



***Solicitors' Mutual Defence Fund  
Limited***

***Annual Report 2010***

**Accounts of the Fund  
30 November, 2010**



# SOLICITORS' MUTUAL DEFENCE FUND LIMITED

(A company limited by guarantee and not having a share capital)

## DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2010

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# SOLICITORS' MUTUAL DEFENCE FUND LIMITED

(A company limited by guarantee and not having a share capital)

Notice is hereby given that the twenty-first Annual General Meeting of the Solicitors' Mutual Defence Fund Limited will be held at The O'Callaghan Davenport Hotel, Merrion Square, Dublin 2 on 31 August, 2011 at 12.00 noon for the purpose:-

1. To receive, and if approved, adopt the Directors' Report and accounts for the year ended 30 November 2010 and the Auditors report thereon.
2. To re-elect the following Directors who retire by rotation and being eligible offer themselves for re-election:-
  - (a) Patrick J. Groarke
  - (b) Geraldine Clarke
3. To re-elect the following Director who was co-opted since the last Annual General Meeting and retires in accordance with the Articles of Association.
  - (a) Jim Graham
4. To authorise the Directors to fix the remuneration of the Auditor.

By Order of the Board

MARGARET WEBER  
Secretary  
25, Lr. Leeson Street  
Dublin 2

Date: 16 June 2011

Registered Office  
25, Lr. Leeson Street  
Dublin 2

Notes:

Any member of the Company entitled to attend and vote may appoint another person as his/her proxy to attend, speak and vote on his/her behalf. For this purpose a proxy form is enclosed with this notice. A proxy need not be a member of the Company.

# SOLICITORS' MUTUAL DEFENCE FUND LIMITED

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## DIRECTORS AND OTHER INFORMATION

### DIRECTORS

Mr L K Shields (Chairman)  
Mr T D Shaw (Resigned 3 June 2010)  
Ms G Clarke  
Mr P J Groarke  
Mr M P Houlihan (Resigned 3 June 2010)  
Ms E Lynch  
Mr P Dorgan  
Mr D O'Driscoll (Co-opted on 18 May 2010)  
Mr J Graham (Co-opted on 13 September 2010)

### COMPANY SECRETARY

Ms M Weber

### COMPANY NUMBER

120727

### REGISTERED OFFICE

25 Lower Leeson Street  
Dublin 2  
Ireland

### AUDITORS

BDO  
Registered Auditors  
Beaux Lane House  
Mercer Street Lower  
Dublin 2  
Ireland

### SOLICITORS

O'Connor  
8 Clare Street  
Dublin 2  
  
Ince & Co  
International House  
1 St Katherine's Way  
London E1W 1AY  
England

### PRINCIPAL BANKERS

Bank of Ireland  
College Green  
Dublin 2

# SOLICITORS' MUTUAL DEFENCE FUND LIMITED

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## CHAIRMAN'S REPORT

### 2010 RENEWAL

Last year was another difficult year for your Fund. We set out in January 2010 to endeavour to ensure that the difficulties members faced in the 2009 renewal were not repeated. Regrettably, despite our efforts, this was not achieved. I believe you are owed an explanation for the difficulties surrounding last year's renewal.

Throughout 2010 the members of your Board, together with our claims managers Jim Graham, Aiden Glendon and Paddy Oonan, along with Panel Solicitor John P. Shaw, travelled around the country to just about every Bar Association and county in the country over a 6 week period. They met with over 1000 colleagues, both members and former members. The purpose of these meetings - was to explain the difficulties of the 2009 renewal coupled with the deteriorating claims position, and the roll-out of our risk management programme. Above all we wished to describe the efforts we made to ensure a smooth renewal in 2010. However, once again events overtook us and a combination of completely unforeseen circumstances derailed the renewal process in mid-November.

As you are aware, since 2000 we have reinsured 90% of our primary risk. Obtaining this reinsurance has been very difficult especially in the past 3 years because of the well publicised increase in the number and cost of the claims facing your Fund. This has led to a very significant and unprecedented deterioration of loss ratios. Chartis UK (formerly AIG) has been our lead reinsurer since 2000 and has suffered the brunt of those losses with us.

From January 2010 we were working on our reinsurance programme for 2010/2011 with all our reinsurers and in particular with Chartis. With the claims situation worsening this proved to be very difficult. While we would have wished to have concluded the negotiations earlier than late October this proved impossible for reasons outside our control.

