500,000
2011/2012	56.5	362,665,656	126	79,500,000	79,500,000
2012/2013	58.0	366,030,827	240	79,500,000	79,500,000
2013/2014	39.3	369,457,239	147	65,000,000	65,000,000

Note :

- (1) Claims Losses include claim payments and reserves and are calculated to the nearest decimal point.
- (2) Annual Contributions include claims loadings.
- (3) Contractual reinsurance premiums differ from actual premiums paid as the 5-year reinsurance programme (from 2000/2001 to 2004/2005) provided for a reduction in premium should there be a decrease in claims during the 5 years.
- (4) Contribution before reduction is used for 2010/2011, 2011/2012 and 2013/2014 indemnity years.
- (5) Adjustment to Contribution reduction for 2010/2011 is included in 2013/2014 indemnity year.

TABLE 8**COMPARISON OF CONTRIBUTIONS AND CLAIMS BY FIRM SIZE****(1 OCTOBER 2013 - 30 SEPTEMBER 2014)****(including firms which ceased practice and firms which changed names)**

No. of Solicitors in Firm	No. of Firms	No. of Firms with Claims	% of Firms with Claims	Total No. of Claims	% of Total No. of Claims	Contribution Payments (HK\$ thousand)	Claim Payments (HK\$ thousand)	Claim Reserves (HK\$ thousand)
1	174	7	4.02%	9	6.12%	12,647.3	457.2	2,803.7
2 to 5	430	33	7.67%	40	27.21%	89,256.2	2,924.1	11,041.8
6 to 10	126	18	14.29%	22	14.97%	57,348.3	1,042.7	238.9
11 to 20	60	12	20.00%	15	10.20%	45,136.0	940.4	19,859.6
21 to 30	30	6	20.00%	11	7.48%	50,146.4	0.0	0.0
31 to 50	17	9	52.94%	15	10.20%	33,635.4	0.0	0.0
Over 50	15	9	60.00%	35	23.81%	81,287.6	0.0	0.0
Total	852	94	11.03%	147		369,457.2	5,364.4	33,944.0

*Note: The percentages of the number of claims are calculated to the nearest decimal point only.
The aggregation of these percentages may not therefore add up to 100%.*

Contribution before reduction is used for 2013/2014 indemnity year.

Adjustment to Contribution reduction for 2010/2011 is included in 2013/2014 indemnity year.

TABLE 9**CONTRIBUTIONS AND CLAIMS LOADINGS****(1 OCTOBER 2013 – 30 SEPTEMBER 2014)****(including firms which ceased practice and firms which changed names)**

No. of Solicitors in Firm	No. of Firms	No. of Firms with Claims Loadings	% of Firms with Claims Loadings	Contribution Payments (HK\$ thousand)	Claims Loadings (HK\$ thousand)	Claims Loadings as a % of Contribution Payments
1	174	2	1.15%	12,647.3	272.8	2.16%
2 to 5	430	26	6.05%	89,256.2	3,296.3	3.69%
6 to 10	126	16	12.70%	57,348.3	1,904.3	3.32%
11 to 20	60	5	8.33%	45,136.0	1,605.5	3.56%
21 to 30	30	2	6.67%	50,146.4	620.8	1.24%
31 to 50	17	5	29.41%	33,635.4	1,594.8	4.74%
Over 50	15	4	26.67%	81,287.6	1,678.0	2.06%
Total	852	60	7.04%	369,457.2	10,972.5	2.97%

Note: Contribution before reduction is used for 2013/2014 indemnity year.

Adjustment to Contribution reduction for 2010/2011 is included in 2013/2014 indemnity year.

TABLE 10**COMPARISON OF CONTRIBUTIONS AND GROSS FEE INCOME AS AT 30 SEPTEMBER 2014**

Indemnity Year	Gross Fees of the Profession (HK\$)	Contribution Payments (HK\$)	Contributions as a % of Gross Fees
1997/98	11,786,875,405	106,778,078	0.91%
1998/99	13,111,052,058	112,178,110	0.86%
1999/00	11,089,453,975	85,231,403	0.77%
2000/01	11,015,561,030	95,910,707	0.87%
2001/02	11,619,410,157	236,886,755	2.04%
2002/03	11,221,835,142	355,129,255 *	3.16%
2003/04	10,921,884,902	219,607,685	2.01%
2004/05	10,635,107,496	217,611,219	2.05%
2005/06	11,725,199,370	242,335,709	2.07%
2006/07	12,906,183,745	256,756,900	1.99%
2007/08	15,069,395,251	283,223,840	1.88%
2008/09	18,446,786,551	318,613,840	1.73%
2009/10	18,586,558,400	301,445,650	1.62%
2010/11	18,337,954,982	309,996,404	1.69%
2011/12	20,980,069,083	362,665,656	1.73%
2012/13	22,091,586,220	366,030,827	1.66%
2013/14	22,910,937,538	369,457,239	1.61%

Note:

(1) Contribution before reduction is used for 2010/2011, 2011/2012 and 2013/2014 indemnity years.

(2) Adjustment to Contribution reduction for 2010/2011 is included in 2013/2014 indemnity year.

* Shortfall Contributions are included in the Contributions collected for the 2002/03 indemnity year.

TABLE 11**COMPARISON OF CONTRIBUTIONS AND GROSS FEE INCOME BY FIRM SIZE
(1 OCTOBER 2013 – 30 SEPTEMBER 2014)
(including firms which ceased practice)**

No. of Solicitors in Firm	No. of Firms	Gross Fees of the Profession (HK\$)	Contribution Payments (HK\$)	Contribution Payments as a % of Gross Fee Income
1	174	296,434,438	12,647,280	4.27%
2 to 5	430	2,755,479,681	89,256,190	3.24%
6 to 10	126	2,528,410,515	57,348,320	2.27%
11 to 20	60	2,469,547,222	45,135,998	1.83%
21 to 30	30	4,104,999,279	50,146,404	1.22%
31 to 50	17	2,798,972,814	33,635,421	1.20%
Over 50	15	7,957,093,589	81,287,626	1.02%
<i>Total</i>	852	22,910,937,538	369,457,239	1.61%

Note:

Contribution before reduction is used for 2013/2014 indemnity year.

Adjustment to Contribution reduction for 2010/2011 is included in 2013/2014 indemnity year.

TABLE 12 - DEVELOPMENT OF CLAIMS AS AT 30 SEPTEMBER 2014

Indemnity Year	Claims Closed		Claims Outstanding		Total
	With Payment	Without Payment	With Reserve or Payment	Without Reserve or Payment	
1986/1987	26	38	0	0	64
1987/1988	27	31	0	0	58
1988/1989	41	85	0	0	126
1989/1990	117	61	0	0	178
1990/1991	15	57	0	0	72
1991/1992	22	71	0	0	93
1992/1993	51	67	0	0	118
1993/1994	66	77	0	0	143
1994/1995	36	113	2	0	151
1995/1996	44	106	0	0	150
1996/1997	59	115	2	0	176
1997/1998	128	208	0	0	336
1998/1999	296	182	5	0	483
1999/2000	66	195	2	0	263
2000/2001	58	166	5	1	230
2001/2002	57	151	4	3	215
2002/2003	45	212	11	1	269
2003/2004	39	123	3	0	165
2004/2005	26	127	2	4	159
2005/2006	24	132	3	6	165
2006/2007	19	108	8	7	142
2007/2008	22	255	8	24	309
2008/2009	24	48	7	68	147
2009/2010	16	42	10	71	139
2010/2011	9	38	11	116	174
2011/2012	18	16	12	80	126
2012/2013	5	20	24	191	240
2013/2014	0	6	17	124	147
TOTAL	1,356	2,850	136	696	5,038

TABLE 13
OUTSTANDING LIABILITIES OF THE FUND

<i>Indemnity Year</i>	<i>Total Claim Payments (HK\$)</i>	<i>Total Claim Reserves (HK\$)</i>	<i>Total Claim Payments & Reserves (HK\$)</i>	<i>Outstanding Liabilities of the Fund (HK\$)</i>
1986/1987	24,843,393	-	24,843,393	-
1987/1988	13,673,564	-	13,673,564	-
1988/1989	29,291,950	-	29,291,950	-
1989/1990	12,470,291	-	12,470,291	-
1990/1991	7,581,520	-	7,581,520	-
1991/1992	8,663,605	-	8,663,605	-
1992/1993	40,361,002	-	40,361,002	-
1993/1994	33,580,438	-	33,580,438	-
1994/1995	55,392,583	1,216,919	56,609,502	1,037,526
1995/1996	80,837,814	-	80,837,814	-
1996/1997	77,667,007	25,376	77,692,383	8,882
1997/1998	186,915,392	-	186,915,392	-
1998/1999	399,131,115	4,324,271	403,455,386	} 11,635,366
1999/2000	81,996,879	146,085	82,142,964	
2000/2001	66,801,589	100,000	66,901,589	
2001/2002	85,127,971	2,444,385	87,572,356	502,557
2002/2003	74,175,332	2,360,048	76,535,380	2,260,048
2003/2004	63,334,834	176,990	63,511,824	176,990
2004/2005	68,056,455	960,251	69,016,706	960,251
2005/2006	76,985,798	1,822,459	78,808,257	1,822,459
2006/2007	32,629,934	7,650,160	40,280,094	7,650,160
2007/2008	34,997,203	6,484,482	41,481,685	6,484,482
2008/2009	65,092,558	5,658,268	70,750,826	5,658,268
2009/2010	65,343,501	17,463,301	82,806,802	17,463,301
2010/2011	40,415,511	37,166,296	77,581,807	37,166,296
2011/2012	30,016,618	26,453,841	56,470,459	26,453,841
2012/2013	14,994,189	42,967,506	57,961,695	42,967,506
2013/2014	5,364,438	33,943,979	39,308,417	33,943,979
<i>Total</i>	<i>1,775,742,484</i>	<i>191,364,617</i>	<i>1,967,107,101</i>	<i>196,191,912</i>

Note : Outstanding liabilities include claim reserves to be borne by the Fund, and liabilities to be borne by the Fund as a result of the insolvency of HIH Casualty and General Insurance Ltd, FAI General Insurance Company Ltd and FAI First Pacific Insurance Co. Ltd.

TABLE 14**COMPARISON OF CONTRIBUTIONS, CLAIMS LOADINGS AND LOSSES**

Indemnity Year	Annual Contributions (HK\$)	Claims Loadings (HK\$)	Total Incurred Losses (HK\$)	Loadings as % of Losses	Loadings as % of Contributions	Recovery by way of Deductibles (HK\$)
1997/1998	106,778,078	3,996,258	186,915,392	2.14%	3.74%	8,602,085
1998/1999	112,178,110	5,815,656	403,455,386	1.44%	5.18%	20,001,529
1999/2000	85,231,403	4,187,326	82,142,964	5.10%	4.91%	5,756,576
2000/2001	95,910,707	5,547,161	66,901,589	8.29%	5.78%	4,753,681
2001/2002	236,886,755	17,716,648	87,572,356	20.23%	7.48%	3,797,807
2002/2003	222,237,005	12,044,600	76,535,380	15.74%	5.42%	3,964,853
2003/2004	219,607,685	10,909,400	63,511,824	17.18%	4.97%	3,474,697
2004/2005	217,611,219	10,485,444	69,016,706	15.19%	4.82%	3,255,900
2005/2006	242,335,709	9,119,595	78,808,257	11.57%	3.76%	3,721,590
2006/2007	256,756,900	9,946,895	40,280,094	24.69%	3.87%	2,299,945
2007/2008	283,223,840	9,504,563	41,481,685	22.91%	3.36%	2,580,745
2008/2009	318,613,840	7,765,371	70,750,826	10.98%	2.44%	4,612,500
2009/2010	301,445,650	7,518,788	82,806,802	9.08%	2.49%	2,362,062
2010/2011	309,996,404	9,017,161	77,581,807	11.62%	2.91%	2,598,330
2011/2012	362,665,656	11,358,408	56,470,459	20.11%	3.13%	3,067,331
2012/2013	366,030,827	14,052,008	57,961,695	24.24%	3.84%	1,020,952
2013/2014	369,457,239	10,972,544	39,308,417	27.91%	2.97%	120,000

Note :

- (1) Total incurred losses include claim payments and reserves, some of which are covered by the deductibles paid by indemnified firms.
- (2) Annual Contributions include claims loadings.
- (3) Contribution before reduction is used for 2010/2011, 2011/2012 and 2013/2014 indemnity years.
- (4) Adjustment to Contribution reduction for 2010/2011 is included in 2013/2014 indemnity year.

TABLE 15

**FREQUENCY OF CLAIMS BY AREA OF PRACTICE
(1 OCTOBER 2009 – 30 SEPTEMBER 2014)**

AREA OF PRACTICE	INDEMNITY YEAR											
	2009/10	% of Total No. of Claims	2010/11	% of Total No. of Claims	2011/12	% of Total No. of Claims	2012/13	% of Total No. of Claims	2013/14	% of Total No. of Claims	Total No. of Claims in the 5 Indemnity Years	% of Total No. of Claims in 5 Indemnity Years
COMMERCIAL	18	12.95%	18	10.34%	22	17.46%	20	8.33%	20	13.61%	98	11.86%
CONVEYANCING	48	34.53%	39	22.41%	36	28.57%	114	47.50%	40	27.21%	277	33.54%
LITIGATION	48	34.53%	67	38.51%	47	37.30%	61	25.42%	51	34.69%	274	33.17%
PROBATE	1	0.72%	3	1.72%	3	2.38%	12	5.00%	12	8.16%	31	3.75%
LANDLORD & TENANT	0	0.00%	1	0.57%	0	0.00%	6	2.50%	4	2.72%	11	1.33%
PATENTS, TRADEMARKS	16	11.51%	19	10.92%	5	3.97%	13	5.42%	11	7.48%	64	7.75%
TAX MATTERS	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
BREACH OF CONFIDENTIAL INFORMATION	0	0.00%	0	0.00%	0	0.00%	5	2.08%	1	0.68%	6	0.73%
DATA BREACH	0	0.00%	0	0.00%	0	0.00%	1	0.42%	0	0.00%	1	0.12%
OTHERS	8	5.76%	27	15.52%	13	10.32%	8	3.33%	8	5.44%	64	7.75%
TOTAL	139		174		126		240		147		826	

Note : (1) The percentages of the number of claims in each area of practice are calculated to the nearest decimal point only. The aggregation of these percentages in respect of each indemnity year may not therefore add up to 100%.

(2) "Breach of Confidential Information" and "Data Breach" are newly classified and are added as new items in 2012/2013 indemnity year.

TABLE 16

**VALUE OF CLAIMS BY AREA OF PRACTICE
(1 OCTOBER 2009 – 30 SEPTEMBER 2014)**

AREA OF PRACTICE	INDEMNITY YEAR											
	2009/2010 (HK\$)	% of Total Value of Claims	2010/2011 (HK\$)	% of Total Value of Claims	2011/2012 (HK\$)	% of Total Value of Claims	2012/2013 (HK\$)	% of Total Value of Claims	2013/2014 (HK\$)	% of Total Value of Claims	Total Value of Claims in 5 Indemnity Years (HK\$)	% of Total Value of Claims in 5 Indemnity Years
COMMERCIAL	12,735,883	15.38%	10,156,424	13.09%	23,425,146	41.48%	10,356,344	17.87%	10,830,975	27.55%	67,504,772	21.49%
CONVEYANCING	41,100,805	49.63%	31,570,947	40.69%	19,110,186	33.84%	27,105,582	46.76%	8,214,479	20.90%	127,101,999	40.46%
LITIGATION	28,689,493	34.65%	35,325,948	45.53%	7,230,901	12.80%	20,300,555	35.02%	16,316,464	41.51%	107,863,361	34.34%
PROBATE	-	-	-	-	5,675,958	10.05%	199,214	0.34%	1,729,910	4.40%	7,605,082	2.42%
LANDLORD & TENANT	-	-	-	-	-	-	-	-	1,716,589	4.37%	1,716,589	0.55%
PATENTS, TRADEMARKS	-	-	-	-	-	-	-	-	-	-	-	-
TAX MATTERS	-	-	-	-	-	-	-	-	-	-	-	-
BREACH OF CONFIDENTIAL INFORMATION	-	-	-	-	-	-	-	-	-	-	-	-
DATA BREACH	-	-	-	-	-	-	-	-	-	-	-	-
OTHERS	280,621	0.34%	528,488	0.68%	1,028,268	1.82%	-	-	500,000	1.27%	2,337,377	0.74%
TOTAL	82,806,802		77,581,807		56,470,459		57,961,695		39,308,417		314,129,180	

- Note : (1) Value of claims includes claims paid and reserved.
The percentages of the value of claims in each area of practice are calculated to the nearest decimal point only. The aggregation of these percentages in respect of each indemnity year may not therefore add up to 100%.
- (2) "Breach of Confidential Information" and "Data Breach" are newly classified and are added as new items in 2012/2013 indemnity year.

TABLE 17

**NUMBER OF CLAIMS BY TYPE OF ERRORS IN CONVEYANCING
(1 OCTOBER 2009 - 30 SEPTEMBER 2014)**

Type of Errors in Conveyancing	INDEMNITY YEAR					Total no. of Claims in 5 indemnity years	% of Total No. of Claims in Conveyancing
	2009/10	2010/11	2011/12	2012/13	2013/14		
	NO. OF CLAIMS						
<i>Breach of undertaking</i>	2	0	1	0	0	3	1.1%
<i>Conflict of Interest</i>	2	0	1	2	1	6	2.2%
<i>Defective service</i>	0	0	0	74	0	74	26.7%
<i>Delay irrespective of time limits</i>	1	0	0	2	1	4	1.4%
<i>Failure to spot/investigate defect</i>	0	0	0	0	0	0	0.0%
<i>Failure to act per client's instruction</i>	2	2	5	3	4	16	5.8%
<i>Failure to advise correctly</i>	12	9	10	17	15	63	22.7%
<i>Failure to answer requisitions</i>	5	4	2	2	3	16	5.8%
<i>Failure to check client's I.D.</i>	0	0	0	0	0	0	0.0%
<i>Failure to investigate title</i>	7	7	4	1	2	21	7.6%
<i>Failure to search properly</i>	1	0	0	0	1	2	0.7%
<i>Failure to supervise</i>	0	0	0	0	0	0	0.0%
<i>Failure to verify/check information</i>	0	1	3	0	2	6	2.2%
<i>Fraud by clients*</i>	2	0	4	5	1	12	4.3%
<i>Fraud by employee*</i>	0	3	0	1	0	4	1.4%
<i>Fraud by principal*</i>	0	0	0	0	0	0	0.0%
<i>Incorrect preparation/drafting</i>	3	1	1	3	0	8	2.9%
<i>Insufficient information</i>	1	0	1	1	0	3	1.1%
<i>Late notices/requisitions</i>	0	0	0	0	0	0	0.0%
<i>Late/failed registration</i>	1	0	1	0	1	3	1.1%
<i>Late/failed stamping</i>	0	1	0	0	0	1	0.4%
<i>Loss of documents</i>	1	3	0	0	1	5	1.8%
<i>Missed time limits</i>	1	0	0	1	0	2	0.7%
<i>No apparent negligence</i>	5	2	2	1	2	12	4.3%
<i>Other failure to take correct action</i>	1	6	1	1	4	13	4.7%
<i>Causes not specified</i>	1	0	0	0	2	3	1.1%
Total	48	39	36	114	40	277	

* Data only include those claims where the major cause giving rise to the claims is fraud.

TABLE 18

**VALUE OF CLAIMS BY TYPE OF ERRORS IN CONVEYANCING
(1 OCTOBER 2009 - 30 SEPTEMBER 2014)**

Type of Errors in Conveyancing	INDEMNITY YEAR					Total Value of Claims ** in 5 indemnity years (HK\$)	% of Total Value of Claims in Conveyancing
	2009/10	2010/2011	2011/2012	2012/2013	2013/2014		
	VALUE OF CLAIMS (HK\$)						
Breach of undertaking	-	-	-	-	-	-	0.0%
Conflict of interest	-	-	-	-	-	-	0.0%
Defective service	-	-	-	-	-	-	0.0%
Delay irrespective of time limits	1,211,209	-	-	-	-	1,211,209	1.0%
Failure to spot/investigate defect	-	-	-	-	-	-	0.0%
Failure to act per client's instruction	5,197,855	-	996,245	1,233,199	800,000	8,227,299	6.5%
Failure to advise correctly	21,632,306	6,091,164	562,504	8,500,909	7,414,479	44,201,362	34.8%
Failure to answer requisitions	3,422,441	6,191,316	5,339,899	4,619,828	-	19,573,484	15.4%
Failure to check client's I.D.	-	-	-	-	-	-	0.0%
Failure to investigate title	4,632,988	-	2,558,536	-	-	7,191,524	5.7%
Failure to search properly	966,907	-	-	-	-	966,907	0.8%
Failure to supervise	-	-	-	-	-	-	0.0%
Failure to verify/check information	-	-	559,842	-	-	559,842	0.4%
Fraud by clients*	4,032,039	-	8,800,908	9,776,300	-	22,609,247	17.8%
Fraud by employee*	-	1,266,028	-	565,979	-	1,832,007	1.4%
Fraud by principal*	-	-	-	-	-	-	0.0%
Incorrect preparation/drafting	-	-	-	-	-	-	0.0%
Insufficient information	-	-	-	-	-	-	0.0%
Late notices/requisitions	-	-	-	-	-	-	0.0%
Late/failed registration	-	-	-	-	-	-	0.0%
Late/failed stamping	-	-	-	-	-	-	0.0%
Loss of documents	-	-	-	-	-	-	0.0%
Missed time limits	-	-	-	2,409,367	-	2,409,367	1.9%
No apparent negligence	5,060	9,674,181	182,252	-	-	9,861,493	7.8%
Other failure to take correct action	-	8,348,258	110,000	-	-	8,458,258	6.7%
Causes not specified	-	-	-	-	-	-	0.0%
Total	41,100,805	31,570,947	19,110,186	27,105,582	8,214,479	127,101,999	

* Data only include those claims where the major cause giving rise to the claims is fraud.

** Value of claims includes claims paid and reserved.

TABLE 19**LOSS RATIOS AS AT 30 SEPTEMBER 2014**

Indemnity Year	Number of claims	Annual Contributions (HK\$)	Claims Losses (HK\$)	Loss ratio
1997/98	336	106,778,078	186,915,392	175%
1998/99	483	112,178,110	403,455,386	360%
1999/00	263	85,231,403	82,142,964	96%
2000/01	230	95,910,707	66,901,589	70%
2001/02	215	236,886,755	87,572,356	37%
2002/03	269	222,237,005	76,535,380	34%
2003/04	165	219,607,685	63,511,824	29%
2004/05	159	217,611,219	69,016,706	32%
2005/06	165	242,335,709	78,808,257	33%
2006/07	142	256,756,900	40,280,094	16%
2007/08	309	283,223,840	41,481,685	15%
2008/09	147	318,613,840	70,750,826	22%
2009/10	139	301,445,650	82,806,802	27%
2010/11	174	309,996,404	77,581,807	25%
2011/12	126	362,665,656	56,470,459	16%
2012/13	240	366,030,827	57,961,695	16%
2013/14	147	369,457,239	39,308,417	11%

Note :

- (1) Loss ratio is the ratio of contributions to claims losses (claims paid and reserved).
100% loss ratio means the contributions equal to the incurred losses.
200% loss ratio means the amount of claims losses is double the contributions collected.
- (2) Whilst the higher the ratio, the greater the amount by which claims losses exceed the contributions collected, it should be borne in mind it takes about 4 years before claims are sufficiently developed to provide a figure close to a final loss ratio. The loss ratios for the 2009/10 indemnity year onwards cannot therefore be taken as the final loss ratios.
- (3) Contribution before reduction is used for 2010/2011, 2011/2012 and 2013/2014 indemnity years.
- (4) Adjustment to Contribution reduction for 2010/2011 is included in 2013/2014 indemnity year.

TABLE 20

ANTICIPATED MAXIMUM SHORTFALL AS A RESULT OF THE INSOLVENCY OF HIH CASUALTY AND GENERAL INSURANCE LTD. ("HIH"), FAI GENERAL INSURANCE COMPANY LTD. ("FAI") AND FAI FIRST PACIFIC INSURANCE CO. LTD. ("FAI PACIFIC") AS AT 30 SEPTEMBER 2014

(1) Outstanding claims provision recoverable from reinsurers

Indemnity Year	(a) Excess of Loss Layer			(b) Stop Loss Layer			(c) "Incurred but not reported" reserve #			Total (a)+(b)+(c)
	HIH	FAI	FAI Pacific	HIH	FAI	FAI Pacific	HIH	FAI	FAI Pacific	
1988/89	-	-	-	-	-	-	-	-	-	-
1989/90	-	-	-	-	-	-	-	-	-	-
1990/91	-	-	-	-	-	-	-	-	-	-
1991/92	-	-	-	-	-	-	-	-	-	-
1992/93	-	-	-	-	-	-	-	-	-	-
1993/94	-	-	-	-	-	-	-	-	-	-
1994/95	493,331	-	448,482	-	-	-	(91)	-	(82)	941,640
1995/96	-	-	-	-	-	-	-	-	-	-
1996/97	-	-	-	-	-	8,882	-	-	-	8,882
1997/98	-	-	-	-	-	-	-	-	-	-
1997/98~2000/2001	N/A	N/A	N/A	N/A	N/A	N/A	(179)	-	(132)	(311)
1998/99~1999/2000	11,635,366 *	-	-	-	-	-	-	-	-	11,635,366
1994/95	493,331	-	448,482	-	-	-	(91)	-	(82)	941,640
2001/2002	-	-	-	-	-	-	-	-	-	-
2001/02	-	-	-	-	-	-	-	-	-	-
2002/03	-	-	-	-	-	-	-	-	-	-
2003/04	-	-	-	-	-	-	-	-	-	-
2004/05	-	-	-	-	-	-	-	-	-	-
2005/06	-	-	-	-	-	-	-	-	-	-
2006/07	-	-	-	-	-	-	-	-	-	-
2007/08	-	-	-	-	-	-	-	-	-	-
2008/09	-	-	-	-	-	-	-	-	-	-
2009/10	-	-	-	-	-	-	-	-	-	-
2010/11	-	-	-	-	-	-	-	-	-	-
2011/12	-	-	-	-	-	-	-	-	-	-
2012/13	-	-	-	-	-	-	-	-	-	-
2013/14	-	-	-	-	-	-	-	-	-	-
	12,128,697	-	448,482	-	-	8,882	(270)	-	(214)	12,585,577

* including the drop down cover totalling \$8,374,071

no stop loss insurance since 2001/02

(2) Claims receivables from reinsurers

Indemnity Year	(a) Excess of Loss Layer			(b) Stop Loss Layer			(c) Drop Down Layer	Total (a)+(b)+(c)
	HIH	FAI	FAI Pacific	HIH	FAI	FAI Pacific	HIH	
1988/89-99/2000	232,249,360	1,365,851	48,372,796	N/A	N/A	N/A	N/A	281,988,007
1997/98-2000/01	N/A	N/A	N/A	37,500,000	-	8,628,414	8,184,747	54,313,161
	232,249,360	1,365,851	48,372,796	37,500,000	-	8,628,414	8,184,747	336,301,168

ONGOING ISSUES

1. HIH REINSURERS

HIH Casualty and General Insurance Ltd. ("HIH"), FAI General Insurance Company Ltd. ("FAI") and FAI First Pacific Insurance Co. Ltd. ("FAI Pacific") ("the HIH reinsurers") were the excess of loss and stop loss insurers for the Scheme from 1987 onwards. The first 2 above-mentioned companies were placed in provisional liquidation on 15 March 2001 and the third went into provisional liquidation on 9 April 2001. A winding-up order was subsequently made against the first 2 companies on 27 August 2001. A provision has been made in the Fund Accounts to cover the anticipated maximum shortfall. The anticipated maximum shortfall as at 30 September 2014 is set out in table 20.

The Company has also conducted an actuarial study on the total outstanding liabilities of the Fund. Having taken into account the default of the HIH reinsurers, the total outstanding liabilities of the Fund as at 30 September 2014 was approximately HK\$371.741m.

The Company is a member of the Committees of Inspection and the Creditors' Committees of HIH and FAI. The Liquidator has commenced proceedings against various parties including the former directors, auditors and actuary of the companies in the HIH group based on his investigation and the findings of the Royal Commission in Australia. Some of the proceedings have been settled. Schemes of arrangement were implemented in respect of HIH and FAI on 30 May 2006. As of 15 April 2015, a total of US\$13,859,364.05 was paid by HIH, of which US\$929,276.05 was repaid to reinsurers who replaced HIH in accordance with the reinsurance policies. A total of US\$105,999.12 was paid by FAI as interim dividends. The Company is also a member of the Creditors' Committee of FAI Pacific in Hong Kong. A scheme of arrangement was implemented in respect of the provisional liquidation in Hong Kong on 30 November 2002. As of 15 April 2015, a total of HK\$29,364,649.08 was paid by FAI First Pacific as interim dividend and threshold payments i.e. settlements for small claims.

The HIH scheme of arrangement has entered its final stages, however a key issue affecting the timing of the closure of the scheme is the complex intercompany positions. The finalization of the scheme is still in progress.

2. QUALIFYING INSURERS SCHEME ("QIS") OR OTHER ALTERNATIVES

At an Extraordinary General Meeting ("EGM") of the Law Society on 16 November 2004, Members voted by a majority of 316 to 255 to replace the Scheme with a QIS.

A notice of EGM, the QIS Rules, the qualifying insurer's agreement, the assigned risk pool management agreement and an explanatory note were issued to the Members on 11 April 2006.

Having considered the structure of the QIS proposed in the QIS Rules and the other documents, members voted in the EGM on 27 April 2006 by a majority of 1873 to 506 against the implementation of such a scheme.

The Council has set up the PIS Review Working Party ("the Working Party") to consider how to improve the Scheme or such other alternative insurance or indemnity schemes as may be viable. An actuarial analysis of the present contribution formula was performed and provided the following findings:

- ♦ The current contribution formula is sufficient to cover the total claims and expenses of administering the Scheme;*
- ♦ The three rating factors currently used in the formula, namely the average number of principals, average number of assistants and gross fee income are all positively correlated with the net incurred costs and the number of reported claims;*
- ♦ Any additional rating factors to be introduced to the formula will need to be obtained from members without causing an excessive burden and be verifiable. The Rules will also need to be amended to authorise the collection of such data;*
- ♦ As with any formula structure, cross subsidization exists and large firms were found to contribute more than the cost attributable to them. Small firms contributed less than or equal to their share of the cost while medium size firms showed mixed results.*

The Working Party also appointed Lockton Companies (Hong Kong) Limited to consider the feasibility of a master policy scheme in Hong Kong. It was noted certain features of the Scheme, such as unlimited aggregate cover, are not currently supported by commercial insurers. Additional exclusions are also likely to be imposed by commercial insurers.

In 2010, the Rules have been amended to provide contribution reductions to member firms. After consideration of actuarial advice, claims experience and the financial position of the Fund, contribution reductions of 33⅓% were provided in the indemnity years of 2010/11, 2011/12, 2013/14 & 2014/15. The amount of reduction made totaled approximately HK\$470m.

The Working Party recommended to Council that cover be continued to be provided to members under the PIS. The recommendation has been adopted by Council and the Working Party was then disbanded on 5 February 2013.

PERFORMANCE OF THE FUND'S INVESTMENTS

Mercer Investment Consulting Limited has been the Company's investment consultant since December 2010. In 2011, the PIS Investment Subcommittee ("Subcommittee") conducted a portfolio structure review and health check of investment managers. It was resolved that two additional global equity managers would be appointed to take over the equity portfolio managed by AllianceBernstein Hong Kong Limited ("AllianceBernstein").

The current investment managers of the Fund are as follows:

- Amundi Hong Kong Limited ("Amundi")
- AllianceBernstein
- MFS Investment Management ("MFS")
- Grantham Mayo van Otterloo ("GMO")

The Subcommittee meets every quarter to monitor the investment managers and the guidelines for the investments. The Fund adopts a conservative investment strategy where the investments are predominantly placed in fixed income securities. The investment objectives, guidelines and restrictions are summarised as follows:

Investment Objectives:

- to preserve capital and to maximize total return on the portfolio; and
- regarding the bond portfolio, to outperform the Barclays Capital Global Aggregate Index.

Amundi's portfolio consists of both equities and bonds and the portfolio Investment Guidelines and Restrictions are as follows:

- allowable range in equities: 20% - 35%
- allowable range in bonds: 55% - 80%
- allowable range in cash: 0% - 10%

Total: 100%

The AllianceBernstein portfolio consists of bonds only.

Investments made via the other two managers are in the form of equity pooled funds, as follows:

- MFS Global Concentrated Equity Fund
- GMO Global Equity Allocation Fund

The net returns on the portfolios managed by the investment managers for the 12 month period ended 31 December for the past 3 years were as follows:

			<u>Net Return</u>		
	<u>Type of portfolio</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	
Amundi	Equity and bonds	9.68%	6.44%	3.40%	
AllianceBernstein	Bonds	3.86%	0.27%	7.22%	
MFS*	Equity	24.13%	29.55%	7.46%	
GMO*	Equity	13.56%	19.95%	-1.84%	

*MFS and GMO were appointed in December 2011.

CONCLUSION

The Company's policy is to resolve claims promptly for the benefit of the Fund. However, unmeritorious claims are vigorously defended. Each claim is carefully considered on its own merits.

The Board of Directors of the Company would like to record their appreciation to all members of the relevant PIS Committees and Working Parties for their hard work during the year and the time they gave so freely to serve the profession.

ADPIS 13/14 AR (2130711)

Audited Financial Statements
Hong Kong Solicitors Indemnity Fund
30 September 2014

Independent Auditor's Report

To the Manager of
Hong Kong Solicitors Indemnity Fund
(established in Hong Kong)

We have audited the financial statements of Hong Kong Solicitors Indemnity Fund (the "Fund") set out on pages 3 to 21, which comprise the statement of financial position as at 30 September 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Manager's responsibility for the financial statements

The Manager of the Fund is responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

To the Manager of
Hong Kong Solicitors Indemnity Fund
(established in Hong Kong)

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Fund as at 30 September 2014 and of its surplus and cash flows for the year then ended in accordance with HKFRS.



Certified Public Accountants
Hong Kong, 25 February 2015

Chan Wai Man
Practising Certificate number: P02487

Hong Kong Solicitors Indemnity Fund

Statement of Comprehensive Income

Year ended 30 September 2014

	<i>Note</i>	2014 <i>HK\$</i>	2013 <i>HK\$</i>
Turnover	3	250,928,104	360,096,338
Gain on disposal of financial assets at fair value through profit or loss		7,047,881	44,860,762
Change in fair value of financial assets at fair value through profit or loss		48,788,509	26,592,445
Net claims incurred		(66,321,010)	(27,813,545)
Other revenue	3	72,362,363	222,270,486
Operating expenses	4	<u>(108,711,902)</u>	<u>(113,370,283)</u>
Surplus from operations		204,093,945	512,636,203
Add: Net movement in claims provision and claims receivable relating to reinsurance contracts with HIH Group	5	<u>23,420,676</u>	<u>20,871,242</u>
Surplus before income tax		227,514,621	533,507,445
Income tax expense	6	<u>-</u>	<u>-</u>
Surplus for the year		227,514,621	533,507,445
Other comprehensive income for the year		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u>227,514,621</u>	<u>533,507,445</u>

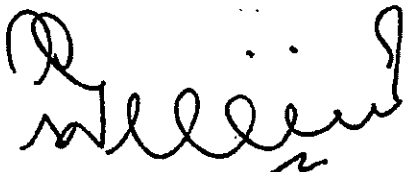
Hong Kong Solicitors Indemnity Fund

Statement of Financial Position

At 30 September 2014

	Note	2014 HK\$	2013 HK\$
Non-current assets			
Profit commission receivable from reinsurers	7	<u>159,000,000</u>	<u>159,000,000</u>
Current assets			
Claims receivable from reinsurers		-	8,116
Claims provision recoverable and claims receivable	8	17,274,000	37,520,000
Financial assets at fair value through profit or loss	9	2,328,619,077	2,053,920,041
Amount due from Hong Kong Solicitors Indemnity Fund Limited	10	1,769,644	1,760,712
Accounts receivable	11	4,577,239	6,076,798
Prepayments		52,000,000	65,212,500
Cash at bank	12	<u>208,781,256</u>	<u>214,627,352</u>
		<u>2,613,021,216</u>	<u>2,379,125,519</u>
Current liabilities			
Outstanding claims provision		391,006,000	398,388,000
Accrued charges		196,571	213,541
Contributions received in advance		231,428,647	217,443,596
Contributions refundable		<u>1,159,588</u>	<u>1,364,593</u>
		<u>623,790,806</u>	<u>617,409,730</u>
Net current assets		<u>1,989,230,410</u>	<u>1,761,715,789</u>
NET ASSETS		<u><u>2,148,230,410</u></u>	<u><u>1,920,715,789</u></u>
Reserves			
Accumulated fund		<u><u>2,148,230,410</u></u>	<u><u>1,920,715,789</u></u>

Approved and authorised for issued by the Manager on 25 February 2015



Director



Director

Hong Kong Solicitors Indemnity Fund

Statement of Changes in Equity

Year ended 30 September 2014

	Accumulated fund HK\$
At 1 October 2012	1,387,208,344
Surplus for the year and total comprehensive income for the year	<u>533,507,445</u>
At 30 September 2013 and 1 October 2013	1,920,715,789
Surplus for the year and total comprehensive income for the year	<u>227,514,621</u>
At 30 September 2014	<u><u>2,148,230,410</u></u>

Hong Kong Solicitors Indemnity Fund

Statement of Cash Flows

Year ended 30 September 2014

	<i>Note</i>	2014 <i>HK\$</i>	2013 <i>HK\$</i>
OPERATING ACTIVITIES			
Cash generated from operations	15	<u>156,972,859</u>	<u>134,929,415</u>
Net cash from operating activities		<u>156,972,859</u>	<u>134,929,415</u>
INVESTING ACTIVITIES			
Proceeds from disposal of financial assets at fair value through profit or loss		1,540,714,831	1,055,453,068
Purchases of financial assets at fair value through profit or loss		(1,773,473,257)	(1,267,064,193)
Interest received		41,806,583	40,545,028
Dividend income		<u>14,237,108</u>	<u>14,143,404</u>
Net cash used in investing activities		<u>(176,714,735)</u>	<u>(156,922,693)</u>
Net decrease in cash and cash equivalents		(19,741,876)	(21,993,278)
Cash and cash equivalents at beginning of year		<u>305,346,311</u>	<u>327,339,589</u>
Cash and cash equivalents at end of year	12	<u>285,604,435</u>	<u>305,346,311</u>

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2014

1. GENERAL

Hong Kong Solicitors Indemnify Fund (the “Fund”) was established by The Law Society of Hong Kong to provide indemnity against such loss as is mentioned in Section 73A(1) of the Hong Kong Legal Practitioners Ordinance (Chapter 159). The Fund is managed by the Hong Kong Solicitors Indemnity Fund Limited (the “Manager”), a company limited by guarantee.

2. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and accounting principles generally accepted in Hong Kong.

These financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2013 financial statements. The new / revised HKFRSs that are relevant to the Fund and effective from the current year had no significant effects on the results and financial position of the Fund for the current and prior years. A summary of the principal accounting policies adopted by the Fund is set out below.

Adoption of new / revised HKFRSs

Amendments to HKAS 1: Presentation of items of other comprehensive income

The amendments to HKAS 1 require entities to group together items within other comprehensive income that will not be reclassified to profit or loss separately from items that may be reclassified subsequently to profit or loss if certain conditions are met. Other than the presentation changes, the application of the amendments does not have an impact on the amounts recognised.

Further, these amendments change the title for the “statement of comprehensive income” to the “statement of profit or loss and other comprehensive income”. However, HKAS 1 retains the option to use titles for the statement other than those used in HKAS 1. The Fund continues to use the “statement of comprehensive income” instead of the “statement of profit or loss and other comprehensive income”.

Basis of measurement

The measurement basis used in the preparation of these financial statements is historical cost, except for the financial assets at fair value through profit or loss which are measured at fair value as explained in the accounting policies set out below.

Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when and only when the Fund becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when and only when (i) the Fund’s contractual rights to future cash flows from the financial asset expire or (ii) the Fund transfers the financial asset and either (a) the Fund transfers substantially all the risks and rewards of ownership of the financial asset, or (b) the Fund neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but it does not retain control of the financial asset.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2014

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Recognition and derecognition (Continued)

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

Classification and measurement

Financial assets or financial liabilities are initially recognised at their fair value plus, in the case of financial assets or financial liabilities not carried at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities.

1) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. They are carried at fair value, with any resultant gain and loss recognised in profit or loss.

Financial assets are classified as held for trading if they are (i) acquired principally for the purpose of selling in the near future; (ii) part of a portfolio of identified financial instruments that the Fund manages together and has a recent actual pattern of short-term profit-taking; or (iii) derivatives that are not financial guarantee contracts or not designated and effective hedging instruments.

Financial assets are designated at initial recognition as at fair value through profit or loss only if (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or (ii) they are part of a group of financial assets and / or financial liabilities that are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy.

2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in profit or loss.

3) Financial liabilities

All financial liabilities except for derivatives are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Impairment of financial assets

At the end of each reporting period, the Fund assesses whether there is objective evidence that financial assets, other than those at fair value through profit or loss, are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate. Such impairment loss is reversed in subsequent periods through profit or loss when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2014

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Cash equivalents

For the purpose of the statement of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Fund and when the revenue and costs, if applicable, can be measured reliably and on the following bases:

Contributions are accounted for proportionally over the period of coverage. Contributions received in advance represent contributions invoiced and received but not earned at the end of reporting period.

Dividend income from investments and investment incentive income are recognised when the Fund's rights to receive payment have been established.

Interest income from financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Foreign currency translation

The financial statements are presented in the currency of Hong Kong dollars, which is the Fund's functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Provisions

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Fund expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Related parties

A related party is a person or entity that is related to the Fund.

- (a) A person or a close member of that person's family is related to the Fund if that person:
 - (i) has control or joint control over the Fund;
 - (ii) has significant influence over the Fund; or
 - (iii) is a member of the key management personnel of the Fund.
- (b) An entity is related to the Fund if any of the following conditions applies:
 - (i) The entity is controlled or jointly controlled by a person identified in (a).
 - (ii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2014

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Related parties (Continued)

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of that person or that person's spouse or domestic partner.

Critical accounting estimates and judgements

Estimates and assumptions concerning the future and judgements are made by the Manager in the preparation of the financial statements. They affect the application of the Fund's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

Provision for claims

The estimation of the ultimate liability arising from claims made under indemnity is the Fund's most critical accounting estimate.

Full provision is made for the estimated cost of claims notified but not settled at the end of the reporting period and for the estimated cost of claims incurred but not enough reported ("IBNER") by that date. The provision for amounts recoverable from reinsurers and from solicitors' firms is estimated and shown separately in the statement of financial position. Provision is also made for the estimated cost of servicing claims notified but not settled at the reporting date and expenses on IBNER at the end of the reporting period.

Management of the Fund takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Estimates and assumptions have been made in arriving at the provision for claims and reinsurance recoveries thereof. The actual results may be significantly different from those envisaged when these estimates were made. In particular, the estimation of IBNER is based upon actual claims experience using predetermined methodology and is generally subject to a greater degree of uncertainty.

	2014 HK\$	2013 HK\$
Case reserves	191,365,000	165,420,000
Estimated IBNER	124,892,000	160,794,000
Estimated allowance for indirect claim handling expenses	14,950,000	14,435,000
Risk margin	59,799,000	57,739,000
	<u>391,006,000</u>	<u>398,388,000</u>

Profit commission receivable from reinsurers

The estimate of the ultimate profit commission to be receivable from reinsurers involve critical accounting estimate. The Fund estimates that provision based primarily on risk premium, latest expenses, claims paid and claims reserved. Details of profit commission receivable from reinsurers recognised are set out in note 7 to the financial statements.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2014

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Future changes in HKFRS

At the date of authorisation of these financial statements, the HKICPA has issued a number of new / revised HKFRS that are not yet effective for the current year, which the Fund has not early adopted. The Manager anticipates that the adoption of these new / revised HKFRS in the future accounting periods will have no material impact on the results of the Fund.