We concluded an agreement in principle at the end of September with Chartis to continue as Lead Underwriter, but could only finalise our negotiations with Chartis after the Law Society signed the revised regulatory framework. This only happened in mid-October 2010. Our negotiation with Chartis included agreement upon the process and issue of applications for membership and indemnity and the basic terms of such indemnity. Only then were we able to issue applications for renewal of membership.

We were committed to easing our members intense anxiety by organising a smooth renewal. We issued our first quotation to members on 28 October, well in advance of any other market participant. However within approximately one week Quinn Insurance withdrew from the P.I. market. This followed the earlier withdrawal of RSA, A G Dore and Hiscox. Therefore, capacity was seriously reduced with the exit of these Insurers. Our quotation process came to a halt until 10 November while Chartis revised its strategy. When quotations recommenced on 11 November, the rates were significantly higher than the previous quotations.

Therefore on 16 November, with great regret, the Board of your Fund concluded that it was not in your interests to continue with Chartis as Lead Reinsurer. Chartis has worked and supported the Fund for many years, and indeed continues to do so with regard to ongoing claims. I wish to acknowledge this support and to thank them. The decision to part company with Chartis was one of the most difficult professional decisions I and the Board ever had to make knowing the stress it would cause to members. However the alternative was worse and would have served only to drive the cost of Insurance even higher. The role of the SMDF is and always has been to look after colleagues.

We immediately approached Allianz Global Risks in London, one of our reinsurers on last year's contract, and they agreed to take over the role of Lead Reinsurer. We then made revised arrangements including processes and terms which was exceedingly difficult at the height of the renewal season. This development set us back nearly 2 weeks at a very critical time. Allianz provided 2 underwriters to your Fund's office in Dublin to speed up the renewal process, but all cases had to be referred to London for review.

Unfortunately therefore, many firms who would have wished to join us or rejoin us were deprived of the opportunity to do so. We deeply regret that you faced another harrowing renewal experience but circumstances militated against us. We continued to review and quote applications up until 23 December 2010.

### FINANCIAL SUPPORT

On a more positive note, since year end at the end of January 2011 I am pleased to say that your Fund settled the action against Bloxhams Stockbrokers. The settlement was subject to a Confidentiality Agreement and I cannot give you any further details. The settlement was deemed satisfactory by the Directors.

# SOLICITORS' MUTUAL DEFENCE FUND LIMITED

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Subsequent to the settlement matters moved on rapidly and you will recall my letter to each firm in April 2011. In that letter I drew attention to the fact that by 2007 your Fund was in a very strong position. It insured a large proportion of the profession and had reserves in excess of €23m. Through 2008 and 2009 it was hit by a combination of the loss of a substantial part of its reserves (due to the global financial collapse) and an unprecedented and extraordinary increase in the number and size of claims against solicitors. A large proportion of these claims against our members are property related and have emanated from the Banks and other Financial Institutions.

These factors put the finances of the Fund under severe strain and it was forced to apply to the Law Society for assistance. The Law Society, after lengthy debate and discussion, which is referred to in my Chairman's Report last year, and having taken extensive legal and other specialist advice, concluded that it was in the interests of the profession and the public that assistance should be given. This was in the form of a Guarantee for €8.4m by the Law Society in 2009. No funds were drawn on foot of the facility taken out by the Fund with the Bank of Ireland following upon the Law Society agreeing to give a Guarantee. Indeed with the Fund's agreement the Bank of Ireland facility was withdrawn earlier this year. However with the benefit of this support the Fund was able to write business in 2009/2010 and 2010/2011 and achieved a positive underwriting result in each year. Following completion of a Strategic Review and advices received the Fund continued in business in 2010/2011.

In March of this year the Board of the Fund considered its Actuaries Report, which it obtains on an annual basis, and also its draft Accounts for the period to 30 November 2010. The Actuarial Report disclosed that the claims for the 2008/2009 had deteriorated to the extent that there was a 65% increase in the cost of claims for that year. This has resulted in an exposure of approximately €5m for the Fund. This deterioration, coupled with the satisfactory settlement of litigation against Bloxhams Stockbrokers referred to above, gave the Board clear financial information which, after advice, compelled it to the conclusion that while the Fund was not under immediate stress it might not have sufficient reserves to pay all claims into the long term future. The advice suggested that the Fund should either wind up by appointing a liquidator, or commence an orderly wind down by working through the claims over the ensuing years while not taking on any new risk. This latter course would require a capital commitment estimated in the range of €14m-€16m payable over approximately 15 years.

An intensive round of discussions with the Law Society ensued. Of particular concern was the status of the Fund's reinsurance. The Fund has, as you are aware, and as I have stated above, for the last 10 years reinsured 90% of its exposure. This has been a successful policy, resulting in substantial savings to the profession of in the order of €100m. We are advised that our reinsurance contracts are secure but that it is essential that there is an orderly wind down to extract the maximum benefit from these valuable contracts.

I am pleased to advise that in April we had succeeded in reinsuring 100% of our liability for the current year so that if you are a current member you should secure the full benefit of the indemnity for which you paid your contribution last November/December.

As you are aware the Council of the Law Society following those extensive discussions recommended to the profession that financial assistance be offered to facilitate an orderly wind down. An EGM of the Society was held on 4 May followed by a postal ballot. The members of the profession voted in favour of giving the financial assistance. The full text of the resolution approved by the membership of the Law Society was as follows:-

"That this General Meeting approves the recommendation of the Society's Council to provide financial support to the Solicitors Mutual Defence Fund up to a maximum of €16million, to be funded by way of an equal payment from every practising solicitor for a period of ten years and to be collected through the practising certificate fee or as otherwise determined by the Society (currently estimated at €200 per solicitor per year)."

The Fund has commenced negotiations with the Society to implement and agree the terms of this financial support.

The Board would like to express its appreciation to the Law Society, its Council and in particular its membership and our colleagues and members for this support which will enable, we believe, an orderly wind down of the Fund in the interests of the members of the Fund (past and present), the solicitors profession and the public. Accordingly, as is well publicised, the Fund will not be inviting renewal in November 2011.

## **MEMBERSHIP**

At the year end, there was a total membership of 630 firms, representing 1,823 solicitors.

The distribution of the membership as at 30 November, 2010 was:-

# SOLICITORS' MUTUAL DEFENCE FUND LIMITED

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Size of Firm	Number of Firms	Percentage of Total
1 Solicitor	224	35.50%
2 - 5 Solicitors	344	54.52%
6 - 10 Solicitors	47	7.45%
11 - 20 Solicitors	13	2.06%
21 + Solicitors	3	0.47%

## CLAIMS

As I said in relation to the 2010 renewal above regrettably claims continue to increase at an alarming rate and an unacceptable level. The claims and notifications for the current year 2010/2011, at this juncture, appear much better than previous years.

As I stated above since the beginning of 2000, your Fund is accepting liability for 10% of every claim up to a maximum of €1,269,738 (IR£1m) for 2000 and 2001 and for €1.3m for 2002, 2003 and 2004, €1.5m for 2005, €2.5m for 2006, 2007, 2008, 2009 and €1.5m for 2010. The remaining 90% is placed by way of reinsurance with a number of insurers with Chartis (UK) Limited as our Lead Reinsurer up until 2010. In 2010/2011 we have Allianz Global Risks as the Lead Reinsurer and we have reinsured 100% of every claim up to a maximum of €1.5m.

In addition we continue to arrange Stop Loss insurance each year. The Fund retains the control and management of the claims subject to approval of reinsurers of payments over an agreed limit.

Once the Fund has agreed to provide indemnity it relies on the Panel Solicitors to manage each case. To keep overheads to a minimum the Panel Solicitors are in effect both the claims manager and the legal manager for the files they handle. The day to day claims problems are dealt with by Jim Graham our Claims Consultant and Director together with Aidan Glendon, Paddy Oonan and Derek Gately in consultation with me and/or my fellow Directors. Regrettably Aidan Glendon had to retire during the year due to ill-health and we wish him every good fortune and a speedy return to good health.

The table below sets out the number of claims and a breakdown of the claim types across the various areas:

YEAR (12months to)	30/11/2008 (11 months)		30/11/2009		30/11/2010	
	NO.	%	NO.	%	NO.	%
CLAIM TYPE						
Criminal	-	-	1	0.18	-	-
Litigation General	79	26.78	70	12.66	9	13.43
Litigation – Personal Injury-defence	6	2.03	3	0.54	-	-
Litigation – Personal Injury-plaintiff	10	3.39	38	6.88	4	5.97
Commercial	2	0.68	6	1.08	-	-
Conveyancing/Commercial	48	16.27	165	29.84	16	23.88
Conveyancing/Domestic	119	40.34	235	42.50	27	40.30
Family Law	2	0.68	5	0.90	-	-
Probate	22	7.46	21	3.80	8	11.94
Taxation	-	-	1	0.18	-	-
Estate Agency	-	-	-	-	-	-
Financial Advice	-	-	1	0.18	-	-
Insurance Agency	-	-	-	-	-	-
Debt Collection	-	-	1	0.18	-	-
Other	7	2.37	6	1.08	3	4.48
Total	295	100	553	100	67	100

It is important to stress that these statistics are at 30 November 2010 and are actual claims and not notifications.