3. TURNOVER AND OTHER REVENUE

	2014 <i>HK\$</i>	2013 <i>HK\$</i>
Contribution earned	<u>250,928,104</u>	<u>360,096,338</u>
Turnover	<u>250,928,104</u>	<u>360,096,338</u>
Bond interest income	41,752,917	40,466,163
Deposit interest income	53,666	78,865
Dividend income	14,237,108	14,143,404
Investment incentive income	16,210,448	8,493,619
Profit commission on reinsurance	-	159,000,000
Sundry income	<u>108,224</u>	<u>88,435</u>
Other revenue	<u>72,362,363</u>	<u>222,270,486</u>
Total revenue	<u><u>323,290,467</u></u>	<u><u>582,366,824</u></u>

4. OPERATING EXPENSES

	2014 <i>HK\$</i>	2013 <i>HK\$</i>
Accounting fee	264,000	252,000
Auditor's remuneration	123,000	120,000
Administration fee paid to Hong Kong Solicitors Indemnity Fund Limited	11,317,312	11,134,041
Bank charges	51,284	193,907
Investments management fee	8,826,643	7,156,298
Legal and professional fees	973,181	1,536,229
Reinsurance premium	87,126,875	92,856,375
Sundry expenses	29,607	57,685
Write-off of profit commission receivable from reinsurers	-	63,748
	<u>108,711,902</u>	<u>113,370,283</u>

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2014

5. NET MOVEMENT IN CLAIMS PROVISION AND CLAIMS RECEIVABLE RELATING TO REINSURANCE CONTRACTS WITH HIIH GROUP

In 2001, three of the major reinsurers used by the Fund, which were part of an insurance group in Australia ("HIIH Group"), were placed into liquidation. Given the limited information provided by the liquidators at that time except for certain indications that the financial losses could be very substantial, the Manager has concluded that a full provision against the remaining amounts due from these reinsurers would be appropriate. The amount provided relates to claims extending over the indemnity years 1998 to 2000. During the year, HK\$23,420,676 (2013: HK\$20,871,242) was recovered from the reinsurers and the provision for impairment previously made was reversed and credited to profit or loss.

6. INCOME TAX EXPENSE

Since the Fund is neither a person nor does it carry on a trade, profession or business for the purpose of section 14 of the Inland Revenue Ordinance (Cap. 112), it is not liable to Hong Kong taxation.

7. PROFIT COMMISSION RECEIVABLE FROM REINSURERS

The profit commission relates to slip policies covering the indemnity period from 1 October 2008 to 30 September 2013. The estimation of amount is based on risk premium, expenses, claims paid and claims reserved. Under the slip policies, the Fund shall be entitled to the profit sharing if the slip policies were not cancelled before 30 September 2013.

The amounts due are interest-free and calculated in accordance with the slip policies, final calculation on profit commission receivable from reinsurers will take place on 30 September 2017. The carrying amount of the amounts due approximates its fair value.

8. CLAIMS PROVISION RECOVERABLE AND CLAIMS RECEIVABLE

	Note	2014 HK\$	2013 HK\$
Claims provision recoverable from reinsurers and solicitors' firms		21,666,000	43,530,000
Less: provision for impairment – HIIH Group	(a)	(4,392,000)	(6,010,000)
		<u>17,274,000</u>	<u>37,520,000</u>

The Fund does not have any settled claims receivable at the end of the reporting period. The carrying value of claims provision recoverable is considered a reasonable approximation of its fair value.

The Fund allows a credit period of 7 days to its reinsurers. Before accepting any new reinsurers, the Manager performs check on the potential reinsurer's international ratings as well as whether they are regulated by the Hong Kong Insurance Authority.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2014

8. CLAIMS PROVISION RECOVERABLE AND CLAIMS RECEIVABLE (CONTINUED)

(a) Provision for impairment – HHH Group

The movements in the provision for impairment – HHH Group during the year are as follows:

	2014 HK\$	2013 HK\$
At beginning of reporting period	6,010,000	14,401,000
Amount recovered during the year	(23,420,676)	(20,871,242)
Increase in provision for impairment	21,802,676	12,480,242
At the end of reporting period	<u>4,392,000</u>	<u>6,010,000</u>

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>Notes</i>	2014 HK\$	2013 HK\$
Equity investments			
- listed in Hong Kong	(a)	63,041,830	96,292,342
- listed outside Hong Kong	(a)	287,341,657	231,936,867
		<u>350,383,487</u>	<u>328,229,209</u>
Bonds listed outside Hong Kong	(a)	1,495,468,578	1,284,760,667
Quoted fund investments	(b)	405,943,833	350,211,206
Cash deposits in investment accounts (note 12)		76,823,179	90,718,959
		<u>2,328,619,077</u>	<u>2,053,920,041</u>

Notes:

- (a) The fair values are based on quoted market prices in active markets at the end of the reporting period.
- (b) The fair values of quoted fund investments are measured by reference to the prices publicly quoted by fund administrators.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2014

10. AMOUNT DUE FROM HONG KONG SOLICITORS INDEMNITY FUND LIMITED

The amount due is unsecured, interest-free and has no fixed repayment term. The carrying amount of the amount due approximates its fair value.

11. ACCOUNTS RECEIVABLE

	2014 <i>HK\$</i>	2013 <i>HK\$</i>
Contributions receivable	2,419,752	1,889,278
Other receivables	2,157,487	4,187,520
	<u>4,577,239</u>	<u>6,076,798</u>

The contributions receivable represent contributions receivable from legal practitioners. Under the Hong Kong Legal Practitioners Ordinance (Chapter 159), all the legal practitioners in Hong Kong are required to maintain indemnity with the Fund in order to obtain new or renewal practicing certificates from the Law Society of Hong Kong. The carrying amounts of contributions receivable and other receivables are considered a reasonable approximation of their fair values.

No credit period is provided by the Fund and all payments are due by 30 September except in the case of new firms, in which case payments are due on presentation of debit notes. All of the Fund's contributions receivable and other receivables have been reviewed for indication of impairment.

As discussed above, the whole contributions receivable balance is past due but within 3 months as at the reporting date for which the Fund has not impaired as there has not been a significant change in its good credit quality. There was no recent history of default and the amounts are still considered recoverable. The Fund does not hold any collateral over these balances.

12. CASH AND CASH EQUIVALENTS

	2014 <i>HK\$</i>	2013 <i>HK\$</i>
Cash at bank	208,781,256	214,627,352
Cash deposits in investment accounts (note 9)	76,823,179	90,718,959
As stated in statement of cash flows	<u>285,604,435</u>	<u>305,346,311</u>

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2014

13. MANAGEMENT OF RISKS

The Fund is exposed to insurance risk and financial risks because of the nature of its operations and the use of financial instruments in its operating activities.

The carrying amount presented in the statement of financial position relate to the following categories of financial assets and financial liabilities.

	2014 <i>HK\$</i>	2013 <i>HK\$</i>
Financial assets		
Loans and receivables:		
Claims receivable from reinsurers	-	8,116
Profit commission receivable from reinsurers	159,000,000	159,000,000
Outstanding claims provision recoverable from reinsurers and solicitors' firms	17,274,000	37,520,000
Amounts due from Hong Kong Solicitors Indemnity Fund Limited	1,769,644	1,760,712
Accounts receivable	4,577,239	6,076,798
Cash at bank	208,781,256	214,627,352
	<u>391,402,139</u>	<u>418,992,978</u>
Financial assets at fair value through profit or loss	<u>2,328,619,077</u>	<u>2,053,920,041</u>
Financial liabilities		
At amortised costs:		
Outstanding claims provision	391,006,000	398,388,000
Contributions refundable	1,159,588	1,364,593
	<u>392,165,588</u>	<u>399,752,593</u>

13.1 Insurance risk management

The Fund was established by The Law Society of Hong Kong. Pursuant to the Solicitors (Professional Indemnity) Rules made by the Council of The Law Society of Hong Kong under Section 73A(l) of the Hong Kong Legal Practitioners Ordinance, solicitors are provided with indemnity against loss arising from claims in respect of civil liability incurred in private practices.

The principal risk that the Fund faces is the possibility of the actual claims exceeding the carrying amount of the claims provision. This could occur when the frequency or severity of claims are greater than estimated. Events under indemnity are random and the actual number and amount of claims will vary from year to year from the estimate established using statistical techniques.

Management of the Fund attempts to diversify this risk by entering into reinsurance with reinsurers. Reinsurance does not discharge the Fund's liability as the primary obligor under the indemnity. Failure of reinsurers to honor their obligations could result in losses to the Fund. In order to minimise losses from reinsurers' defaults, the Fund only places reinsurance with companies which have appropriate international ratings and/or which are regulated by the Hong Kong Insurance Authority. To minimise the risk of reinsurer defaults, the Fund has put in place insolvency insurance cover. The cover insures the Fund against the insolvency of one or more of its reinsurers.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2014

13. MANAGEMENT OF RISKS (CONTINUED)

13.2 Financial risk management

The financial risks to which the Fund is exposed include market risk (including currency risk, interest risk and other price risk), liquidity risk and credit risk.

The objective of financial risk management is to ensure that the Fund's overall financial risk is at an acceptable level and that appropriate returns are earned for the level of risk assumed. The Manager appointed four investment managers who operate independently of each other. Two investment managers operate under discretionary investment management agreements which allow them to manage their portfolio within guidelines prescribed by the Manager. The remaining two managers offer equity pooled funds which the Fund has invested in since November 2011. The Fund adopts a conservative investment strategy where the investments are predominantly placed in fixed income securities. The strategy is to achieve an optimal return without incurring a risk of substantial fluctuations in the value of the accumulated reserves.

(a) Foreign currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instruments will fluctuate because of changes in foreign exchange rates. The Fund's exposures to currency risk arise from its bank balances and financial assets at fair value through profit or loss, which are primarily denominated in Australian Dollars ("AUD"), United States Dollars ("USD"), British Pounds ("GBP"), Japanese Yen ("JPY"), Renminbi ("RMB") and Euro ("EUR").

The Fund does not hedge its foreign currency risks. However, the Fund's investment managers monitor the foreign currency exposure and will consider hedging significant foreign currency exposure should the need arises.

The following table provides details of the Fund's exposure at the end of the reporting period to foreign exchange risk arising from recognised assets and liabilities denominated in a currency other than the functional currency of the Fund:

	As at 30 September 2014			As at 30 September 2013		
	Financial assets at fair value through profit or loss HK\$	Cash at bank HK\$	Overall net exposure HK\$	Financial assets at fair value through profit or loss HK\$	Cash at bank HK\$	Overall net exposure HK\$
AUD	18,307,475	-	18,307,475	47,473,237	-	47,473,237
EUR	76,521,039	-	76,521,039	209,799,129	-	209,799,129
GBP	25,989,614	-	25,989,614	95,410,666	-	95,410,666
JPY	36,517,414	-	36,517,414	39,265,876	-	39,265,876
RMB	53,476,611	-	53,476,611	32,124,173	-	32,124,173
USD	1,991,317,470	11,819,399	2,003,136,869	1,473,730,084	24,568,976	1,498,299,060

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2014

13. MANAGEMENT OF RISKS (CONTINUED)

13.2 Financial risk management (Continued)

(a) Foreign currency risk (continued)

The following table indicates the approximate change in the Fund's surplus after income tax in response to reasonably possible changes in the foreign exchange rates of the following foreign currencies against Hong Kong Dollar to which the Fund has significant exposure at the end of the reporting period.

	2014		2013	
	Increase/decrease in foreign exchange rates %	Increase/decrease in surplus after income tax HK\$	Increase/decrease in foreign exchange rates %	Increase/decrease in surplus after income tax HK\$
AUD	5	915,374	5	2,373,662
EUR	5	3,826,052	5	10,489,956
GBP	5	1,299,481	5	4,770,533
JPY	5	1,825,871	5	1,963,294
RMB	3	1,604,298	3	963,725
USD	1	20,031,369	1	14,982,991

This analysis assumes that all other variables remain constant.

Exchange differences arising from financial assets at fair value through profit or loss are classified as change in fair value of financial assets at fair value through profit or loss.

(b) Interest rate risk

The Fund's earnings are affected by changes in the market interest rates due to the impact such changes have on interest income from cash and cash equivalents and financial assets. Investment guidelines are in place and reviewed regularly to provide the general direction for the Fund's investment managers and to monitor the risk undertaken.

At 30 September 2014, it is estimated that a general increase/decrease of 5 basis points (2013: 5 basis points) in interest rates, with all other variables held constant, would increase/decrease the Fund's surplus after income tax and accumulated surplus by approximately HK\$143,000 (2013: HK\$153,000). The increase/decrease in basis points represents management's assessment of a reasonably possible change in interest rates over the period until the next reporting date.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2014

13. MANAGEMENT OF RISKS (CONTINUED)

13.2 Financial risk management (Continued)

(c) Other price risk

Other price risk relates to the risk that the fair values or future cash flows of a financial instruments will fluctuate because of changes in market prices (other than changes in interest rates and foreign exchange rates). The Fund is exposed to change in market prices of listed equity and debt securities in respect of its investments in listed equity and debt securities classified as financial assets at fair value through profit and loss.

Investments in equity must be confined to publicly listed widely held and traded securities and there are limits on the exposure to an overseas stock market other than a recognised stock exchange and on the equity of any one company.

The following table indicates the approximate change in the Fund's surplus after income tax in response to reasonably possible changes in the quoted prices for financial assets at fair value through profit or loss to which the Fund has significant exposure at the end of the reporting period.

	2014		2013	
	Increase/ decrease in quoted prices %	Increase/ decrease in surplus HK\$	Increase/ decrease in quoted prices %	Increase/ decrease in surplus HK\$
Equity investments	10	35,038,349	10	32,822,921
Bonds listed outside Hong Kong	5	74,773,429	5	64,238,033
Quoted fund investments	5	20,297,192	5	17,510,560

(d) Liquidity risk

The Fund manages its liquidity and cash flow profiles to ensure the operations maintain optimum level of liquidity at all times sufficient to meet its obligations as and when they fall due.

All of the Fund's financial liabilities will be settled within one year from the reporting date. This is based on the remaining period at the reporting date to the contractual maturity date and at the earliest date the Fund can be required to pay.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2014

13. MANAGEMENT OF RISKS (CONTINUED)

13.2 Financial risk management (Continued)

(e) Credit risk

The Fund's credit risk is principally attributable to cash and cash equivalents and receivables from reinsurers and solicitor firms.

Cash and cash equivalents are normally placed at financial institutions that have sound credit rating and the Fund considers the credit risk to be insignificant.

Management has a credit policy in place for selection of its reinsurers and approving the credit limits and the exposures to credit risk are monitored such that any outstanding debts are reviewed and followed up on an ongoing basis.

As at the reporting date, the Fund does not hold any collateral from the reinsurers and the Fund has no significant concentration of credit risk, with exposure spreading over a number of reinsurers and counterparties.

Hence, the maximum exposure to credit risk is represented by the carrying amounts of each class of financial assets. The Fund does not provide any other guarantees which would expose the Fund to credit risk.

(f) Fair value measurements recognised in the statement of financial position

The financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

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

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

2014

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
Financial assets at fair value through profit or loss:				
Trading securities	<u>2,328,619,077</u>	<u>-</u>	<u>-</u>	<u>2,328,619,077</u>

2013

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
Financial assets at fair value through profit or loss:				
Trading securities	<u>2,053,920,041</u>	<u>-</u>	<u>-</u>	<u>2,053,920,041</u>

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2014

13. MANAGEMENT OF RISKS (CONTINUED)

13.2 Financial risk management (Continued)

(f) Fair value measurements recognised in the statement of financial position (continued)

During the years ended 30 September 2014 and 2013, there were no transfer between Level 1 and Level 2 fair value measurements, and no transfer into and out of Level 3 fair value measurements.

The fair values have been determined by reference to their quoted bid prices at the reporting date and have been translated using the spot foreign currency rates at the end of the reporting period where appropriate.

14. CAPITAL MANAGEMENT

The Fund's capital management objective is to ensure the Fund's ability to continue as a going concern in order to provide indemnity against such loss as is mentioned in Section 73A(1) of the Hong Kong Legal Practitioners Ordinance (Chapter 159).

The Fund has no share capital. The Manager of the Fund will actively and regularly review its accumulated surplus and make adjustment on the contributions receivable from legal practitioners in line of change in economic conditions.

15. CASH GENERATED FROM OPERATIONS

	2014 HK\$	2013 HK\$
Surplus before income tax	227,514,621	533,507,445
Change in fair value of financial assets at fair value through profit or loss	(48,788,509)	(26,592,445)
Gain on disposal of financial assets at fair value through profit or loss	(7,047,881)	(44,860,762)
Interest income	(41,806,583)	(40,545,028)
Dividend income from financial assets at fair value through profit or loss	(14,237,108)	(14,143,404)
Profit commission on reinsurance	-	(159,000,000)
Write-off of profit commission receivable from reinsurers	-	63,748
Changes in working capital:		
Decrease (Increase) in claims receivable from reinsurers	8,116	(8,116)
Decrease (Increase) in outstanding claims provision recoverable from reinsurers and solicitor's firm	20,246,000	(27,007,000)
Decrease in accounts receivable	1,499,559	474,287
Decrease (Increase) in prepayments	13,212,500	(51,483,000)
(Increase) Decrease in amount due from Hong Kong Solicitors Indemnity Fund Limited	(8,932)	365,210
(Decrease) Increase in outstanding claims provision	(7,382,000)	7,800,000
(Decrease) Increase in accrued charges	(16,970)	26,088
Decrease in amounts payable to reinsurers	-	(150,390)
Increase (Decrease) in contributions received in advance	13,985,051	(41,988,412)
Decrease in contributions refundable	(205,005)	(1,528,806)
Cash generated from operations	156,972,859	134,929,415

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2014

16. RELATED PARTY TRANSACTIONS

During the year, the Fund incurred an administrative fee of HK\$11,317,312 (2013: HK\$11,134,041) payable to the Manager. As at 30 September 2014, the amount due from the Manager was HK\$1,769,644 (2013: HK\$1,760,712). The Fund and the Manager are under common control of The Law Society of Hong Kong. The carrying amount of the amount due approximates its fair value.

17. CONTINGENT ASSETS

	2014	2013
	<i>HK\$</i>	<i>HK\$</i>
Profit commission from reinsurers	<u>26,000,000</u>	-

The profit commission relates to slip policies covering the indemnity period from 1 October 2014 to 30 September 2018. The calculation of profit commission shall take place on 30 September 2018. Under the slip policies, the Fund shall not be entitled to any profit sharing if the slip policies are cancelled before 30 September 2018 except for certain events. No contingent assets have been recognised.

HONG KONG SOLICITORS INDEMNITY FUND LIMITED
(Incorporated by The Law Society of Hong Kong with limited liability)



PROFESSIONAL INDEMNITY SCHEME
2014/2015 ANNUAL REPORT

Copies of the PIS Annual Report are sent to Senior Partners of all Hong Kong law firms. If you do not wish to receive a copy or prefer to receive a scanned copy by email, please let us know by email at maggie@hklawsoc.org.hk.