# SOLICITORS' MUTUAL DEFENCE FUND LIMITED

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## LEVEL OF CONTRIBUTION

You are fully aware of the substantial increase in the contribution level which was required for the 2009 / 2010 renewal. I wrote to you explaining the reasons for this increase. There was no alleviation of the position for the 2010/2011 renewal. You will be aware that we have a policy of doubling the excess in every case where there is a Statute Barred claim with no answer of liability. For each of the years 2009-2010 and 2010-2011 each Application Form was individually reviewed by the Fund and by re-insurers in London. Many factors were involved in assessing the level of contribution including, but not limited to last year's rate of contribution, fee income, work type and split, numbers of solicitors and fee earners, individual claims and general claims including breach of undertaking claims. I am aware that we were not the lowest cost indemnity provider last year nor indeed the previous year as I said last year in my Chairman's Report. It is important to realise that many insurers have come and gone over the years and the new entrants are not burdened with the historical large claims.

## RESERVES

You will see from the enclosed Accounts that for the second time since the Fund's inception the retained reserves are negative.

## RISK MANAGEMENT

During 2010 we launched the SMDF LQ Basic with the assistance of Anne Neary and her colleague Frances O'Toole. It was well received and the Fund believes in risk management for the profession and was pleased to have been at the forefront of increasing the awareness and necessity for high risk management standards.

## BOARD, STAFF AND SOLICITORS

I thank Margaret Weber (Secretary/Manager), Jim Graham (Claims Consultant) and all our staff members along with David Gardiner our accountant for their extraordinary commitment and work at all times during the year and especially at renewal. I also thank our Panel Solicitors and my fellow Board Members and in particular Patrick Dorgan for all their work during the past year and over the years.

## THE FUTURE

It cannot be stated too often that throughout the Fund's existence it has undoubtedly kept the level of premium charged in the market at a level far below what it would otherwise have been. Unfortunately due to the circumstances I have detailed above and elsewhere the Fund now has to commence an orderly wind down. The Board sincerely regrets that this decision had to be made but the high number and cost of claims have essentially given rise to this decision.

I and the Board would like sincerely to thank the members over the years for their loyal support without which we would not have achieved all we did.

LAURENCE K. SHIELDS,  
Chairman.

# SOLICITORS' MUTUAL DEFENCE FUND LIMITED

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## DIRECTORS' REPORT

The directors present herewith the audited financial statements for the year ended 30 November 2010.

### **Directors' responsibilities**

The directors are responsible for preparing the financial statements in accordance with applicable Irish law and Generally Accepted Accounting Practice in Ireland including the accounting standards issued by the Accounting Standards Board and promulgated by the Institute of Chartered Accountants in Ireland.

Irish company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit and loss of the company for that year. In preparing these financial statements the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are responsible and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in Ireland and Irish statute comprising the Companies Acts, 1963 to 2009. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Books of account**

The measures taken by the directors to secure compliance with the company's obligation to keep proper books of account are the use of appropriate systems and procedures and employment of competent persons. The books of account are kept at the company's registered office.

### **Principal activity**

The principal activities of the company are in the managing and administration of a Mutual Defence and Indemnity Fund in relation to civil liability claims affecting the professional character or professional interests of solicitors practising in the Republic of Ireland.

Subsequent to the year end, the Directors decided that the Fund will not be offering indemnity from the next renewal. As set out on page 14, financial support will be made available to the Fund by The Law Society of Ireland which in the view of the Directors will enable an orderly wind down of the Fund and enable it to meet its liabilities over the wind down period of 12 to 15 years.

### **Results**

The results for the year are set out in the income and expenditure account on page 11.

### **Dividend**

In accordance with the Memorandum and Articles of Association of the company, the income and property of the company shall be applied solely towards the promotion of the objects of the company and no proportion shall be paid or transferred by dividend, bonus, or otherwise to members of the company.

### **Review of business and future developments**

As set out above, the company will not be offering indemnity from the next renewal. Further comment is set out in chairman's statement included in the annual report.

# SOLICITORS' MUTUAL DEFENCE FUND LIMITED

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## DIRECTORS' REPORT

### Principal risks and uncertainties

The principal risk facing the company is summarised below, a more detailed commentary of the key risks and uncertainties currently facing the company are discussed in the Chairman's report on pages 4 to 7.