ISSUED June 2016

**HONG KONG SOLICITORS INDEMNITY
FUND LIMITED**

Directors:-

Peter R. Griffiths (Chairman)
Denis G. Brock
Albert B.K. Dan
Christopher G. Howse
Brian W. Gilchrist
Peter C.L. Lo
Patrick R. Moss
Amirali B. Nasir
Ng Wai Yan
Kevin C.K. Shum
David G. Smyth
Norris H.C. Yang

Members:-

Peter R. Griffiths
Heidi K.P. Chu
Christopher G. Howse
Peter C.L. Lo
Patrick R. Moss
Amirali B. Nasir
Norris H.C. Yang
The Law Society of Hong Kong

Company Secretary:-

ESSAR Insurance Services Ltd.
("ESSAR")

PIS CLAIMS COMMITTEE

Members:-

Brian W. Gilchrist (Chairman)
Colin B. Cohen (Vice-Chairman)
Charles W. Allen
Keith M. Brandt
Tony K.W. Chow
Simon P. Clarke
George D. Lamplough
Jeffrey H. Lane
Ronald W.T. Tong

Secretary:-

ESSAR

**PROFESSIONAL INDEMNITY
ADVISORY COMMITTEE**

Members:-

David G. Smyth (Chairman)
Kevin R. Bowers
Richard Keady
Susan P.S.K. Liang
Ng Wai Yan
Peter K.H. Ngai
Robin S. Peard
Thomas S.T. So
Fiona J. Stewart*
Gareth H. Thomas

* Account Director, ESSAR

Secretary:-

Gigi Liu, Assistant Director, Professional
Indemnity Scheme ("ADPIS")

PIS INVESTMENT SUB-COMMITTEE

Members:-

Peter C.L. Lo (Chairman)
John S. Gale
Ip Shing Hing
Elen Lau
Kher Sheng Lee
Kevin C.K. Shum
Norris H.C. Yang

Secretary:-

ADPIS

PIS PANEL SOLICITORS SELECTION BOARD

Members:-

Wong Kwai Huen (Chairman)
Stephen W.S. Hung
Kenneth S.Y. Ng
Amirali B. Nasir

Secretary:-

ADPIS

WORKING PARTY ON PIS GROSS FEE INCOME REPORTS AND CONTRIBUTIONS

Members:-

Ip Shing Hing (Chairman)
Albert B.K. Dan
Ng Wai Yan
Wong Kwai Huen

Secretary:-

ADPIS

- AUDITORS** : Mazars CPA Limited
- BANKERS** : Credit Agricole Corporate & Investment Bank
The Standard Chartered Bank Limited
- INVESTMENT MANAGERS** : Amundi Hong Kong Limited
AllianceBernstein Hong Kong Limited
MFS Investment Management
Grantham Mayo Van Otterloo
- BROKER** : Aon Hong Kong Limited ("Aon")
- CLAIMS AND SCHEME MANAGER** : ESSAR
(a subsidiary of the Aon Group of Companies)
- PANEL SOLICITORS** : Bird & Bird
(appointed for the period from Deacons
1 February 2013 to 31 January 2018) Fred Kan & Co
Gall
Howse Williams Bowers
P.C. Woo & Co.
Reed Smith Richards Butler
Smyth & Co

Hong Kong Solicitors Indemnity Fund Limited

Registered Office : 3rd Floor, Wing On House, 71 Des Voeux Road, Central, Hong Kong (DX-009100 Central 1)

Registered No. 248603, Company Limited by Guarantee Tel: 2846-0500 Fax: 2845-0387

E-Mail : sg@hklawsoc.org.hk

Home Page : <http://www.hklawsoc.org.hk>

INDEX

THE COMPANY -----	6
THE SCHEME -----	7
INDEMNITY FUND, REINSURANCE, AND INSOLVENCY COVER -----	8
THE SCHEME'S BROKER/MANAGER -----	8
CLAIMS HANDLING PROCEDURE -----	9
TABLE 1 : PROTECTION LIMITS PROVIDED BY THE SCHEME AND REINSURANCE PREMIUMS -----	10
CLAIMS EXPERIENCE	
TABLE 2 : NUMBER OF CLAIMS-----	12
TABLE 3 : CLAIMS PAID AND RESERVED-----	13
TABLE 4 : APPORTIONMENT OF CLAIM PAYMENTS-----	14
TABLE 5 : APPORTIONMENT OF CLAIM RESERVES-----	15
TABLE 6 : PANEL SOLICITORS' COSTS AS A PROPORTION OF CLAIM PAYMENTS AND RESERVES-----	16
TABLE 7 : COMPARISON OF REINSURANCE PREMIUMS PAID, CONTRIBUTIONS COLLECTED AND CLAIMS LOSSES-----	17
TABLE 8 : COMPARISON OF CONTRIBUTIONS AND CLAIMS BY FIRM SIZE-----	18
TABLE 9 : CONTRIBUTIONS AND CLAIMS LOADINGS-----	19
TABLE 10 : COMPARISON OF CONTRIBUTIONS AND GROSS FEE INCOME-----	20
TABLE 11 : COMPARISON OF CONTRIBUTIONS AND GROSS FEE INCOME BY FIRM SIZE-----	21
TABLE 12 : DEVELOPMENT OF CLAIMS-----	22
TABLE 13 : OUTSTANDING LIABILITIES OF THE FUND-----	23
TABLE 14 : COMPARISON OF CONTRIBUTIONS, CLAIM LOADINGS AND LOSSES--	24
TABLE 15 : FREQUENCY OF CLAIMS BY AREA OF PRACTICE-----	25
TABLE 16 : VALUE OF CLAIMS BY AREA OF PRACTICE-----	26
TABLE 17 : NUMBER OF CLAIMS BY TYPE OF ERRORS IN CONVEYANCING-----	27
TABLE 18 : VALUE OF CLAIMS BY TYPE OF ERRORS IN CONVEYANCING-----	28
TABLE 19 : LOSS RATIOS-----	29
TABLE 20 : ANTICIPATED MAXIMUM SHORTFALL AS A RESULT OF THE	

<i>INSOLVENCY OF HIH CASUALTY AND GENERAL INSURANCE LTD. ("HIH"), FAI GENERAL INSURANCE COMPANY LIMITED ("FAI") AND FAI FIRST PACIFIC INSURANCE CO. LTD. ("FAI PACIFIC") AS AT 30 SEPTEMBER 2015</i>	<i>30</i>
--	-----------

ONGOING ISSUES

1. HIH REINSURERS	31
2. QUALIFYING INSURERS SCHEME OR OTHER ALTERNATIVES	31

PERFORMANCE OF THE FUND'S INVESTMENTS	33
--	-----------

CONCLUSION	34
-------------------	-----------

AUDITED FINANCIAL STATEMENTS OF THE FUND	35
---	-----------

THE COMPANY

The Hong Kong Solicitors Indemnity Fund Ltd. ("Company") is a company limited by guarantee with no share capital. It was set up by The Law Society of Hong Kong ("Society") on 14 April, 1989 to hold, manage and administer the Solicitors Indemnity Fund ("Fund") under the Professional Indemnity Scheme ("Scheme"). As the Company's business is to manage the Scheme and provide indemnity to members through the Fund, and not to operate an insurance business, it does not fall within the provisions of the Insurance Companies Ordinance Cap. 41.

This report from the Directors of the Company gives an account of the activities of the Scheme. The Scheme began operation as an indemnity fund scheme in 1986 after having operated for six years as an ordinary insurance scheme under which firms were issued insurance policies by an independent insurance company on terms negotiated by the Society. During those six years, a significant number of claims were made against solicitors resulting in substantial payments. The underwriters demanded a substantial increase in premiums and the statutory indemnity fund scheme was established to provide the necessary cover by the Society. The Scheme is governed by the Solicitors (Professional Indemnity) Rules ("the Rules") Cap. 159M which set out the scope and conditions of cover.

Since the Fund is neither a person nor does it carry on a trade, profession or business for the purpose of S14 of the Inland Revenue Ordinance, Cap. 112, it is not liable to Hong Kong taxation.

The Directors are responsible for the production of accounts for each indemnity year to provide a true and fair view of the Fund's financial transactions and of the disposition of the Fund's assets and liabilities. It is also the responsibility of the Directors to ensure that proper accounting records are kept which disclose with reasonable accuracy at any time the Fund's financial transactions and assets and liabilities.

Although the auditing of the accounts of the Fund is not a statutory requirement, the Council of the Society ("Council") considers that in the interests of the Society and its members the Fund's financial position should be annually audited. There is included in this report a reproduction of the audited accounts of the Fund for the indemnity year ended 30 September 2015.

There is a division of responsibility between the Company and the Society's Council.

*The **Company** is concerned with the management and administration of the Fund subject to directions by the Council. It considers the recommendations of the Claims Committee, the Professional Indemnity Advisory Committee and the PIS Investment Sub-Committee and advises the Council on matters pertaining to the smooth and effective operation of the Scheme.*

*The **Council** is responsible for the appointment of the Company's Directors, Panel Solicitors and Committee Members and the enforcement of the Rules. It also supervises the PIS Investment Sub-Committee and monitors the investments of the Fund in conjunction with the Company.*

*The **Claims Committee** supervises the conduct and settlement of claims.*

*The **Professional Indemnity Advisory Committee** reviews, examines and advises on any issue relating to professional indemnity referred to it by the Council, the Company and the Claims Committee.*

*The **PIS Investment Sub-Committee** was established by the Company for the purpose of reviewing the investment guidelines and performance of the investments of the Fund.*

*The **PIS Panel Solicitors Selection Board** was established by the Council. Its responsibilities are to establish the procedures necessary for the tendering of panel solicitors for the Scheme and to consider all tender applications and make recommendations to the Council to appoint suitably qualified firms to the panel.*

*The **Working Party on PIS Gross Fee Income Reports and Contributions** is responsible for considering and making recommendations to the Council on the appropriate action to be taken against those firms which have, in breach of the Rules, failed to submit an application for indemnity and/or a gross fee income report relating to their annual gross fee income or failed to pay their annual contributions.*

All Company Directors and all Committee Members serve on a voluntary basis and receive no remuneration from either the Company or the Society.

THE SCHEME

The Scheme, subject to the conditions and exclusions set out in the Rules, provides solicitors with indemnity against losses arising from claims in respect of civil liability incurred in private practice.

The Scheme's limit of indemnity for each and every claim was increased from HK\$5 million (inclusive of costs) to HK\$10 million (inclusive of costs) on 1 October, 1994.

Some firms have "top-up" insurance in place to cover claims in excess of HK\$10 million. The procurement of such cover, and the amount of the top-up cover, are matters for each individual firm to determine based on the level of risk attached to the work conducted by the firm.

As at 30 September 2015, the total liability incurred by the Scheme for the 2014/15 indemnity year was HK\$19,542,853 of which HK\$3,616,022 was in respect of claim payments (including costs) and HK\$15,926,831 was in respect of claim reserves. Since the inception of the Scheme in 1986 and up to 30 September 2015, the Scheme paid a total of HK\$1,844,389,439 on claims (including costs), and the amount reserved in respect of claims is HK\$168,750,836.

INDEMNITY FUND, REINSURANCE, AND INSOLVENCY COVER

The Scheme's limit of indemnity for each and every claim is HK\$10 million (inclusive of costs). Prior to 1 October 2001, the first HK\$1 million of each claim was paid from the Fund and the remainder was provided by reinsurance. This level of retention was increased to HK\$1.5 million from 1 October 2001 to 30 September 2005.

On 1 October 2005, the Fund has entered into reinsurance arrangements with reinsurers whereby the Fund would be responsible for all claims up to an aggregate amount of HK\$100m (inclusive of costs) and all liability in excess of HK\$100m would be borne by reinsurers. The Company has further extended the programme for another 4 years from 1 October 2009 to 30 September 2013.

On 1 October 2013, the Fund's reinsurance arrangements were renewed with reinsurers for 5 years up to 30 September 2018. Under the new arrangements, the Fund would be responsible for all claims up to an annual aggregate amount of HK\$125m (inclusive of costs) and all liability in excess of HK\$125m would be borne by reinsurers.

An insolvency cover runs in tandem with the reinsurance programme from 1 October 2008 to 30 September 2013. It covers the Fund against the insolvency of one or more of its reinsurers and has been renewed for 5 years up to 30 September 2018.

The Company also took out stop loss insurance prior to 1 October 2001 to limit the aggregate liability of its retention. Where the stop loss limit was exhausted, a drop-down policy was available to cover all claims up to the Scheme's liability limit of HK\$10 million per claim. The stop loss and drop down policies expired on 30 September 2001 and Aon was instructed to arrange renewal of cover. The quotations obtained were considered carefully by the Company and the Council but it was decided the proposed coverage was not, on balance, the best value for money. No stop loss cover was purchased until 1 October 2005 when the above reinsurance arrangements, which could be categorised as stop loss cover without limit, was put in place.

The limits of liability retained by the Indemnity Fund, the cover provided by stop loss insurance and the amounts of reinsurance premiums paid by the Fund over twenty-nine indemnity years up to 2014/15 are shown in Table 1 on page 10.

THE SCHEME'S BROKER AND MANAGER ("Manager")

A tender was conducted in 2009 and Aon and ESSAR had been reappointed as the Manager for the period from 1 April 2010 to 31 March 2014. In 2013, the contract has been extended for 4 years up to 31 March 2018.

Aon is responsible for advising the Company on the state of the insurance market and the appropriate reinsurance arrangements and reporting on the financial viability of any underwriter who participates in the Scheme. It is also responsible for conveying the needs of the Scheme to underwriters and negotiating with them the best reinsurance terms for the Scheme.

The Fund places reinsurance with companies which have appropriate international ratings and/or which are regulated by the Hong Kong Insurance Authority.

The Manager handles claims with the assistance of Panel Solicitors and under the

supervision of the Claims Committee, collects contributions and maintains proper accounting and statistical records of claims.

Under the brokerage and management agreement between Aon, ESSAR and the Company, Aon agreed to refund all brokerage commission and compensation negotiated with and received by Aon from reinsurers to the Company. A total of HK\$37,425,295.88 was rebated from 1 October 2000 to 30 September 2005 for the placement of reinsurance. All reinsurance premiums paid since 1 October 2005 do not carry any brokerage. HK\$1,800,000 was rebated as brokerage for the placement of the insolvency cover in the first 2 years of the 5 year programme.

CLAIMS HANDLING PROCEDURE

The manner in which claims are handled and reserved is contingent upon the ability to assess, as accurately as possible, the amount at which each claim is likely to be settled which, in turn, determines the true position of the Fund.

The Manager takes the initial step in opening a file upon receipt of a notification of a claim or a potential claim. As for claims (as distinct from potential claims), a reserve is placed on the claim upon completion of a preliminary investigation. Reserves are, therefore, funds set aside for unsettled claims and they represent the Fund's potential liabilities. The amount reserved is the estimated quantum of damages and costs (including defence costs) calculated on the assumption of full liability, taking into account the individual circumstances and the savings that might result from disputing either liability or quantum or both. As the matter proceeds and further information becomes available, the amount of reserve is adjusted accordingly. Thus, the progress of each claim for each individual year is re-assessed at regular (six-monthly) intervals until all claims for that year have been settled or otherwise disposed of. Experience shows that claims can sometimes take up to six years to finalize.

TABLE 1

PROTECTION LIMITS PROVIDED BY THE SCHEME AND REINSURANCE PREMIUMS

Indemnity Year	No. of members holding practising certificate	Limit of liability of the Indemnity Fund (HK\$)	Stop Loss Cover (HK\$)	Excess of Loss Insurance Premium (HK\$)	Stop Loss Insurance Premium (HK\$)	Insolvency Cover Premium (HK\$)	Total Insurance Premium Paid Per Year (HK\$)
1986/87	1,807	25,000,000	50,000,000	5,500,000	1,350,000	--	6,850,000
1987/88	1,998	25,000,000	25,000,000	12,500,000	1,720,000	--	14,220,000
1988/89	2,152	30,000,000	20,000,000	15,500,000	1,600,000	--	17,100,000
1989/90	2,326	30,000,000	20,000,000	19,500,000	1,500,000	--	21,000,000
1990/91	2,479	30,000,000	20,000,000	22,500,000	1,500,000	--	24,000,000
1991/92	2,721	30,000,000	40,000,000	24,700,000	5,250,000	--	29,950,000
1992/93	2,981	30,000,000	60,000,000	26,000,000	5,650,000	--	31,650,000
1993/94	3,307	30,000,000	60,000,000	29,500,000	5,650,000	--	35,150,000
1994/95	3,596	30,000,000	60,000,000	42,500,000	6,515,000	--	49,015,000
1995/96	3,896	30,000,000	60,000,000	42,500,000	7,675,000	--	50,175,000
1996/97	4,309	30,000,000	90,000,000	37,750,000	8,440,000	--	46,190,000
1997/98	4,619	30,000,000	90,000,000	45,000,000	7,755,000	--	52,755,000
1998/99	4,720	90,000,000 (for 3 years)	100,000,000 (for 3 years)	100,230,300 (for 2 years)	8,868,750 (for 3 years)	--	109,099,050
1999/2000	4,890	--	--	--	--	--	--
2000/01	5,070	--	--	83,232,650	--	--	123,253,900
				40,021,250 ¹	--	--	
2001/02	5,173	--	--	95,262,865.81	--	--	95,262,865.81
2002/03	5,301	--	--	128,899,595.32	--	--	128,899,595.32
2003/04	5,422	--	--	172,230,412.38	--	--	172,230,412.38
2004/05	5,593	--	--	218,023,353.30	--	--	218,023,353.30
2005/06	5,757	100,000,000	Unlimited	--	75,000,000	--	75,000,000
2006/07	5,925	100,000,000	Unlimited	--	79,500,000	--	79,500,000
2007/08	6,205	100,000,000	Unlimited	--	79,500,000	--	79,500,000
2008/09	6,465	100,000,000	Unlimited	--	79,500,000	4,100,000	83,600,000
2009/10	6,782	100,000,000	Unlimited	--	79,500,000	7,069,503 ²	86,569,503
2010/11	7,149	100,000,000	Unlimited	--	79,500,000	11,679,500	91,179,500
2011/12	7,381	100,000,000	Unlimited	--	79,500,000	13,729,500	93,229,500
2012/13	7,717	100,000,000	Unlimited	--	79,500,000	13,729,500	93,229,500
2013/14	8,111	125,000,000	Unlimited	--	65,000,000	9,500,000	74,500,000
2014/15	8,503	125,000,000	Unlimited	--	65,000,000	9,500,000	74,500,000

Note:

(1) Amount paid to reinsurers in place of HIH.

(2) Includes pro-rated premium for insolvency cover arranged with effect from 11 May 2010. Please refer to page 8 for details of insolvency cover.

CLAIMS EXPERIENCE

The statistics in Table 2 to Table 20 of this report are set out with the following remarks:-

- (a) *It is often difficult to determine under which category a particular claim should fall, given the fact that, among other things, many claims are borderline cases; therefore, the classification of claims should not be treated as conclusive;*
- (b) *A claim which has been allocated to the current indemnity year may at a later time be allocated to the preceding indemnity year if there was insufficient information available at the time of the notification to determine the exact date when the Indemnified should have become aware of circumstances giving rise to the claim;*
- (c) *A claim may sometimes be settled by the Indemnified without indemnity being sought from the Scheme if the cost of the claim is lower than the Indemnified firm's deductible. The statistics therefore do not include all those claims which have been lodged but settled outside the Scheme;*
- (d) *With the exception of Table 2, the claims statistics in the tables are computed on the basis of data collected up to 30 September 2015 excluding the grace period for notification of claims. The statistics for the 2014/15 indemnity year are therefore to that extent incomplete;*
- (e) *All data have been calculated to their nearest decimal point.*

TABLE 2**NUMBER OF CLAIMS INCLUDING NOTIFICATIONS CALCULATED AS AT 30 SEPTEMBER 2015 IN ACCORDANCE WITH THE CLAIMS CLASSIFICATION PROCEDURE ADOPTED BY ESSAR**

Indemnity Year	Number of Claims	Percentage Increase/Decrease from previous year
1986/1987	64	-
1987/1988	58	-9%
1988/1989	126	117%
1989/1990	178	41%
1990/1991	72	-60%
1991/1992	93	29%
1992/1993	118	27%
1993/1994	143	21%
1994/1995	151	6%
1995/1996	150	-1%
1996/1997	176	17%
1997/1998	336	91%
1998/1999	483	44%
1999/2000	263	-46%
2000/2001	230	-13%
2001/2002	215	-7%
2002/2003	269	25%
2003/2004	165	-39%
2004/2005	159	-4%
2005/2006	165	4%
2006/2007	142	-14%
2007/2008	309	118%
2008/2009	147	-52%
2009/2010	139	-5%
2010/2011	174	25%
2011/2012	127	-27%
2012/2013	241	90%
2013/2014	150	-38%
2014/2015	133	-11%

Note : (1) Number of claims includes claims notified within the grace period.

(2) Percentage increase/decrease in the table has been calculated to the nearest decimal point.

TABLE 3
CLAIMS PAID AND RESERVED AS AT 30 SEPTEMBER 2015

Indemnity Year	Total Claim Payments (HK\$)	Total Claim Reserves (HK\$)	Total Claim Payments & Reserves (HK\$)
1986/1987	24,843,393	-	24,843,393
1987/1988	13,673,564	-	13,673,564
1988/1989	29,291,950	-	29,291,950
1989/1990	12,470,291	-	12,470,291
1990/1991	7,581,520	-	7,581,520
1991/1992	8,663,605	-	8,663,605
1992/1993	40,361,002	-	40,361,002
1993/1994	33,580,438	-	33,580,438
1994/1995	55,427,105	192,446	55,619,551
1995/1996	80,837,814	-	80,837,814
1996/1997	77,667,007	25,376	77,692,383
1997/1998	186,915,392	-	186,915,392
1998/1999	399,131,115	2,174,271	401,305,386
1999/2000	81,993,132	131,141	82,124,273
2000/2001	66,826,302	156,269	66,982,571
2001/2002	85,127,971	2,235,216	87,363,187
2002/2003	74,154,020	100,000	74,254,020
2003/2004	63,334,034	176,990	63,511,024
2004/2005	67,253,868	1,762,839	69,016,707
2005/2006	76,987,066	330,495	77,317,561
2006/2007	33,336,237	6,206,667	39,542,904
2007/2008	35,618,603	5,480,885	41,099,488
2008/2009	67,237,447	2,151,431	69,388,878
2009/2010	68,929,957	15,417,106	84,347,063
2010/2011	42,819,440	34,553,253	77,372,693
2011/2012	41,469,219	13,052,211	54,521,430
2012/2013	40,804,045	18,570,447	59,374,492
2013/2014	24,437,880	50,106,962	74,544,842
2014/2015	3,616,022	15,926,831	19,542,853
Total	1,844,389,439	168,750,836	2,013,140,275

- Note: (1) An indemnity year begins on 1 October and ends on 30 September of the following year. There is a grace period of 60 days for notifying claims arising or circumstances giving rise to a claim within an indemnity year: hence claims may be notified on or before 29 November in respect of the indemnity year ended on the preceding 30 September.
- (2) The table shows the amount of claims paid out in respect of the indemnity year 1986/87 to 2014/15.
- (3) A payment in respect of a claim notified in an indemnity year is often paid after the indemnity year in which the claim was notified. The table is NOT a representation of amounts paid within the indemnity years in question, but shows the amounts paid IN RESPECT OF the claims notified in each of those indemnity years. As further claims are paid these amounts will be adjusted.
- (4) Claim payments include payments in respect of settlement or judgment of a claim, claimants' costs, costs for defending claims and indemnity investigation.
- (5) Claim reserves include reserves for the quantum of a claim, reserves for claimants' costs and defence costs.