- Reservations expressed by Re-insurers (as noted in note 16 to the financial statements) and the effect that these may have on the recoverability of their share of claims liabilities

The directors continue to monitor and take appropriate actions where possible to mitigate this risk.

### Directors and secretary

The names of the persons who were directors at any time during the year ended 30 November 2010 are set out below. Unless otherwise they served as directors for the entire period.

Mr. L K Shields (Chairman)  
Mr. T D Shaw (Vice Chairman) (Resigned 3 June 2010)  
Ms. G Clarke  
Mr. P J Groarke  
Mr. M P Houlihan (Resigned 3 June 2010)  
Ms. E Lynch  
Mr. P Dorgan  
Mr. D. O'Driscoll (Co-opted 18 May 2010)  
Mr J. Graham (Co-opted 13 September 2010)

### Auditors

BDO, Registered Auditors, have indicated their willingness to continue in office in accordance with the provisions of Section 160(2) of the Companies Act, 1963.

Signed on behalf of the Board

L. K. SHIELDS     )  
                                  )  
E. LYNCH            )     DIRECTORS

Date: 16 June, 2011

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOLICITORS' MUTUAL DEFENCE FUND LIMITED

(A company limited by guarantee and not having a share capital)

We have audited the financial statements of Solicitors' Mutual Defence Fund Limited for the year ended 30 November 2010 on pages 11 to 20, which comprise the income and expenditure account, the statement of recognised gains and losses, the balance sheet, the cash flow statement, and the related notes. These financial statements have been prepared in accordance with the accounting policies set out on pages 14 and 15.

This report is made solely to the Company's members, as a body, in accordance with Section 193 of the Companies Act, 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's members as a body, for our audit work, for this report, or for the opinion we have formed.

## **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and the Accounting Standards issued by the Accounting Standards Board and promulgated by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland), are set out in the Statement of Directors' Responsibilities on page 8. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards of Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with Generally Accepted Accounting Practice in Ireland and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2009. We also report to you whether in our opinion: proper books of account have been kept by the Company; and whether the information given in the Directors' Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit and whether the Company's balance sheet is in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding Directors' remuneration and Directors' transactions is not given and, where practicable, include such information in our report.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

## **Basis of audit opinion**

We conducted our audit in accordance with International Standards of Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## **Opinion**

In our opinion, the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of affairs of the Company at 30 November 2010, and of its results for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2009.

We have obtained all the information and explanations we considered necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the Company. The Company's balance sheet is in agreement with the books of account.

In our opinion, the information given in the Directors' Report on pages 8 and 9 is consistent with the financial statements.

## **Emphasis of Matter – Going Concern**

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made basis of preparation section on page 14 of the financial statements concerning the company's ability to continue as a going concern. The company is dependent on financial support from the Law Society of Ireland, the assumption that there will be no material adverse deterioration in the current position for claims provisioning, and that reinsurance companies continue to meet their obligations to the company to continue as a going concern. These conditions, along with the matters explained in note 16 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

16 June 2011

**BDO  
Dublin  
Registered Auditors  
AI223876**

# SOLICITORS' MUTUAL DEFENCE FUND LIMITED

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## INCOME AND EXPENDITURE ACCOUNT YEAR ENDED 30 NOVEMBER 2010

	Note	Year Ended 30 November 2010 €	Year Ended 30 November 2009 €
<b>Net Contribution Income</b>		<b>3,189,201</b>	<b>2,562,868</b>
Underwriting Result	4	(2,241,410)	(1,975,011)
Realised loss on disposal of investments		920,000	(14,288,479)
Investment Income		281,872	545,250
<b>Deficit before taxation</b>	<b>5</b>	<b>(1,039,538)</b>	<b>(15,718,240)</b>
Taxation	6	(65,216)	(134,870)
<b>Deficit retained</b>	<b>13</b>	<b>(1,104,754)</b>	<b>(15,853,110)</b>

All the above amounts relate to the continuing activities of the company.

There is no difference between the (deficit) before taxation and the (deficit) retained for the year stated above and their historical cost equivalents.

The accounting policies and notes on pages 14 to 20 form part of these financial statements.