TABLE 4
APPORTIONMENT OF CLAIM PAYMENTS AS AT 30 SEPTEMBER 2015

Indemnity Year	Total claim payments (HK\$)	Claim payments which fall within the Fund's retention (HK\$)	% of claim payments borne by the Fund	Claim payments borne by reinsurers (HK\$)	% of claim payments borne by reinsurers	Deductibles paid by indemnified firms (HK\$)	Deductibles as a % of claim payments
1986/87	24,843,393	6,922,847	27.9%	16,460,546	66.3%	1,460,000	5.9%
1987/88	13,673,564	8,174,223	59.8%	2,974,341	21.8%	2,525,000	18.5%
1988/89	29,291,950	10,058,813	34.3%	17,445,224	59.6%	1,787,913	6.1%
1989/90	12,470,291	10,123,428	81.2%	1,236,863	9.9%	1,110,000	8.9%
1990/91	7,581,520	3,846,085	50.7%	3,098,303	40.9%	637,132	8.4%
1991/92	8,663,605	3,746,767	43.2%	4,000,000	46.2%	916,838	10.6%
1992/93	40,361,002	18,284,644	45.3%	19,227,867	47.6%	2,848,491	7.1%
1993/94	33,580,438	12,806,906	38.1%	13,682,797	40.7%	7,090,735	21.1%
1994/95	55,427,105	18,344,604	33.1%	34,223,830	61.7%	2,858,671	5.2%
1995/96	80,837,814	22,752,567	28.1%	54,076,003	66.9%	4,009,244	5.0%
1996/97	77,667,007	35,139,320	45.2%	36,692,472	47.2%	5,835,215	7.5%
1997/98	186,915,392	60,723,978	32.5%	117,589,329	62.9%	8,602,085	4.6%
1998/99	399,131,115	145,360,354	36.4%	233,769,232	58.6%	20,001,529	5.0%
1999/00	81,993,132	31,229,635	38.1%	45,006,921	54.9%	5,756,576	7.0%
2000/01	66,826,302	29,490,587	44.1%	32,582,034	48.8%	4,753,681	7.1%
2001/02	85,127,971	32,905,555	38.7%	48,424,609	56.9%	3,797,807	4.5%
2002/03	74,154,020	30,526,964	41.2%	39,587,203	53.4%	4,039,853	5.4%
2003/04	63,334,034	25,450,457	40.2%	34,408,880	54.3%	3,474,697	5.5%
2004/05	67,253,868	23,275,213	34.6%	40,722,755	60.6%	3,255,900	4.8%
2005/06	76,987,066	73,265,476	95.2%	-	0.0%	3,721,590	4.8%
2006/07	33,336,237	30,921,292	92.8%	-	0.0%	2,414,945	7.2%
2007/08	35,618,603	33,037,858	92.8%	-	0.0%	2,580,745	7.2%
2008/09	67,237,447	62,624,947	93.1%	-	0.0%	4,612,500	6.9%
2009/10	68,929,957	66,402,895	96.3%	-	0.0%	2,527,062	3.7%
2010/11	42,819,440	40,021,110	93.5%	-	0.0%	2,798,330	6.5%
2011/12	41,469,219	38,256,887	92.3%	-	0.0%	3,212,332	7.7%
2012/13	40,804,045	39,050,594	95.7%	-	0.0%	1,753,451	4.3%
2013/14	24,437,880	23,570,380	96.5%	-	0.0%	867,500	3.5%
2014/15	3,616,022	3,496,022	96.7%	-	0.0%	120,000	3.3%
Total	1,844,389,439	939,810,408	51.0%	795,209,209	43.1%	109,369,822	5.9%

Note: The percentages of the claim payments borne by the Fund and by the reinsurers and the deductibles are calculated to the nearest decimal point only. The aggregation of these percentages in respect of each indemnity year may not therefore add up to 100%.

TABLE 5
APPORTIONMENT OF CLAIM RESERVES AS AT 30 SEPTEMBER 2015

<i>Indemnity Year</i>	<i>Total claim reserves (HK\$)</i>	<i>Claim reserves to be borne by the Fund (HK\$)</i>	<i>% of reserves borne by the Fund</i>	<i>Claim reserves to be borne by reinsurers (HK\$)</i>	<i>% of reserves borne by reinsurers</i>
1986/87	-	-	-	-	-
1987/88	-	-	-	-	-
1988/89	-	-	-	-	-
1989/90	-	-	-	-	-
1990/91	-	-	-	-	-
1991/92	-	-	-	-	-
1992/93	-	-	-	-	-
1993/94	-	-	-	-	-
1994/95	192,446	92,446	48.0%	100,000	52.0%
1995/96	-	-	-	-	-
1996/97	25,376	25,376	100.0%	-	-
1997/98	-	-	-	-	-
1998/99	2,174,271	4,676	0.2%	2,169,595	99.8%
1999/00	131,141	131,141	100.0%	-	-
2000/01	156,269	100,000	64.0%	56,269	36.0%
2001/02	2,235,216	293,388	13.1%	1,941,828	86.9%
2002/03	100,000	-	-	100,000	100.0%
2003/04	176,990	176,990	100.0%	-	-
2004/05	1,762,839	1,762,839	100.0%	-	-
2005/06	330,495	330,495	100.0%	-	-
2006/07	6,206,667	6,206,667	100.0%	-	-
2007/08	5,480,885	5,480,885	100.0%	-	-
2008/09	2,151,431	2,151,431	100.0%	-	-
2009/10	15,417,106	15,417,106	100.0%	-	-
2010/11	34,553,253	34,553,253	100.0%	-	-
2011/12	13,052,211	13,052,211	100.0%	-	-
2012/13	18,570,447	18,570,447	100.0%	-	-
2013/14	50,106,962	50,106,962	100.0%	-	-
2014/15	15,926,831	15,926,831	100.0%	-	-
Total	168,750,836	164,383,144	97.4%	4,367,692	2.6%

Note: All claims notified in the 1986/87, 1987/88, 1988/89, 1989/90, 1990/91, 1991/92, 1992/93, 1993/94, 1995/96 and 1997/98 indemnity years have been settled. There is no outstanding reserve for the claims in those indemnity years.

TABLE 6

PANEL SOLICITORS' COSTS AS AT 30 SEPTEMBER 2015 AS A PROPORTION OF CLAIM PAYMENTS AND CLAIM RESERVES

<i>Indemnity Year</i>	<i>Total claim payments (HK\$)</i>	<i>Panel Solicitors' costs (HK\$)</i>	<i>Panel Solicitors' costs as a % of claim payments</i>	<i>Total claim reserves (HK\$)</i>	<i>Reserves for Panel Solicitors' costs (HK\$)</i>	<i>Reserves for Panel Solicitors' costs as a % of claim reserves</i>
1986/87	24,843,393	5,174,616	20.8%	-	-	-
1987/88	13,673,564	5,381,029	39.4%	-	-	-
1988/89	29,291,950	7,111,194	24.3%	-	-	-
1989/90	12,470,291	7,995,055	64.1%	-	-	-
1990/91	7,581,520	3,344,250	44.1%	-	-	-
1991/92	8,663,605	3,327,344	38.4%	-	-	-
1992/93	40,361,002	9,927,565	24.6%	-	-	-
1993/94	33,580,438	15,663,625	46.6%	-	-	-
1994/95	55,427,105	11,514,145	20.8%	192,446	192,446	100.0%
1995/96	80,837,814	19,064,073	23.6%	-	-	-
1996/97	77,667,007	21,332,822	27.5%	25,376	25,376	100.0%
1997/98	186,915,392	54,537,290	29.2%	-	-	-
1998/99	399,131,115	104,521,056	26.2%	2,174,271	174,271	8.0%
1999/00	81,993,132	34,256,831	41.8%	131,141	81,141	61.9%
2000/01	66,826,302	26,824,696	40.1%	156,269	156,269	100.0%
2001/02	85,127,971	42,801,244	50.3%	2,235,216	110,216	4.9%
2002/03	74,154,020	27,900,719	37.6%	100,000	-	-
2003/04	63,334,034	19,894,067	31.4%	176,990	126,990	71.7%
2004/05	67,253,868	12,810,926	19.0%	1,762,839	1,762,839	100.0%
2005/06	76,987,066	33,701,661	43.8%	330,495	130,495	39.5%
2006/07	33,336,237	10,352,881	31.1%	6,206,667	656,667	10.6%
2007/08	35,618,603	14,247,374	40.0%	5,480,885	480,885	8.8%
2008/09	67,237,447	24,386,876	36.3%	2,151,431	501,431	23.3%
2009/10	68,929,957	26,056,935	37.8%	15,417,106	2,866,948	18.6%
2010/11	42,819,440	22,938,169	53.6%	34,553,253	2,293,916	6.6%
2011/12	41,469,219	17,023,008	41.0%	13,052,211	552,211	4.2%
2012/13	40,804,045	17,380,195	42.6%	18,570,447	3,442,399	18.5%
2013/14	24,437,880	17,984,703	73.6%	50,106,962	6,737,847	13.4%
2014/15	3,616,022	3,616,022	100.0%	15,926,831	2,926,831	18.4%
Total	1,844,389,439	621,070,371	33.7%	168,750,836	23,219,178	13.8%

TABLE 7**COMPARISON OF REINSURANCE PREMIUMS PAID, CONTRIBUTIONS COLLECTED AND CLAIMS LOSSES**

Indemnity Year	Claims Losses (HK\$ million)	Annual Contributions (HK\$)	No. of Claims	Contractual Reinsurance Premium (HK\$)	Actual Reinsurance Premium (HK\$)
1998/1999	401.3	112,178,110	483	109,099,050	109,099,050
1999/2000	82.1	85,231,403	263	2 years excess of loss 3 years stop loss	
2000/2001	67.0	95,910,707	230	83,232,650	123,253,900 (40,021,250 for HIH Replacement)
2001/2002	87.4	236,886,755	215	113,625,000	95,262,865.81
2002/2003	74.3	222,237,005	269	164,756,250	128,899,595.32
2003/2004	63.5	219,607,685	165	238,896,563	172,230,412.38
2004/2005	69.0	217,611,219	159	340,427,602	218,023,353.30
2005/2006	77.3	242,335,709	165	75,000,000	75,000,000
2006/2007	39.5	256,756,900	142	79,500,000	79,500,000
2007/2008	41.1	283,223,840	309	79,500,000	79,500,000
2008/2009	69.4	318,613,840	147	79,500,000	79,500,000
2009/2010	84.3	301,445,650	139	79,500,000	79,500,000
2010/2011	77.4	309,996,404	174	79,500,000	79,500,000
2011/2012	54.5	362,665,656	127	79,500,000	79,500,000
2012/2013	59.4	366,030,827	241	79,500,000	79,500,000
2013/2014	74.5	369,460,742	150	65,000,000	65,000,000
2014/2015	19.5	390,057,677	133	65,000,000	65,000,000

Note :

- (1) Claims Losses include claim payments and reserves and are calculated to the nearest decimal point.
- (2) Annual Contributions include claims loadings.
- (3) Contractual reinsurance premiums differ from actual premiums paid as the 5-year reinsurance programme (from 2000/2001 to 2004/2005) provided for a reduction in premium should there be a decrease in claims during the 5 years.
- (4) Contribution before reduction is used for 2010/2011, 2011/2012, 2013/2014 and 2014/2015 indemnity years.
- (5) Adjustment to Contribution reduction for 2010/2011 and 2011/2012 are included in 2013/2014 and 2014/2015 indemnity year respectively.

TABLE 8

**COMPARISON OF CONTRIBUTIONS AND CLAIMS BY FIRM SIZE
(1 OCTOBER 2014 - 30 SEPTEMBER 2015)
(including firms which ceased practice and firms which changed names)**

No. of Solicitors in Firm	No. of Firms	No. of Firms with Claims	% of Firms with Claims	Total No. of Claims	% of Total No. of Claims	Contribution Payments (HK\$ thousand)	Claim Payments (HK\$ thousand)	Claim Reserves (HK\$ thousand)
1	191	3	1.57%	3	2.26%	13,937.1	0.0	0.0
2 to 5	432	33	7.64%	40	30.08%	84,894.1	1,508.4	2,898.7
6 to 10	128	11	8.59%	14	10.53%	59,794.0	632.2	1,396.9
11 to 20	63	12	19.05%	18	13.53%	48,384.4	701.2	1,203.2
21 to 30	28	6	21.43%	10	7.52%	46,982.3	212.4	10,350.0
31 to 50	20	8	40.00%	17	12.78%	41,140.9	0.0	0.0
Over 50	15	8	53.33%	31	23.31%	94,924.9	561.8	78.0
Total	877	81	9.24%	133		390,057.7	3,616.0	15,926.8

*Note: The percentages of the number of claims are calculated to the nearest decimal point only.
The aggregation of these percentages may not therefore add up to 100%.*

Contribution before reduction is used for 2014/2015 indemnity year.

Adjustment to Contribution reduction for 2011/2012 is included in 2014/2015 indemnity year.

TABLE 9

CONTRIBUTIONS AND CLAIMS LOADINGS
(1 OCTOBER 2014 – 30 SEPTEMBER 2015)
(including firms which ceased practice and firms which changed names)

No. of Solicitors in Firm	No. of Firms	No. of Firms with Claims Loadings	% of Firms with Claims Loadings	Contribution Payments (HK\$ thousand)	Claims Loadings (HK\$ thousand)	Claims Loadings as a % of Contribution Payments
1	191	1	0.52%	13,937.1	191.1	1.37%
2 to 5	432	24	5.56%	84,894.1	2,281.0	2.69%
6 to 10	128	9	7.03%	59,794.0	1,276.3	2.13%
11 to 20	63	4	6.35%	48,384.4	1,529.4	3.16%
21 to 30	28	2	7.14%	46,982.3	690.0	1.47%
31 to 50	20	2	10.00%	41,140.9	1,248.8	3.04%
Over 50	15	3	20.00%	94,924.9	1,306.2	1.38%
Total	877	45	5.13%	390,057.7	8,522.8	2.19%

Note: Contribution before reduction is used for 2014/2015 indemnity year.

Adjustment to Contribution reduction for 2011/2012 is included in 2014/2015 indemnity year.

TABLE 10**COMPARISON OF CONTRIBUTIONS AND GROSS FEE INCOME AS AT 30 SEPTEMBER 2015**

Indemnity Year	Gross Fees of the Profession (HK\$)	Contribution Payments (HK\$)	Contributions as a % of Gross Fees
1997/98	11,786,875,405	106,778,078	0.91%
1998/99	13,111,052,058	112,178,110	0.86%
1999/00	11,089,453,975	85,231,403	0.77%
2000/01	11,015,561,030	95,910,707	0.87%
2001/02	11,619,410,157	236,886,755	2.04%
2002/03	11,221,835,142	355,129,255 *	3.16%
2003/04	10,921,884,902	219,607,685	2.01%
2004/05	10,635,107,496	217,611,219	2.05%
2005/06	11,725,199,370	242,335,709	2.07%
2006/07	12,906,183,745	256,756,900	1.99%
2007/08	15,069,395,251	283,223,840	1.88%
2008/09	18,446,786,551	318,613,840	1.73%
2009/10	18,586,558,400	301,445,650	1.62%
2010/11	18,337,954,982	309,996,404	1.69%
2011/12	20,980,069,083	362,665,656	1.73%
2012/13	22,091,586,220	366,030,827	1.66%
2013/14	22,910,937,538	369,460,742	1.61%
2014/15	25,195,546,098	390,057,677	1.55%

Note :

(1) Contribution before reduction is used for 2010/2011, 2011/2012, 2013/2014 and 2014/2015 indemnity years.

(2) Adjustment to Contribution reduction for 2010/2011 and 2011/2012 are included in 2013/2014 and 2014/2015 indemnity year respectively.

* Shortfall Contributions are included in the Contributions collected for the 2002/03 indemnity year.

TABLE 11**COMPARISON OF CONTRIBUTIONS AND GROSS FEE INCOME BY FIRM SIZE
(1 OCTOBER 2014 – 30 SEPTEMBER 2015)
(including firms which ceased practice)**

No. of Solicitors in Firm	No. of Firms	Gross Fees of the Profession (HK\$)	Contribution Payments (HK\$)	Contribution Payments as a % of Gross Fee Income
1	191	330,970,365	13,937,067	4.21%
2 to 5	432	2,700,462,336	84,894,142	3.14%
6 to 10	128	2,575,569,711	59,793,952	2.32%
11 to 20	63	2,792,964,271	48,384,409	1.73%
21 to 30	28	4,198,647,745	46,982,291	1.12%
31 to 50	20	3,350,102,346	41,140,866	1.23%
Over 50	15	9,246,829,324	94,924,950	1.03%
<i>Total</i>	<i>877</i>	<i>25,195,546,098</i>	<i>390,057,677</i>	<i>1.55%</i>

Note: Contribution before reduction is used for 2014/2015 indemnity year.

Adjustment to Contribution reduction for 2011/2012 is included in 2014/2015 indemnity year.

TABLE 12 - DEVELOPMENT OF CLAIMS AS AT 30 SEPTEMBER 2015

Indemnity Year	Claims Closed		Claims Outstanding		Total
	With Payment	Without Payment	With Reserve or Payment	Without Reserve or Payment	
1986/1987	26	38	0	0	64
1987/1988	27	31	0	0	58
1988/1989	41	85	0	0	126
1989/1990	117	61	0	0	178
1990/1991	15	57	0	0	72
1991/1992	22	71	0	0	93
1992/1993	51	67	0	0	118
1993/1994	66	77	0	0	143
1994/1995	36	113	2	0	151
1995/1996	44	106	0	0	150
1996/1997	59	115	2	0	176
1997/1998	128	208	0	0	336
1998/1999	298	182	3	0	483
1999/2000	67	195	1	0	263
2000/2001	58	166	5	1	230
2001/2002	58	151	3	3	215
2002/2003	50	216	3	0	269
2003/2004	39	123	3	0	165
2004/2005	26	129	2	2	159
2005/2006	25	137	2	1	165
2006/2007	21	113	6	2	142
2007/2008	27	275	3	4	309
2008/2009	25	88	6	28	147
2009/2010	19	52	7	61	139
2010/2011	9	51	10	104	174
2011/2012	21	26	10	70	127
2012/2013	8	33	24	176	241
2013/2014	1	18	26	105	150
2014/2015	0	8	11	114	133
TOTAL	1,384	2,992	129	671	5,176

TABLE 13
OUTSTANDING LIABILITIES OF THE FUND

Indemnity Year	Total Claim Payments (HK\$)	Total Claim Reserves (HK\$)	Total Claim Payments & Reserves (HK\$)	Outstanding Liabilities of the Fund (HK\$)
1986/1987	24,843,393	-	24,843,393	-
1987/1988	13,673,564	-	13,673,564	-
1988/1989	29,291,950	-	29,291,950	-
1989/1990	12,470,291	-	12,470,291	-
1990/1991	7,581,520	-	7,581,520	-
1991/1992	8,663,605	-	8,663,605	-
1992/1993	40,361,002	-	40,361,002	-
1993/1994	33,580,438	-	33,580,438	-
1994/1995	55,427,105	192,446	55,619,551	176,446
1995/1996	80,837,814	-	80,837,814	-
1996/1997	77,667,007	25,376	77,692,383	8,882
1997/1998	186,915,392	-	186,915,392	-
1998/1999	399,131,115	2,174,271	401,305,386	} 10,000,833
1999/2000	81,993,132	131,141	82,124,273	
2000/2001	66,826,302	156,269	66,982,571	
2001/2002	85,127,971	2,235,216	87,363,187	293,388
2002/2003	74,154,020	100,000	74,254,020	-
2003/2004	63,334,034	176,990	63,511,024	176,990
2004/2005	67,253,868	1,762,839	69,016,707	1,762,839
2005/2006	76,987,066	330,495	77,317,561	330,495
2006/2007	33,336,237	6,206,667	39,542,904	6,206,667
2007/2008	35,618,603	5,480,885	41,099,488	5,480,885
2008/2009	67,237,447	2,151,431	69,388,878	2,151,431
2009/2010	68,929,957	15,417,106	84,347,063	15,417,106
2010/2011	42,819,440	34,553,253	77,372,693	34,553,253
2011/2012	41,469,219	13,052,211	54,521,430	13,052,211
2012/2013	40,804,045	18,570,447	59,374,492	18,570,447
2013/2014	24,437,880	50,106,962	74,544,842	50,106,962
2014/2015	3,616,022	15,926,831	19,542,853	15,926,831
Total	1,844,389,439	168,750,836	2,013,140,275	174,215,666

Note : Outstanding liabilities include claim reserves to be borne by the Fund, and liabilities to be borne by the Fund as a result of the insolvency of HIH Casualty and General Insurance Ltd, FAI General Insurance Company Ltd and FAI First Pacific Insurance Co. Ltd.

TABLE 14**COMPARISON OF CONTRIBUTIONS, CLAIMS LOADINGS AND LOSSES**

Indemnity Year	Annual Contributions (HK\$)	Claims Loadings (HK\$)	Total Incurred Losses (HK\$)	Loadings as % of Losses	Loadings as % of Contributions	Recovery by way of Deductibles (HK\$)
1997/1998	106,778,078	3,996,258	186,915,392	2.14%	3.74%	8,602,085
1998/1999	112,178,110	5,815,656	401,305,386	1.45%	5.18%	20,001,529
1999/2000	85,231,403	4,187,326	82,124,273	5.10%	4.91%	5,756,576
2000/2001	95,910,707	5,547,161	66,982,571	8.28%	5.78%	4,753,681
2001/2002	236,886,755	17,716,648	87,363,187	20.28%	7.48%	3,797,807
2002/2003	222,237,005	12,044,600	74,254,020	16.22%	5.42%	4,039,853
2003/2004	219,607,685	10,909,400	63,511,024	17.18%	4.97%	3,474,697
2004/2005	217,611,219	10,485,444	69,016,707	15.19%	4.82%	3,255,900
2005/2006	242,335,709	9,119,595	77,317,561	11.79%	3.76%	3,721,590
2006/2007	256,756,900	9,946,895	39,542,904	25.15%	3.87%	2,414,945
2007/2008	283,223,840	9,504,563	41,099,488	23.13%	3.36%	2,580,745
2008/2009	318,613,840	7,765,371	69,388,878	11.19%	2.44%	4,612,500
2009/2010	301,445,650	7,518,788	84,347,063	8.91%	2.49%	2,527,062
2010/2011	309,996,404	9,017,161	77,372,693	11.65%	2.91%	2,798,330
2011/2012	362,665,656	11,358,408	54,521,430	20.83%	3.13%	3,212,332
2012/2013	366,030,827	14,052,008	59,374,492	23.67%	3.84%	1,753,451
2013/2014	369,460,742	10,972,544	74,544,842	14.72%	2.97%	867,500
2014/2015	390,057,677	8,522,812	19,542,853	43.61%	2.19%	120,000

Note :

- (1) Total incurred losses include claim payments and reserves, some of which are covered by the deductibles paid by indemnified firms.
- (2) Annual Contributions include claims loadings.
- (3) Contribution before reduction is used for 2010/2011, 2011/2012, 2013/2014 and 2014/2015 indemnity years.
- (4) Adjustment to Contribution reduction for 2010/2011 and 2011/2012 are included in 2013/2014 and 2014/2015 indemnity year respectively.

TABLE 15

**FREQUENCY OF CLAIMS BY AREA OF PRACTICE
(1 OCTOBER 2010 – 30 SEPTEMBER 2015)**

AREA OF PRACTICE	INDEMNITY YEAR											
	2010/11	% of Total No. of Claims	2011/12	% of Total No. of Claims	2012/13	% of Total No. of Claims	2013/14	% of Total No. of Claims	2014/15	% of Total No. of Claims	Total No. of Claims in the 5 Indemnity Years	% of Total No. of Claims in 5 Indemnity Years
COMMERCIAL	18	10.34%	23	18.11%	20	8.30%	20	13.33%	27	20.30%	108	13.09%
CONVEYANCING	39	22.41%	36	28.35%	114	47.30%	41	27.33%	26	19.55%	256	31.03%
LITIGATION	67	38.51%	47	37.01%	62	25.73%	54	36.00%	50	37.59%	280	33.94%
PROBATE	3	1.72%	3	2.36%	12	4.98%	12	8.00%	9	6.77%	39	4.73%
LANDLORD & TENANT	1	0.57%	0	0.00%	6	2.49%	4	2.67%	0	0.00%	11	1.33%
PATENTS, TRADEMARKS	19	10.92%	5	3.94%	13	5.39%	11	7.33%	12	9.02%	60	7.27%
TAX MATTERS	0	0.00%	0	0.00%	0	0.00%	0	0.00%	3	2.26%	3	0.36%
BREACH OF CONFIDENTIAL INFORMATION	0	0.00%	0	0.00%	5	2.07%	1	0.67%	1	0.75%	7	0.85%
DATA BREACH	0	0.00%	0	0.00%	1	0.41%	0	0.00%	0	0.00%	1	0.12%
OTHERS	27	15.52%	13	10.24%	8	3.32%	7	4.67%	5	3.76%	60	7.27%
TOTAL	174		127		241		150		133		825	

Note : (1) The percentages of the number of claims in each area of practice are calculated to the nearest decimal point only. The aggregation of these percentages in respect of each indemnity year may not therefore add up to 100%.

(2) "Breach of Confidential Information" and "Data Breach" are newly classified and are added as new items in 2012/2013 indemnity year.

TABLE 16

**VALUE OF CLAIMS BY AREA OF PRACTICE
(1 OCTOBER 2010 – 30 SEPTEMBER 2015)**

AREA OF PRACTICE	INDEMNITY YEAR											
	2010/2011 (HK\$)	% of Total Value of Claims	2011/2012 (HK\$)	% of Total Value of Claims	2012/2013 (HK\$)	% of Total Value of Claims	2013/2014 (HK\$)	% of Total Value of Claims	2014/2015 (HK\$)	% of Total Value of Claims	Total Value of Claims in 5 Indemnity Years (HK\$)	% of Total Value of Claims in 5 Indemnity Years
COMMERCIAL	10,146,424	13.11%	23,149,421	42.46%	7,104,881	11.97%	11,329,499	15.20%	1,564,406	8.01%	53,294,631	18.68%
CONVEYANCING	32,301,764	41.75%	16,073,288	29.48%	30,982,722	52.18%	25,111,194	33.69%	2,440,716	12.49%	106,909,684	37.47%
LITIGATION	34,396,017	44.45%	8,594,495	15.76%	20,737,180	34.93%	32,421,959	43.49%	4,743,389	24.27%	100,893,040	35.36%
PROBATE	-	-	5,675,958	10.41%	199,214	0.34%	1,729,910	2.32%	680,854	3.48%	8,285,936	2.90%
LANDLORD & TENANT	-	-	-	-	-	-	3,379,338	4.53%	-	-	3,379,338	1.18%
PATENTS, TRADEMARKS	-	-	-	-	-	-	-	-	-	-	-	-
TAX MATTERS	-	-	-	-	-	-	-	-	10,084,660	51.60%	10,084,660	3.53%
BREACH OF CONFIDENTIAL INFORMATION	-	-	-	-	-	-	-	-	-	-	-	-
DATA BREACH	-	-	-	-	-	-	-	-	-	-	-	-
OTHERS	528,488	0.68%	1,028,268	1.89%	350,495	0.59%	572,942	0.77%	28,828	0.15%	2,509,021	0.88%
TOTAL	77,372,693		54,521,430		59,374,492		74,544,842		19,542,853		285,356,310	

- Note : (1) Value of claims includes claims paid and reserved.
The percentages of the value of claims in each area of practice are calculated to the nearest decimal point only. The aggregation of these percentages in respect of each indemnity year may not therefore add up to 100%.
- (2) "Breach of Confidential Information" and "Data Breach" are newly classified and are added as new items in 2012/2013 indemnity year.

TABLE 17

**NUMBER OF CLAIMS BY TYPE OF ERRORS IN CONVEYANCING
(1 OCTOBER 2010 - 30 SEPTEMBER 2015)**

Type of Errors in Conveyancing	INDEMNITY YEAR					Total no. of Claims in 5 indemnity years	% of Total No. of Claims in Conveyancing
	2010/11	2011/12	2012/13	2013/14	2014/15		
	NO. OF CLAIMS						
<i>Breach of undertaking</i>	0	1	0	0	0	1	0.4%
<i>Conflict of Interest</i>	0	1	2	1	2	6	2.3%
<i>Defective service</i>	0	0	74	0	0	74	28.9%
<i>Delay irrespective of time limits</i>	0	0	2	1	2	5	2.0%
<i>Failure to spot/investigate defect</i>	0	0	0	0	0	0	0.0%
<i>Failure to act per client's instruction</i>	2	5	3	4	1	15	5.9%
<i>Failure to advise correctly</i>	9	10	17	16	9	61	23.8%
<i>Failure to answer requisitions</i>	4	2	2	3	1	12	4.7%
<i>Failure to check client's I.D.</i>	0	0	0	0	0	0	0.0%
<i>Failure to investigate title</i>	7	4	1	2	3	17	6.6%
<i>Failure to search properly</i>	0	0	0	1	0	1	0.4%
<i>Failure to supervise</i>	0	0	0	0	0	0	0.0%
<i>Failure to verify/check information</i>	1	3	0	2	0	6	2.3%
<i>Fraud by clients*</i>	0	4	5	1	1	11	4.3%
<i>Fraud by employee*</i>	3	0	1	0	0	4	1.6%
<i>Fraud by principal*</i>	0	0	0	0	0	0	0.0%
<i>Incorrect preparation/drafting</i>	1	1	3	0	1	6	2.3%
<i>Insufficient information</i>	0	1	1	0	1	3	1.2%
<i>Late notices/requisitions</i>	0	0	0	0	0	0	0.0%
<i>Late/failed registration</i>	0	1	0	2	0	3	1.2%
<i>Late/failed stamping</i>	1	0	0	0	1	2	0.8%
<i>Loss of documents</i>	3	0	0	1	0	4	1.6%
<i>Missed time limits</i>	0	0	1	0	1	2	0.8%
<i>No apparent negligence</i>	2	2	1	2	1	8	3.1%
<i>Other failure to take correct action</i>	6	1	1	4	2	14	5.5%
<i>Causes not specified</i>	0	0	0	1	0	1	0.4%
Total	39	36	114	41	26	256	

* Data only include those claims where the major cause giving rise to the claims is fraud.

TABLE 18

**VALUE OF CLAIMS BY TYPE OF ERRORS IN CONVEYANCING
(1 OCTOBER 2010 - 30 SEPTEMBER 2015)**

Type of Errors in Conveyancing	INDEMNITY YEAR					Total Value of Claims ** in 5 indemnity years (HK\$)	% of Total Value of Claims in Conveyancing
	2010/11	2011/2012	2012/2013	2013/2014	2014/2015		
	VALUE OF CLAIMS (HK\$)						
<i>Breach of undertaking</i>	-	-	-	-	-	-	0.0%
<i>Conflict of interest</i>	-	-	-	1,066,517	223,471	1,289,988	1.2%
<i>Defective service</i>	-	-	-	-	-	-	0.0%
<i>Delay irrespective of time limits</i>	-	-	-	-	1,739,506	1,739,506	1.6%
<i>Failure to spot/investigate defect</i>	-	-	-	-	-	-	0.0%
<i>Failure to act per client's instruction</i>	-	1,001,310	1,233,199	2,301,116	-	4,535,625	4.2%
<i>Failure to advise correctly</i>	6,321,981	562,504	8,439,274	21,743,561	477,739	37,545,059	35.1%
<i>Failure to answer requisitions</i>	6,191,316	1,039,900	4,559,751	-	-	11,790,967	11.0%
<i>Failure to check client's I.D.</i>	-	-	-	-	-	-	0.0%
<i>Failure to investigate title</i>	-	3,068,535	-	-	-	3,068,535	2.9%
<i>Failure to search properly</i>	-	-	-	-	-	-	0.0%
<i>Failure to supervise</i>	-	-	-	-	-	-	0.0%
<i>Failure to verify/check information</i>	-	1,307,879	-	-	-	1,307,879	1.2%
<i>Fraud by clients*</i>	-	8,800,908	11,746,300	-	-	20,547,208	19.2%
<i>Fraud by employee*</i>	1,266,028	-	565,979	-	-	1,832,007	1.7%
<i>Fraud by principal*</i>	-	-	-	-	-	-	0.0%
<i>Incorrect preparation/drafting</i>	-	-	674,797	-	-	674,797	0.6%
<i>Insufficient information</i>	-	-	1,003,775	-	-	1,003,775	0.9%
<i>Late notices/requisitions</i>	-	-	-	-	-	-	0.0%
<i>Late/failed registration</i>	-	-	-	-	-	-	0.0%
<i>Late/failed stamping</i>	-	-	-	-	-	-	0.0%
<i>Loss of documents</i>	-	-	-	-	-	-	0.0%
<i>Missed time limits</i>	-	-	2,759,647	-	-	2,759,647	2.6%
<i>No apparent negligence</i>	10,174,181	182,252	-	-	-	10,356,433	9.7%
<i>Other failure to take correct action</i>	8,348,258	110,000	-	-	-	8,458,258	7.9%
<i>Causes not specified</i>	-	-	-	-	-	-	0.0%
Total	32,301,764	16,073,288	30,982,722	25,111,194	2,440,716	106,909,684	

* Data only include those claims where the major cause giving rise to the claims is fraud.

** Value of claims includes claims paid and reserved.

TABLE 19**LOSS RATIOS AS AT 30 SEPTEMBER 2015**

Indemnity Year	Number of claims	Annual Contributions (HK\$)	Claims Losses (HK\$)	Loss ratio
1997/98	336	106,778,078	186,915,392	175%
1998/99	483	112,178,110	401,305,386	358%
1999/00	263	85,231,403	82,124,273	96%
2000/01	230	95,910,707	66,982,571	70%
2001/02	215	236,886,755	87,363,187	37%
2002/03	269	222,237,005	74,254,020	33%
2003/04	165	219,607,685	63,511,024	29%
2004/05	159	217,611,219	69,016,707	32%
2005/06	165	242,335,709	77,317,561	32%
2006/07	142	256,756,900	39,542,904	15%
2007/08	309	283,223,840	41,099,488	15%
2008/09	147	318,613,840	69,388,878	22%
2009/10	139	301,445,650	84,347,063	28%
2010/11	174	309,996,404	77,372,693	25%
2011/12	127	362,665,656	54,521,430	15%
2012/13	241	366,030,827	59,374,492	16%
2013/14	150	369,460,742	74,544,842	20%
2014/15	133	390,057,677	19,542,853	5%

Note :

- (1) *Loss ratio is the ratio of contributions to claims losses (claims paid and reserved).
100% loss ratio means the contributions equal to the incurred losses.
200% loss ratio means the amount of claims losses is double the contributions collected.*
- (2) *Whilst the higher the ratio, the greater the amount by which claims losses exceed the contributions collected, it should be borne in mind it takes about 4 years before claims are sufficiently developed to provide a figure close to a final loss ratio. The loss ratios for the 2011/12 indemnity year onwards cannot therefore be taken as the final loss ratios.*
- (3) *Contribution before reduction is used for 2010/2011, 2011/2012, 2013/2014 and 2014/2015 indemnity years.*
- (4) *Adjustment to Contribution reduction for 2010/2011 and 2011/2012 are included in 2013/2014 and 2014/2015 indemnity year respectively.*

TABLE 20

ANTICIPATED MAXIMUM SHORTFALL AS A RESULT OF THE INSOLVENCY OF HIH CASUALTY AND GENERAL INSURANCE LTD. ("HIH"), FAI GENERAL INSURANCE COMPANY LTD. ("FAI") AND FAI FIRST PACIFIC INSURANCE CO. LTD. ("FAI PACIFIC") AS AT 30 SEPTEMBER 2015

(1) Outstanding claims provision recoverable from reinsurers

Indemnity Year	(a) Excess of Loss Layer			(b) Stop Loss Layer			(c) "Incurred but not reported" reserve #			Total (a)+(b)+(c)
	HIH	FAI	FAI Pacific	HIH	FAI	FAI Pacific	HIH	FAI	FAI Pacific	
1988/89	-	-	-	-	-	-	-	-	-	-
1989/90	-	-	-	-	-	-	-	-	-	-
1990/91	-	-	-	-	-	-	-	-	-	-
1991/92	-	-	-	-	-	-	-	-	-	-
1992/93	-	-	-	-	-	-	-	-	-	-
1993/94	-	-	-	-	-	-	-	-	-	-
1994/95	44,000	-	40,000	-	-	-	-	-	-	84,000
1995/96	-	-	-	-	-	-	-	-	-	-
1996/97	-	-	-	-	-	8,882	-	-	-	8,882
1997/98	-	-	-	-	-	-	-	-	-	-
1997/98~2000/2001	N/A	N/A	N/A	N/A	N/A	N/A	(242)	-	(132)	(374)
1998/99~1999/2000	10,000,833 *	-	-	-	-	-	-	-	-	10,000,833
1998/99~2000/2001	-	-	-	-	-	-	-	-	-	-
2001/2002	-	-	-	-	-	-	-	-	-	-
2001/02	-	-	-	-	-	-	-	-	-	-
2002/03	-	-	-	-	-	-	-	-	-	-
2003/04	-	-	-	-	-	-	-	-	-	-
2004/05	-	-	-	-	-	-	-	-	-	-
2005/06	-	-	-	-	-	-	-	-	-	-
2006/07	-	-	-	-	-	-	-	-	-	-
2007/08	-	-	-	-	-	-	-	-	-	-
2008/09	-	-	-	-	-	-	-	-	-	-
2009/10	-	-	-	-	-	-	-	-	-	-
2010/11	-	-	-	-	-	-	-	-	-	-
2011/12	-	-	-	-	-	-	-	-	-	-
2012/13	-	-	-	-	-	-	-	-	-	-
2013/14	-	-	-	-	-	-	-	-	-	-
2014/15	-	-	-	-	-	-	-	-	-	-
	10,044,833	-	40,000	-	-	8,882	(242)	-	(132)	10,093,341

* including the drop down cover totalling \$8,362,788

no stop loss insurance since 2001/02

(2) Claims receivables from reinsurers

Indemnity Year	(a) Excess of Loss Layer			(b) Stop Loss Layer			(c) Drop Down Layer	Total (a)+(b)+(c)
	HIH	FAI	FAI Pacific	HIH	FAI	FAI Pacific	HIH	
1988/89-99/2000	232,171,302	1,365,851	48,301,834	N/A	N/A	N/A	N/A	281,838,987
1997/98-2000/01	N/A	N/A	N/A	37,500,000	-	8,628,414	8,184,747	54,313,161
	232,171,302	1,365,851	48,301,834	37,500,000	-	8,628,414	8,184,747	336,152,148

ONGOING ISSUES

1. HIH REINSURERS

HIH Casualty and General Insurance Ltd. ("HIH"), FAI General Insurance Company Ltd. ("FAI") and FAI First Pacific Insurance Co. Ltd. ("FAI Pacific") ("the HIH reinsurers") were the excess of loss and stop loss insurers for the Scheme from 1987 onwards. The first 2 above-mentioned companies were placed in provisional liquidation on 15 March 2001 and the third went into provisional liquidation on 9 April 2001. A winding-up order was subsequently made against the first 2 companies on 27 August 2001. A provision has been made in the Fund Accounts to cover the anticipated maximum shortfall. The anticipated maximum shortfall as at 30 September 2015 is set out in table 20.

The Company has also conducted an actuarial analysis on the total outstanding liabilities of the Fund. Having taken into account the default of the HIH reinsurers, the total outstanding liabilities of the Fund as at 30 September 2015 was approximately HK\$370.733m.

The Company is a member of the Committees of Inspection and the Creditors' Committees of HIH and FAI. The Liquidator has commenced proceedings against various parties including the former directors, auditors and actuary of the companies in the HIH group based on his investigation and the findings of the Royal Commission in Australia. Some of the proceedings have been settled. Schemes of arrangement were implemented in respect of HIH and FAI on 30 May 2006. As of 15 April 2016, a total of US\$15,421,596.96 was paid by HIH, of which US\$1,089,404.87 was repaid to reinsurers who replaced HIH in accordance with the reinsurance policies. A total of US\$109,911.80 was paid by FAI as interim dividend. The Company is also a member of the Creditors' Committee of FAI Pacific in Hong Kong. A scheme of arrangement was implemented in respect of the provisional liquidation in Hong Kong on 30 November 2002. As of 15 April 2016, a total of HK\$29,364,649.08 was paid by FAI First Pacific as interim dividend and threshold payments i.e. settlements for small claims.

The HIH scheme of arrangement has entered its final stages. A key issue preventing the finalization of the Scheme is the ongoing HIH Insurance shareholders action. The Scheme Administrators consider it may be possible to finalize the scheme in 2016.

2. QUALIFYING INSURERS SCHEME ("QIS") OR OTHER ALTERNATIVES

At an Extraordinary General Meeting ("EGM") of the Law Society on 16 November 2004, Members voted by a majority of 316 to 255 to replace the Scheme with a QIS.

A notice of EGM, the QIS Rules, the qualifying insurer's agreement, the assigned risk pool management agreement and an explanatory note were issued to the Members on 11 April 2006.

Having considered the structure of the QIS proposed in the QIS Rules and the other documents, members voted in the EGM on 27 April 2006 by a majority of 1873 to 506 against the implementation of such a scheme.

The Council has set up the PIS Review Working Party ("Working Party") to consider how to improve the Scheme or such other alternative insurance or indemnity schemes as may be viable. An actuarial analysis of the present contribution formula was performed and provided the following findings:

- ◆ *The current contribution formula is sufficient to cover the total claims and expenses of administering the Scheme;*
- ◆ *The three rating factors currently used in the formula, namely the average number of principals, average number of assistants and gross fee income are all positively correlated with the net incurred costs and the number of reported claims;*
- ◆ *Any additional rating factors to be introduced to the formula will need to be obtained from members without causing an excessive burden and be verifiable. The Rules will also need to be amended to authorise the collection of such data;*
- ◆ *As with any formula structure, cross subsidization exists and large firms were found to contribute more than the cost attributable to them. Small firms contributed less than or equal to their share of the cost while medium size firms showed mixed results.*

The Working Party also appointed Lockton Companies (Hong Kong) Limited to consider the feasibility of a master policy scheme in Hong Kong. It was noted certain features of the Scheme, such as unlimited aggregate cover, are not currently supported by commercial insurers. Additional exclusions are also likely to be imposed by commercial insurers.

In 2010, the Rules were amended to provide contribution reductions to member firms. After consideration of actuarial advice, claims experience and the financial position of the Fund, contribution reductions of 33⅓% were provided in the indemnity years of 2010/11, 2011/12, 2013/14, 2014/15 and 2015/16. The amount of reduction made totaled approximately HK\$604m.

The Working Party recommended to Council that cover be continued to be provided to members under the PIS. The recommendation has been adopted by Council and the Working Party was then disbanded on 5 February 2013.

PERFORMANCE OF THE FUND'S INVESTMENTS

Mercer Investment Consulting Limited has been the Company's investment consultant since December 2010. In 2011, the PIS Investment Subcommittee ("Subcommittee") conducted a portfolio structure review and health check of investment managers. It was resolved that two additional global equity managers would be appointed to take over the equity portfolio managed by AllianceBernstein Hong Kong Limited ("AllianceBernstein").

The current investment managers of the Fund are as follows:

- Amundi Hong Kong Limited ("Amundi")
- AllianceBernstein
- MFS Investment Management ("MFS")
- Grantham Mayo van Otterloo ("GMO")

The Subcommittee meets every quarter to monitor the investment managers and the guidelines for the investments. The Fund adopts a conservative investment strategy where the investments are predominantly placed in fixed income securities. The investment objectives, guidelines and restrictions are summarised as follows:

Investment Objectives:

- to preserve capital and to maximize total return on the portfolio; and
- regarding the bond portfolio, to outperform the Barclays Capital Global Aggregate Index.

Amundi's portfolio consists of both equities and bonds and the portfolio Investment Guidelines and Restrictions are as follows:

- allowable range in equities: 20% - 35%
- allowable range in bonds: 55% - 80%
- allowable range in cash: 0% - 10%

Total: 100%

The AllianceBernstein portfolio consists of bonds only.

Investments made via the other two managers are in the form of equity pooled funds, as follows:

- MFS Global Concentrated Equity Fund
- GMO Global Equity Allocation Fund

The net returns on the portfolios managed by the investment managers for the 12 month period ended 31 December for the past 3 years were as follows:

			<u>Net Return</u>		
	<u>Type of portfolio</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	
Amundi	Equity and bonds	6.44%	3.40%	-0.31%	
AllianceBernstein	Bonds	0.27%	7.22%	0.41%	
MFS*	Equity	29.55%	7.46%	-0.88%	
GMO*	Equity	19.95%	-1.84%	-6.61%	

*MFS and GMO were appointed in December 2011.

CONCLUSION

The Company's policy is to resolve claims promptly for the benefit of the Fund. However, unmeritorious claims are vigorously defended. Each claim is carefully considered on its own merits.

The Board of Directors of the Company would like to record their appreciation to all members of the relevant PIS Committees and Working Parties for their hard work during the year and the time they gave so freely to serve the profession.

ADPIS 14/15 AR (2668542)

Audited Financial Statements
Hong Kong Solicitors Indemnity Fund
30 September 2015

Independent Auditor's Report

To the Manager of
Hong Kong Solicitors Indemnity Fund
(established in Hong Kong)

We have audited the financial statements of Hong Kong Solicitors Indemnity Fund (the "Fund") set out on pages 3 to 21, which comprise the statement of financial position as at 30 September 2015, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Manager's responsibility for the financial statements

The Manager of the Fund is responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 accounting policies used and the reasonableness of accounting estimates made by the Manager, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

To the Manager of
Hong Kong Solicitors Indemnity Fund
(established in Hong Kong)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 30 September 2015 and of its financial performance and cash flows for the year then ended in accordance with HKFRSs.



Certified Public Accountants
Hong Kong, 17 MAY 2016

Lai Hon Wai
Practising Certificate number: P06342

Hong Kong Solicitors Indemnity Fund

Statement of Comprehensive Income

Year ended 30 September 2015

	<i>Note</i>	2015 <i>HK\$</i>	2014 <i>HK\$</i>
Revenue	3	256,513,249	250,928,104
Gain on disposal of financial assets at fair value through profit or loss		30,833,305	7,047,881
Change in fair value of financial assets at fair value through profit or loss		(95,662,009)	48,788,509
Net claims incurred		(68,261,494)	(66,321,010)
Other revenue	3	74,950,656	72,362,363
Operating expenses	4	(85,046,069)	(108,711,902)
Surplus from operations		113,327,638	204,093,945
Add: Net movement in claims provision and claims receivable relating to reinsurance contracts with HHH Group	5	17,331,607	23,420,676
Surplus before income tax		130,659,245	227,514,621
Income tax expense	6	-	-
Surplus for the year		130,659,245	227,514,621
Other comprehensive income for the year		-	-
Total comprehensive income for the year		130,659,245	227,514,621

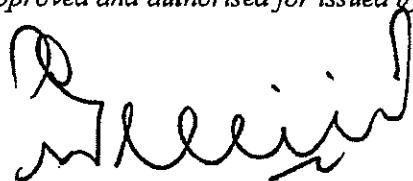
Hong Kong Solicitors Indemnity Fund

Statement of Financial Position

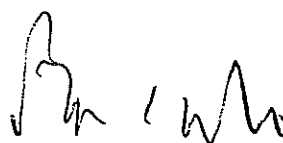
At 30 September 2015

	<i>Note</i>	2015 <i>HK\$</i>	2014 <i>HK\$</i>
Non-current assets			
Profit commission receivable from reinsurers	7	159,000,000	159,000,000
Current assets			
Claims provision recoverable and claims receivable	8	2,682,000	17,274,000
Financial assets at fair value through profit or loss	9	2,460,388,483	2,328,619,077
Amount due from Hong Kong Solicitors Indemnity Fund Limited	10	2,304,760	1,769,644
Accounts receivable	11	4,342,315	4,577,239
Prepayments		74,500,000	52,000,000
Cash at bank	12	183,883,364	208,781,256
		<u>2,728,100,922</u>	<u>2,613,021,216</u>
Current liabilities			
Outstanding claims provision		371,565,000	391,006,000
Accrued charges		211,343	196,571
Contributions received in advance		234,838,479	231,428,647
Contributions refundable		1,596,445	1,159,588
		<u>608,211,267</u>	<u>623,790,806</u>
Net current assets		<u>2,119,889,655</u>	<u>1,989,230,410</u>
NET ASSETS		<u>2,278,889,655</u>	<u>2,148,230,410</u>
Reserves			
Accumulated fund		<u>2,278,889,655</u>	<u>2,148,230,410</u>

Approved and authorised for issued by the Manager on 17 MAY 2016 and signed on its behalf



Director
Peter Raymond GRIFFITHS



Director
Peter LO Chi Lik

Hong Kong Solicitors Indemnity Fund

Statement of Changes in Equity

Year ended 30 September 2015

	Accumulated fund HK\$
At 1 October 2013	1,920,715,789
Surplus for the year and total comprehensive income for the year	<u>227,514,621</u>
At 30 September 2014 and 1 October 2014	2,148,230,410
Surplus for the year and total comprehensive income for the year	<u>130,659,245</u>
At 30 September 2015	<u><u>2,278,889,655</u></u>

Hong Kong Solicitors Indemnity Fund

Statement of Cash Flows

Year ended 30 September 2015

	<i>Note</i>	2015 <i>HK\$</i>	2014 <i>HK\$</i>
OPERATING ACTIVITIES			
Cash generated from operations	<i>15</i>	<u>113,493,865</u>	<u>156,972,859</u>
Net cash from operating activities		<u>113,493,865</u>	<u>156,972,859</u>
INVESTING ACTIVITIES			
Proceeds from disposal of financial assets at fair value through profit or loss		3,050,644,473	1,540,714,831
Purchases of financial assets at fair value through profit or loss		(3,233,315,189)	(1,773,473,257)
Interest received		43,912,037	41,806,583
Dividend income		<u>14,294,316</u>	<u>14,237,108</u>
Net cash used in investing activities		<u>(124,464,363)</u>	<u>(176,714,735)</u>
Net decrease in cash and cash equivalents		(10,970,498)	(19,741,876)
Cash and cash equivalents at beginning of year		<u>285,604,435</u>	<u>305,346,311</u>
Cash and cash equivalents at end of year	<i>12</i>	<u>274,633,937</u>	<u>285,604,435</u>

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2015

1. GENERAL

Hong Kong Solicitors Indemnity Fund (the "Fund") was established by The Law Society of Hong Kong to provide indemnity against such loss as is mentioned in Section 73A(1) of the Hong Kong Legal Practitioners Ordinance (Chapter 159). The Fund is managed by the Hong Kong Solicitors Indemnity Fund Limited (the "Manager"), a company limited by guarantee.

2. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and accounting principles generally accepted in Hong Kong.

These financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2014 financial statements. The adoption of the new / revised HKFRSs that are relevant to the Fund and effective from the current year had no significant effects on the results and financial position of the Fund for the current and prior years.

Basis of measurement

The measurement basis used in the preparation of these financial statements is historical cost, except for the financial assets at fair value through profit or loss, which are measured at fair value as explained in the accounting policies set out below.

Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when and only when the Fund becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when and only when (i) the Fund's contractual rights to future cash flows from the financial asset expire or (ii) the Fund transfers the financial asset and either (a) it transfers substantially all the risks and rewards of ownership of the financial asset, or (b) it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but it does not retain control of the financial asset.

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

Classification and measurement

Financial assets or financial liabilities are initially recognised at their fair value plus, in the case of financial assets or financial liabilities not carried at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2015

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

1) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. They are carried at fair value, with any resultant gain and loss recognised in profit or loss.

Financial assets are classified as held for trading if they are (i) acquired principally for the purpose of selling in the near future; (ii) part of a portfolio of identified financial instruments that the Fund manages together and has a recent actual pattern of short-term profit-taking; or (iii) derivatives that are not financial guarantee contracts or not designated and effective hedging instruments.

Financial assets are designated at initial recognition as at fair value through profit or loss only if (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or (ii) they are part of a group of financial assets and / or financial liabilities that are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy.

2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in profit or loss.

3) Financial liabilities

All financial liabilities except for derivatives are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Impairment of financial assets

At the end of each reporting period, the Fund assesses whether there is objective evidence that financial assets, other than those at fair value through profit or loss, are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate. Such impairment loss is reversed in subsequent periods through profit or loss when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Cash equivalents

For the purpose of the statement of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2015

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Fund and when the revenue and costs, if applicable, can be measured reliably and on the following bases:

Contributions are accounted for proportionally over the period of coverage. Contributions received in advance represent contributions invoiced and received but not earned at the end of reporting period.

Dividend income from investments and investment incentive income are recognised when the Fund's rights to receive payment have been established.

Interest income from financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Foreign currency translation

The financial statements are presented in the currency of Hong Kong dollars, which is also the Fund's functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Provisions

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Fund expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Related parties

A related party is a person or entity that is related to the Fund.

- (a) A person or a close member of that person's family is related to the Fund if that person:
 - (i) has control or joint control over the Fund;
 - (ii) has significant influence over the Fund; or
 - (iii) is a member of the key management personnel of the Fund.

- (b) An entity is related to the Fund if any of the following conditions applies:
 - (i) The entity is controlled or jointly controlled by a person identified in (a).
 - (ii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (iii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Fund.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2015

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Related parties (Continued)

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

Critical accounting estimates and judgements

Estimates and assumptions concerning the future and judgements are made by the Manager in the preparation of the financial statements. They affect the application of the Fund's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

Provision for claims

The estimation of the ultimate liability arising from claims made under indemnity is the Fund's most critical accounting estimate.

Full provision is made for the estimated cost of claims notified but not settled at the end of the reporting period and for the estimated cost of claims incurred but not enough reported ("IBNER") by that date. The provision for amounts recoverable from reinsurers and from solicitors' firms is estimated and shown separately in the statement of financial position. Provision is also made for the estimated cost of servicing claims notified but not settled at the reporting date and expenses on IBNER at the end of the reporting period.

Management of the Fund takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Estimates and assumptions have been made in arriving at the provision for claims and reinsurance recoveries thereof. The actual results may be significantly different from those envisaged when these estimates were made. In particular, the estimation of IBNER is based upon actual claims experience using predetermined methodology and is generally subject to a greater degree of uncertainty.

	2015 <i>HK\$</i>	2014 <i>HK\$</i>
Case reserves	168,751,000	191,365,000
Estimated IBNER	129,038,000	124,892,000
Estimated allowance for indirect claim handling expenses	14,755,000	14,950,000
Risk margin	59,021,000	59,799,000
	<u>371,565,000</u>	<u>391,006,000</u>

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2015

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Critical accounting estimates and judgements (Continued)

Profit commission receivable from reinsurers

The estimate of the ultimate profit commission to be receivable from reinsurers involve critical accounting estimate. The Fund estimates that provision based primarily on risk premium, latest expenses, claims paid and claims reserved. Details of profit commission receivable from reinsurers recognised are set out in note 7 to the financial statements.

Future changes in HKFRSs

At the date of authorisation of these financial statements, the HKICPA has issued a number of new / revised HKFRSs that are not yet effective for the current year, which the Fund has not early adopted. The Manager does not anticipate that the adoption of the new / revised HKFRSs in future periods will have any material impact on the results of the Fund.

3. REVENUE

	2015 HK\$	2014 HK\$
Contribution earned	<u>256,513,249</u>	<u>250,928,104</u>
Revenue	<u>256,513,249</u>	<u>250,928,104</u>
Bond interest income	43,855,625	41,752,917
Deposit interest income	56,412	53,666
Dividend income	14,294,316	14,237,108
Investment incentive income	16,385,857	16,210,448
Sundry income	<u>358,446</u>	<u>108,224</u>
Other revenue	<u>74,950,656</u>	<u>72,362,363</u>
Total revenue	<u><u>331,463,905</u></u>	<u><u>323,290,467</u></u>

4. OPERATING EXPENSES

	2015 HK\$	2014 HK\$
Accounting fee	320,000	264,000
Auditor's remuneration	126,000	123,000
Administration fee paid to Hong Kong Solicitors Indemnity Fund Limited	11,535,241	11,317,312
Bank charges	122,135	51,284
Investments management fee	10,072,674	8,826,643
Legal and professional fees	907,273	973,181
Reinsurance premium	61,500,000	87,126,875
Sundry expenses	<u>462,746</u>	<u>29,607</u>
	<u><u>85,046,069</u></u>	<u><u>108,711,902</u></u>

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2015

5. NET MOVEMENT IN CLAIMS PROVISION AND CLAIMS RECEIVABLE RELATING TO REINSURANCE CONTRACTS WITH HIH GROUP

In 2001, three of the major reinsurers used by the Fund, which were part of an insurance group in Australia ("HIH Group"), were placed into liquidation. Given the limited information provided by the liquidators at that time except for certain indications that the financial losses could be very substantial, the Manager has concluded that a full provision against the remaining amounts due from these reinsurers would be appropriate. The amount provided relates to claims extending over the indemnity years 1998 to 2000. During the year, HK\$17,331,607 (2014: HK\$23,420,676) was recovered from the reinsurers and the provision for impairment previously made was reversed and credited to profit or loss.

6. INCOME TAX EXPENSE

Since the Fund is neither a person nor does it carry on a trade, profession or business for the purpose of section 14 of the Inland Revenue Ordinance (Cap. 112), it is not liable to Hong Kong taxation.

7. PROFIT COMMISSION RECEIVABLE FROM REINSURERS

The profit commission relates to slip policies covering the indemnity period from 1 October 2008 to 30 September 2013. The estimation of amount is based on risk premium, expenses, claims paid and claims reserved. Under the slip policies, the Fund shall be entitled to the profit sharing if the slip policies were not cancelled before 30 September 2013.

The amounts due are interest-free and calculated in accordance with the slip policies, final calculation on profit commission receivable from reinsurers will take place on 30 September 2017. The carrying amount of the amounts due approximates their fair value.

8. CLAIMS PROVISION RECOVERABLE AND CLAIMS RECEIVABLE

	Note	2015 HK\$	2014 HK\$
Claims provision recoverable from reinsurers and solicitors' firms		4,591,000	21,666,000
Less: provision for impairment – HIH Group	(a)	<u>(1,909,000)</u>	<u>(4,392,000)</u>
		<u>2,682,000</u>	<u>17,274,000</u>

The Fund does not have any settled claims receivable at the end of the reporting period. The carrying value of claims provision recoverable is considered a reasonable approximation of its fair value.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2015

8. CLAIMS PROVISION RECOVERABLE AND CLAIMS RECEIVABLE (CONTINUED)

(a) Provision for impairment – HHH Group

The movements in the provision for impairment – HHH Group during the year are as follows:

	2015 <i>HK\$</i>	2014 <i>HK\$</i>
At beginning of reporting period	4,392,000	6,010,000
Net claims recovered	<u>(2,483,000)</u>	<u>(1,618,000)</u>
At the end of reporting period	<u><u>1,909,000</u></u>	<u><u>4,392,000</u></u>

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>Notes</i>	2015 <i>HK\$</i>	2014 <i>HK\$</i>
Equity investments			
- listed in Hong Kong	<i>(a)</i>	53,128,397	63,041,830
- listed outside Hong Kong	<i>(a)</i>	<u>279,171,718</u>	<u>287,341,657</u>
		<u>332,300,115</u>	<u>350,383,487</u>
Bonds listed outside Hong Kong	<i>(a)</i>	1,650,406,198	1,495,468,578
Quoted fund investments	<i>(b)</i>	386,931,597	405,943,833
Cash deposits in investment accounts (note 12)		<u>90,750,573</u>	<u>76,823,179</u>
		<u><u>2,460,388,483</u></u>	<u><u>2,328,619,077</u></u>

Notes:

- (a) The fair values are based on quoted market prices in active markets at the end of the reporting period.
- (b) The fair values of quoted fund investments are measured by reference to the prices publicly quoted by fund administrators.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2015

10. AMOUNT DUE FROM HONG KONG SOLICITORS INDEMNITY FUND LIMITED

The amount due is unsecured, interest-free and has no fixed repayment term. The carrying amount of the amount due approximates its fair value.

11. ACCOUNTS RECEIVABLE

	2015 <i>HK\$</i>	2014 <i>HK\$</i>
Contributions receivables	3,257,056	2,419,752
Other receivables	1,085,259	2,157,487
	<u>4,342,315</u>	<u>4,577,239</u>

The contributions receivables are receivable from legal practitioners. Under the Hong Kong Legal Practitioners Ordinance (Chapter 159), all the legal practitioners in Hong Kong are required to maintain indemnity with the Fund in order to obtain new or renewal practicing certificates from the Law Society of Hong Kong. The carrying amounts of contributions receivables and other receivables are considered reasonable approximations of their fair values.

No credit period is provided by the Fund and all payments are due by 30 September except in the case of new firms, in which case payments are due on presentation of debit notes. All of the Fund's contributions receivables and other receivables have been reviewed for indication of impairment.

As discussed above, the whole contributions receivables balance is past due but within 3 months as at the reporting date for which the Fund has not impaired as there has not been a significant change in its good credit quality. There was no recent history of default and the amounts are considered recoverable. The Fund does not hold any collateral over these balances.

12. CASH AND CASH EQUIVALENTS

	2015 <i>HK\$</i>	2014 <i>HK\$</i>
Cash at bank	183,883,364	208,781,256
Cash deposits in investment accounts (note 9)	90,750,573	76,823,179
As stated in statement of cash flows	<u>274,633,937</u>	<u>285,604,435</u>

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2015

13. MANAGEMENT OF RISKS

The Fund is exposed to insurance risk and financial risks because of the nature of its operations and the use of financial instruments in its operating activities.

The carrying amount presented in the statement of financial position relate to the following categories of financial assets and financial liabilities.

	2015 <i>HK\$</i>	2014 <i>HK\$</i>
Financial assets		
Loans and receivables:		
Profit commission receivable from reinsurers	159,000,000	159,000,000
Claims provision recoverable and claims receivable	2,682,000	17,274,000
Amounts due from Hong Kong Solicitors Indemnity Fund Limited	2,304,760	1,769,644
Accounts receivable	4,342,315	4,577,239
Cash at bank	183,883,364	208,781,256
	<u>352,212,439</u>	<u>391,402,139</u>
Financial assets at fair value through profit or loss	<u>2,460,388,483</u>	<u>2,328,619,077</u>
Financial liabilities		
At amortised costs:		
Outstanding claims provision	373,415,000	391,006,000
Contributions refundable	1,596,445	1,159,588
	<u>375,011,445</u>	<u>392,165,588</u>

13.1 Insurance risk management

The Fund was established by The Law Society of Hong Kong. Pursuant to the Solicitors (Professional Indemnity) Rules made by the Council of The Law Society of Hong Kong under Section 73A(1) of the Hong Kong Legal Practitioners Ordinance, solicitors are provided with indemnity against loss arising from claims in respect of civil liability incurred in private practices.

The principal risk that the Fund faces is the possibility of the actual claims exceeding the carrying amount of the claims provision. This could occur when the frequency or severity of claims are greater than estimated. Events under indemnity are random and the actual number and amount of claims will vary from year to year from the estimate established using statistical techniques.

Management of the Fund attempts to diversify this risk by entering into reinsurance contracts with reinsurers. Reinsurance does not discharge the Fund's liability as the primary obligor under the indemnity. Failure of reinsurers to honor their obligations could result in losses to the Fund. In order to minimise losses from reinsurers' defaults, the Fund only places reinsurance with companies which have appropriate international ratings and/or which are regulated by the Hong Kong Insurance Authority. To minimise the risk of reinsurer defaults, the Fund has put in place insolvency insurance cover. The cover insures the Fund against the insolvency of one or more of its reinsurers.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2015

13. MANAGEMENT OF RISKS (CONTINUED)

13.2 Financial risk management

The financial risks to which the Fund is exposed include market risk (including currency risk, interest risk and other price risk), liquidity risk and credit risk.

The objective of financial risk management is to ensure that the Fund's overall financial risk is at an acceptable level and that appropriate returns are earned for the level of risk assumed. The Manager appointed four investment managers who operate independently of each other. Two of the investment managers operate under discretionary investment management agreements which allow them to manage their portfolio within guidelines prescribed by the Manager. The remaining two managers offer equity pooled funds which the Fund has invested in since November 2011. The Fund adopts a conservative investment strategy where the investments are predominantly placed in fixed income securities. The strategy is to achieve an optimal return without incurring a risk of substantial fluctuations in the value of the accumulated reserves.

(a) Foreign currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instruments will fluctuate because of changes in foreign exchange rates. The Fund's exposures to currency risk arise from its bank balances and financial assets at fair value through profit or loss, which are primarily denominated in Australian Dollars ("AUD"), Euro ("EUR"), British Pounds ("GBP"), Japanese Yen ("JPY"), Renminbi ("RMB"), Singapore Dollars ("SGD") and United States Dollars ("USD").

The Fund does not hedge its foreign currency risks. However, the Fund's investment managers monitor the foreign currency exposure and will consider hedging significant foreign currency exposure should the need arises.

The following table provides details of the Fund's exposure at the end of the reporting period to foreign exchange risk arising from recognised assets and liabilities denominated in a currency other than the functional currency of the Fund:

	As at 30 September 2015			As at 30 September 2014		
	Financial assets at fair value through profit or loss HK\$	Cash at bank HK\$	Overall net exposure HK\$	Financial assets at fair value through profit or loss HK\$	Cash at bank HK\$	Overall net exposure HK\$
AUD	51,240,046	-	51,240,046	18,307,475	-	18,307,475
EUR	439,943,224	-	439,943,224	76,521,039	-	76,521,039
GBP	144,876,666	-	144,876,666	25,989,614	-	25,989,614
JPY	241,157,315	-	241,157,315	36,517,414	-	36,517,414
RMB	45,091,044	-	45,091,044	53,476,611	-	53,476,611
SGD	46,971,836	-	46,971,836	2,115,732	-	2,115,732
USD	1,352,255,407	4,261,757	1,356,517,164	1,991,317,470	11,819,399	2,003,136,869

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2015

13. MANAGEMENT OF RISKS (CONTINUED)

13.2 Financial risk management (Continued)

(a) Foreign currency risk (continued)

The following table indicates the approximate change in the Fund's surplus after income tax in response to reasonably possible changes in the foreign exchange rates of the following foreign currencies against Hong Kong Dollar to which the Fund has significant exposure at the end of the reporting period.

	2015		2014	
	Increase/decrease in foreign exchange rates %	Increase/decrease in surplus after income tax HK\$	Increase/decrease in foreign exchange rates %	Increase/decrease in surplus after income tax HK\$
AUD	5	2,562,002	5	915,374
EUR	5	21,997,161	5	3,826,052
GBP	5	7,243,833	5	1,299,481
JPY	5	12,057,866	5	1,825,871
RMB	5	2,254,552	3	1,604,298
SGD	5	2,348,592	5	105,787
USD	1	13,565,172	1	20,031,369

This analysis assumes that all other variables remain constant.

Exchange differences arising from financial assets at fair value through profit or loss are classified as change in fair value of financial assets at fair value through profit or loss.

(b) Interest rate risk

The Fund's earnings are affected by changes in the market interest rates due to the impact such changes have on interest income from cash and cash equivalents and financial assets. Investment guidelines are in place and reviewed regularly to provide the general direction for the Fund's investment managers and to monitor the risk undertaken.

At 30 September 2015, it is estimated that a general increase/decrease of 50 basis points (2014: 5 basis points) in interest rates, with all other variables held constant, would increase/decrease the Fund's surplus after income tax and accumulated surplus by approximately HK\$1,373,000 (2014: HK\$143,000). The increase/decrease in basis points represents management's assessment of a reasonably possible change in interest rates over the period until the next reporting date.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2015

13. MANAGEMENT OF RISKS (CONTINUED)

13.2 Financial risk management (Continued)

(c) Other price risk

Other price risk relates to the risk that the fair values or future cash flows of a financial instruments will fluctuate because of changes in market prices (other than changes in interest rates and foreign exchange rates). The Fund is exposed to change in market prices of listed equity and debt securities in respect of its investments in listed equity and debt securities classified as financial assets at fair value through profit and loss.

Investments in equity must be confined to publicly listed widely held and traded securities and there are limits on the exposure to an overseas stock market other than a recognised stock exchange and on the equity of any one company.

The following table indicates the approximate change in the Fund's surplus after income tax in response to reasonably possible changes in the quoted prices for financial assets at fair value through profit or loss to which the Fund has significant exposure at the end of the reporting period.

	2015		2014	
	Increase/ decrease in quoted prices %	Increase/ decrease in surplus HK\$	Increase/ decrease in quoted prices %	Increase/ decrease in surplus HK\$
Equity investments	10	33,230,012	10	35,038,349
Bonds listed outside Hong Kong	5	82,520,310	5	74,773,429
Quoted fund investments	5	19,346,580	5	20,297,192

(d) Liquidity risk

The Fund manages its liquidity and cash flow profiles to ensure the operations maintain optimum level of liquidity at all times sufficient to meet its obligations as and when they fall due.

All of the Fund's financial liabilities will be settled within one year from the reporting date. This is based on the remaining period at the reporting date to the contractual maturity date and at the earliest date the Fund can be required to pay.

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2015

13. MANAGEMENT OF RISKS (CONTINUED)

13.2 Financial risk management (Continued)

(e) Credit risk

The Fund's credit risk is principally attributable to cash and cash equivalents and receivables from reinsurers and solicitor firms.

Cash and cash equivalents are normally placed at financial institutions that have sound credit rating and the Fund considers the credit risk to be insignificant.

Management has a credit policy in place for selection of its reinsurers and approving the credit limits and the exposures to credit risk are monitored such that any outstanding debts are reviewed and followed up on an ongoing basis.

As at the reporting date, the Fund does not hold any collateral from the reinsurers and the Fund has no significant concentration of credit risk, with exposure spreading over a number of reinsurers and counterparties.

Hence, the maximum exposure to credit risk is represented by the carrying amounts of each class of financial assets. The Fund does not provide any other guarantees which would expose the Fund to credit risk.

(f) Fair value measurements recognised in the statement of financial position

The financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

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

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

2015

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
Financial assets at fair value through profit or loss:				
Trading securities	<u>2,460,388,483</u>	<u>-</u>	<u>-</u>	<u>2,460,388,483</u>

2014

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
Financial assets at fair value through profit or loss:				
Trading securities	<u>2,328,619,077</u>	<u>-</u>	<u>-</u>	<u>2,328,619,077</u>

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2015

13. MANAGEMENT OF RISKS (CONTINUED)

13.2 Financial risk management (Continued)

(f) Fair value measurements recognised in the statement of financial position (continued)

During the years ended 30 September 2015 and 2014, there were no transfer between Level 1 and Level 2 fair value measurements, and no transfer into and out of Level 3 fair value measurements.

The fair values have been determined by reference to their quoted bid prices at the reporting date and have been translated using the spot foreign currency rates at the end of the reporting period where appropriate.

14. CAPITAL MANAGEMENT

The Fund's capital management objective is to ensure the Fund's ability to continue as a going concern in order to provide indemnity against such loss as is mentioned in Section 73A(1) of the Hong Kong Legal Practitioners Ordinance (Chapter 159).

The Fund has no share capital. The Manager of the Fund will actively and regularly review its accumulated surplus and make adjustment on the contributions receivable from legal practitioners in line of change in economic conditions.

15. CASH GENERATED FROM OPERATIONS

	2015 <i>HK\$</i>	2014 <i>HK\$</i>
Surplus before income tax	130,659,245	227,514,621
Change in fair value of financial assets at fair value through profit or loss	95,662,009	(48,788,509)
Gain on disposal of financial assets at fair value through profit or loss	(30,833,305)	(7,047,881)
Interest income	(43,912,037)	(41,806,583)
Dividend income from financial assets at fair value through profit or loss	(14,294,316)	(14,237,108)
Changes in working capital:		
Decrease in claims receivable from reinsurers	-	8,116
Decrease in claims provision recoverable and claims receivable	14,592,000	20,246,000
Decrease in accounts receivable	234,924	1,499,559
(Increase) Decrease in prepayments	(22,500,000)	13,212,500
Increase in amount due from Hong Kong Solicitors Indemnity Fund Limited	(535,116)	(8,932)
Decrease in outstanding claims provision	(19,441,000)	(7,382,000)
Increase (Decrease) in accrued charges	14,772	(16,970)
Increase in contributions received in advance	3,409,832	13,985,051
Increase (Decrease) in contributions refundable	436,857	(205,005)
Cash generated from operations	113,493,865	156,972,859

Hong Kong Solicitors Indemnity Fund

Notes to the Financial Statements

Year ended 30 September 2015

16. RELATED PARTY TRANSACTIONS

During the year, the Fund incurred an administrative fee of HK\$11,535,241 (2014: HK\$11,317,312) payable to the Manager. As at 30 September 2015, the amount due from the Manager was HK\$2,304,760 (2014: HK\$1,769,644). The Fund and the Manager are under common control of The Law Society of Hong Kong. The carrying amount of the amount due approximates its fair value.

17. CONTINGENT ASSETS

	2015 HK\$	2014 HK\$
Profit commission from reinsurers	<u>52,000,000</u>	<u>26,000,000</u>

The profit commission relates to slip policies covering the indemnity period from 1 October 2014 to 30 September 2018. The calculation of profit commission shall take place on 30 September 2018. Under the slip policies, the Fund shall not be entitled to any profit sharing if the slip policies are cancelled before 30 September 2018 except for certain events. No contingent assets have been recognised.

Chapter: 159M Title: **SOLICITORS** Gazette Number: L.N. 65 of 2010
(PROFESSIONAL
INDEMNITY) RULES
Schedule: 1 Heading: **CONTRIBUTIONS TO** Version Date: 20/05/2010
FUND

[rules 2, 4 & 9]

1. Obligation to make contributions

Every principal in Practice shall, in respect of himself and of all assistant solicitors and consultants in his firm, make or cause to be made the contributions as are set out in paragraph 2 in respect of that Practice.

2. Calculation of contribution

(1) (a) Save in the cases referred to in subparagraphs (2) (when the amount of contribution shall be assessed by the Company as therein provided), (3) (which provides that the amount of the basic contribution shall be not less than the minimum amount as therein provided), (4) (which provides for the due date for payment of the contribution) and (7) (when the amount of contribution may be reduced as therein provided), the amount of all contributions for the first indemnity period and for each subsequent indemnity period shall be calculated- (L.N. 363 of 1991; L.N. 65 of 2010)

(i) according to the formula-

$$C = (N * \$20000) + (M * \$13000) + S$$

Where-

* =multiplied by;

C =the amount (subject to any appropriate adjustment made under subparagraph (3)) of the basic contribution which may also be the contribution;

N =number of principals (as at 31 July immediately preceding such indemnity period);

M =number of assistant solicitors and consultants (as at 31 July immediately preceding such indemnity period); and

S =the amount established from the following table-

Gross fee income of the firm \$ Million	Amount \$
over 0 but not exceeding 5	2.64% x gross fee income
over 5 but not exceeding 6	142000
over 6 but not exceeding 7	161000
over 7 but not exceeding 8	181000
over 8 but not exceeding 9	197000
over 9 but not exceeding 10	212000
over 10 but not exceeding 11	228000
over 11 but not exceeding 12	241000
over 12 but not exceeding 13	253000
over 13 but not exceeding 14	265000
over 14 but not exceeding 15	274000
over 15 but not exceeding 16	281000
over 16 but not exceeding 17	286000
over 17 but not exceeding 18	290000
over 18 but not exceeding 19	295000
over 19 but not exceeding 20	299000
over 20 but not exceeding 21	302000
over 21 but not exceeding 22	306000
over 22 but not exceeding 23	309000

over 23 but not exceeding 24	313000
over 24 but not exceeding 25	316000
over 25 but not exceeding 50	1.27% x gross fee income (subject to a maximum amount of \$543000)
over 50 but not exceeding 75	1.09% x gross fee income (subject to a maximum amount of \$673000)
over 75 but not exceeding 100	0.90% x gross fee income (subject to a maximum amount of \$732000)
over 100	0.73% x gross fee income

and the gross fee income of the firm shall be determined by the particulars contained in the gross fee income report produced under rule 8(1)(a) plus a factor to be applied by the Company to this figure to compensate for the historical basis of the gross fee income calculation (such factor not to exceed 10%) and shall be subject to adjustment as provided in sub-subparagraph (b) (iv); or (L.N. 162 of 2001; L.N. 154 of 2007)

(ii) in the circumstances set out in subparagraph (6), according to the formula-

$$F \times C$$

Where-

C = the amount (subject to any appropriate adjustment made under subparagraph (3)) of the basic contribution which may also be the contribution; and

F = the appropriate factor referred to in subparagraph (6)(d).

(b) (i) The contribution for the first indemnity period and for all subsequent indemnity periods shall be regulated by the number of principals, assistant solicitors and consultants engaged or employed in the Practice from time to time and the gross fee income of the firm.

(ii) Information regarding gross fee income of the firm and unqualified staff and the information described as N and M in sub-subparagraph (a) shall be properly recorded and the indemnified shall at all times allow the Company to inspect such records.

(iii) Particulars of the names and the position held in the Practice of every principal, assistant solicitor and consultant and the numbers of and positions held by unqualified staff at 1 October 1989 shall be submitted by the firm to the Company on or before 8 October 1989. Thereafter a return shall be sent to the Company on or before the last day of December, March, June and September in each year commencing on 31 December 1989 showing every subsequent change in such particulars (and the date of such change) occurring since the date of the previous return.

(iv) Upon receipt by the Company of the report of gross fee income and information pursuant to rule 8(1) to enable the Company to assess the contribution for the next period of indemnity, the Company will also, based on such information and the other information referred to in sub-subparagraph (b)(iii), calculate and adjust the contribution for the preceding indemnity period in accordance with the formula for calculating the contribution for such preceding indemnity period. Any difference in the amount of the assessed contribution paid for the preceding indemnity period and the contribution established by such calculation shall be met by a further payment by the firm, or in the event of the firm being dissolved prior to payment, by the principals of the firm immediately prior to such dissolution to the Company, or, notwithstanding paragraph 4, by a refund to the firm or such principals by the Company, as the case may be. (L.N. 162 of 1993; L.N. 154 of 2007)

(c) If any principal who is required to make contributions in accordance with paragraph 1 fails to provide the Company with a certified public accountant (practising)'s report of the gross fee income or other information referred to in sub-subparagraph (b)(iii) pursuant to rule 8(1), then such principal and the other principal or principals, if any, in the Practice shall be jointly and severally liable to pay- (23 of 2004 s. 56; L.N. 154 of 2007)

- (i) for the first indemnity period, an amount equal to 400% of the total amount payable by the firm as premium under and in respect of the second Master Policies for the period from 1 October 1987 to 30 September 1988; and
- (ii) thereafter, for each subsequent indemnity period an amount equal to 200% of the rate of contribution for the preceding indemnity period until such principal or principals have made disclosure of such particulars of the gross fee income or other information as was required.

(d) Upon a principal making good all failures under sub-subparagraph (c), the Company shall assess the contribution payable in respect of the Practice. If the amount of the contribution as assessed-

- (i) is less than the amount of the contribution paid, the difference shall be repaid to his firm without interest; or
- (ii) exceeds the amount of the contribution paid, his firm shall upon demand pay to the Company the balance of the amount of the contribution together with interest on the amount of such balance at the rate of 4% per annum above the best lending rate from time to time of The Hongkong and Shanghai Banking Corporation Limited calculated from the date stipulated in or prescribed by the Society under rule 8(1)(c) until receipt of payment by the Company.

(2) In the case of a solicitor or solicitors commencing a Practice during any indemnity period the contribution payable in respect of such Practice for the year of commencement of Practice shall be assessed by the Company based on the average contribution paid for the current indemnity period by firms of similar composition to the Practice and be paid pro rata and such basis shall continue to be applied until such Practice shall have submitted a certified public accountant (practising)'s report of gross fee income and other information in accordance with the foregoing provisions of this paragraph. Subject to subparagraph (7), the basic contribution payable by such Practice during any indemnity period shall not be less than \$20000. (L.N. 363 of 1991; 23 of 2004 s. 56; L.N. 154 of 2007; L.N. 65 of 2010)

(3) Subject to subparagraph (7), the basic contribution payable in respect of a Practice for an indemnity period shall not be less than \$20000. (L.N. 363 of 1991; L.N. 65 of 2010)

(4) The contribution payable for an indemnity period shall be due and payable to the Company on or before 30 September immediately preceding the indemnity period but in the case of the first indemnity period it shall be payable on the date decided by the Society and in the case of a Practice referred to in subparagraph (2) the contribution payable for its first period of indemnity shall be paid forthwith on demand.

(5) (a) Notwithstanding anything to the contrary in this paragraph, the Company may, with the authority of a resolution of the Council, at any time during an indemnity period demand in writing from every principal who is required to make contributions in accordance with paragraph 1 at any time during the indemnity period when the demand is made such further sum as may be authorized by the Council to make up a deficit or anticipated deficit in the fund, and such principal shall be bound to pay such further sum to the Company within 30 days after the date of issue of such written demand.

(b) Subject to the amount of payments received from such principal being sufficient to cover the amount of the deficit or anticipated deficit, the sum which such principal shall be required to pay shall be that proportion of the deficit or anticipated deficit as the total amount of the contributions payable after appropriate adjustment as provided in subparagraph (1)(b)(iv) by such principal for the indemnity period when the demand is made bears to the total amount of the contributions payable after adjustment by all principals under the Professional Indemnity Scheme for such indemnity period, provided that such principal may be required to make an interim payment on account of the sum which such principal is to pay hereunder. Such interim payment (which shall be subject to subsequent adjustment) shall be that proportion of the deficit or anticipated deficit as the contribution paid by such principal for the indemnity period when the demand is made bears to the total amount of the contributions then paid for such indemnity period.

(6) (a) If during any period of 4 indemnity periods immediately prior to any indemnity period, an insurer or the Company on behalf of the indemnified has paid, or is deemed, pursuant to sub-subparagraph (b), to have paid, any claim, then the contribution payable for such indemnity period shall not be the basic contribution but shall be calculated in accordance with the formula set out in paragraph 2(1)(a)(ii) by multiplying the basic contribution by the appropriate factor established pursuant to sub-subparagraph (d).

(b) (i) For the purposes of sub-subparagraph (a), if during any period of 4 indemnity periods immediately prior to any indemnity period, an insurer or the Company on behalf of a former Practice has paid any claim and a former principal of such former Practice is a principal at the relevant date, then the claim so paid shall be deemed to have been paid on behalf of the firm of which such former principal is a principal at the relevant date, except that where there is more than one former principal of such former Practice who is a principal at the relevant date the claim so paid shall be divided equally among each such former principal whose share of such claim shall be deemed to have been paid on behalf of the firm of which such former principal is a principal at the relevant date.

(ii) For the purposes of this sub-subparagraph, "the relevant date" (有關日期) means 31 July immediately prior to any indemnity period.

(c) For the purposes of sub-subparagraph (d), claims paid during such period-

(i) shall not include-

(A) any amount in excess of \$10000000 in respect of any one claim; (L.N. 528 of 1994)

(B) the amount of any claim paid by insurers under the former Master Policy on behalf of the indemnified prior to 1 October 1986 the full amount of which is paid by the indemnified to authorized insurers under the first Master Policies prior to 1 October 1986 provided that this exclusion shall only apply in respect of claims paid by insurers under the former Master Policy (and repaid by the indemnified) which do not exceed the aggregate of 50% of the premiums paid by the indemnified in respect of compulsory professional indemnity insurance in respect of the 4 indemnity periods prior to 1 October 1986;

(C) the amount of any deductible paid by the indemnified;

(D) the legal costs and disbursements incurred in successfully defending a claim made against the indemnified;

(E) the legal costs and disbursements (including defence and claimants' costs) paid in respect of a successful claim made against the indemnified under the former Master Policy; and

(F) the amount of any claim paid under or in respect of a policy of insurance other than the former Master Policy or the Master Policies or Master Policy;

(ii) shall include all legal costs and disbursements (including defence and claimants' costs) which are paid in respect of a successful claim made against the indemnified under the Master Policies or a Master Policy.

(d) (i) If claims so paid exceed 0% of the total amount of premiums or contributions paid in respect of the Practice in the 4 indemnity periods preceding the indemnity period but do not exceed 50% of premiums or contributions so paid, a factor of 1.06 shall be applied to the contribution.

(ii) If claims so paid exceed 50% of the total amount of premiums or contributions paid in respect of the Practice in the 4 indemnity periods preceding the indemnity period but do not exceed 100% of premiums or contribution so paid, a factor of 1.13 shall be applied to the contribution.

(iii) If claims so paid exceed 100% of the total amount of premiums or contributions paid in respect of the Practice in the 4 indemnity periods preceding the indemnity period but do not exceed 200% of premiums or contributions so paid, a factor of 1.33 shall be applied to the contribution.

(iv) If claims so paid exceed 200% of the total amount of premiums or contributions paid in respect of the Practice in the 4 indemnity periods preceding the indemnity period but do not exceed 300% of premiums or contributions so paid, a factor of 1.53 shall be applied to the contribution.

(v) If claims so paid exceed 300% of the total amount of premiums or contributions paid in respect of the Practice in the 4 indemnity periods preceding the indemnity period but do not exceed 400% of premiums or contributions so paid, a factor of 1.78 shall be applied to the contribution.

(vi) If claims so paid exceed 400% of the total amount of premiums or contributions paid in respect of the Practice in the 4 indemnity periods preceding the indemnity

period but do not exceed 500% of premiums or contributions so paid, a factor of 1.98 shall be applied to the contribution.

(vii) If claims so paid exceed 500% of the total amount of premiums or contributions paid in respect of the Practice in the 4 indemnity periods preceding the indemnity period but do not exceed 600% of premiums or contributions so paid, a factor of 2.18 shall be applied to the contribution.

(viii) If claims so paid exceed 600% of the total amount of premiums or contributions paid in respect of the Practice in the 4 indemnity periods preceding the indemnity period but do not exceed 700% of premiums or contributions so paid, a factor of 2.43 shall be applied to the contribution.

(ix) If claims so paid exceed 700% of the total amount of premiums or contributions paid in respect of the Practice in the 4 indemnity periods preceding the indemnity period but do not exceed 800% of premiums or contributions so paid, a factor of 2.63 shall be applied to the contribution.

(x) If claims so paid exceed 800% of the total amount of premiums or contributions paid in respect of the Practice in the 4 indemnity periods preceding the indemnity period but do not exceed 900% of premiums or contributions so paid, a factor of 2.88 shall be applied to the contribution.

(xi) If claims so paid exceed 900% of the total amount of premiums or contributions paid in respect of the Practice in the 4 indemnity periods preceding the indemnity period but do not exceed 1000% of premiums or contributions so paid, a factor of 3.00 shall be applied to the contribution.

(xii) If claims so paid exceed 1000% of the total amount of premiums or contributions paid in respect of the Practice in the 4 indemnity periods preceding the indemnity period, a factor of 3.50 shall be applied to the contribution.

(7) (a) The Company may, with the authority of a resolution of the Council passed at any time during an indemnity period, reduce the total amount of the contributions established in accordance with this paragraph, which are payable by firms, during the next indemnity period by the amount as is authorized by the Council. (L.N. 65 of 2010)

(b) The benefit of such reduction shall be available only to those firms which are entitled to indemnity during both the indemnity period when the resolution of the Council referred to in sub-subparagraph (a) is passed and during the next indemnity period and shall be obtained by reducing the amount of the contribution payable by any such firm for such next indemnity period by the amount established in accordance with sub-subparagraph (c).

(c) The amount by which the contribution of any such firm referred to in sub-subparagraph (b) shall be reduced shall be that proportion of the authorized reduction amount as the total amount of the contributions payable after appropriate adjustment as provided in subparagraph (1)(b)(iv) by that firm for the indemnity period when the resolution of the Council is passed bears to the total amount of contributions payable after adjustment by all firms under the Professional Indemnity Scheme for such indemnity period. (L.N. 363 of 1991)

3. Decisions by the Council

For the purpose of determining the amount of any contribution required by these rules, the Council's decision shall be final and binding on all persons affected on any question arising as to-

- (a) the maximum amount of contribution or basic contribution payable for any indemnity period;
- (b) the number of principals in a firm at any date;
- (c) the number of unqualified staff employed for the purpose of the Practice at any date;
- (d) the number of assistant solicitors and consultants in a firm at any date;
- (e) any information or other matter on the basis of which any adjustment in contribution is assessed in accordance with paragraph 2(1)(b)(iv);
- (f) the amount of any additional contribution to meet the amount of any deficit or anticipated deficit under paragraph 2(5);
- (g) the calculation of the amount of any claim paid and claims loading under paragraph

- 2(6) and all matters which are to be included or excluded when establishing the amount of claims paid;
- (h) the date on which a Practice becomes a former Practice;
- (i) whether a firm is eligible to receive any benefit under paragraph 2(7)(b);
- (j) the amount of the reduction in the contribution payable by a firm under paragraph 2(7)
- (c). (L.N. 363 of 1991)

4. No refund of contributions

A contribution is not refundable.

(Enacted 1989)