## STATEMENT OF RECOGNISED GAINS AND LOSSES YEAR ENDED 30 NOVEMBER 2010

	Note	Year Ended 30 November 2010 €	Year Ended 30 November 2009 €
Deficit for the year		(1,104,754)	(15,853,110)
Unrealised gain/(loss) on financial assets	13	2,724,799	(228,720)
Realised (gain)/loss on financial assets		(2,690,000)	7,847,347
<b>Total recognised loss since last annual report</b>		<b>(1,069,955)</b>	<b>(8,234,483)</b>

The accounting policies and notes on pages 14 to 20 form part of these financial statements.

Signed on behalf of the Board

L. K. SHIELDS    )  
                          )     DIRECTORS  
E. LYNCH        )

Date: 16 June, 2011



# SOLICITORS' MUTUAL DEFENCE FUND LIMITED

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## CASH FLOW STATEMENT FOR THE YEAR ENDED 30 NOVEMBER 2010

	Note	30 November 2010 €	30 November 2009 €
<b>Cash inflow/(outflow) from operating activities</b>	<b>1</b>	<b>2,788,875</b>	<b>(16,659,317)</b>
<b>Return on investments and servicing of finance</b>			
Interest and dividends		348,899	1,004,203
Taxation		(156,575)	(98,377)
Capital expenditure	2	(23,335)	-
Acquisitions and disposals	2	2,280,000	2,100,296
		<u>5,237,864</u>	<u>(13,657,838)</u>
Increase/(decrease) in cash in the period		<u>5,237,864</u>	<u>(13,657,838)</u>
<b>Reconciliation of net funds to movement in net Funds</b>			
Increase/(decrease) in cash in the period	3	5,237,864	(13,657,838)
Net funds at beginning of the period		<u>3,395,928</u>	<u>17,053,766</u>
<b>Net funds at end of the period</b>	<b>3</b>	<b><u>8,633,792</u></b>	<b><u>3,395,928</u></b>

# SOLICITORS' MUTUAL DEFENCE FUND LIMITED

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## ACCOUNTING POLICIES FOR THE YEAR ENDED 30 NOVEMBER 2010

### Accounting Policies

#### Accounting convention

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain investments to market value. The currency used in these financial statements is in the euro as denoted by the symbol '€'.

#### Basis of preparation

The financial statements have been prepared in accordance with Accounting Standards generally accepted in Ireland and Irish statute comprising the Companies Acts 1963 to 2009. Accounting Standards generally accepted in Ireland in preparing financial statement giving a true and fair view are those published by the Institute of Chartered Accountants in Ireland and issued by the Accounting Standards Board. The financial statements have been prepared using accounting policies consistent with prior years.

The company had net liabilities as at 30 November 2010 amounting to €9,004,438 and had incurred a deficit for the year of €1,069,955. Subsequent to the year end, the Directors decided that the Fund will not be offering indemnity from the next renewal. As set out below, financial support will be made available to the Fund by The Law Society of Ireland which in the view of the Directors will enable an orderly wind down of the Fund and enable it to meet its liabilities over the wind down period of 12 to 15 years.

The directors have prepared the financial statements on a going concern basis which assumes that the company will continue in operational existence for the foreseeable future having adequate resources to meet its obligations when they fall due. The validity of the going concern basis is primarily dependent on:

- Continued financial support provided by The Law Society of Ireland. A General Meeting of the Law Society of Ireland held was held in May 2011 and was followed by a postal ballot in June 2011 which approved the recommendation of the Society's Council to provide financial support to the Solicitors Mutual Defence Fund Limited up to a maximum of €16 million;
- The assumption that there will be no material adverse deterioration in the current position for claims provisioning;
- Reinsurance companies continuing to meet their obligations to the company, (note 16);
- The directors consider it appropriate to prepare the financial statements on the going concern basis. Based on the fact that the company has secured financial support from the Law Society of Ireland, and reinsurance companies have continued to pay claims and the ongoing discussions with the reinsurance companies, the directors believe that the reinsurance companies will continue to meet their obligations to the company.

The financial statements do not include any adjustments that would result if the going concern basis was not appropriate. Should there be any changes in the assumptions noted above, there would exist an uncertainty as to the ability of the company to continue as a going concern.

#### Contribution income

This consists of contribution income earned during the period. Unearned contribution income represents the proportion of contribution income levied in the year but which relates to unexpired periods of membership calculated on a time apportioned basis.

#### Claims outstanding

- (i) Outstanding claims comprise the estimated settlement cost, including defence costs, of all claims notified and made, but not settled at the balance sheet date. A separate assessment is made of the amount that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.
- (ii) Gross contributions less claims paid and expenses are accumulated in a fund during the year of underwriting and second year (open years). The fund is carried forward in the balance sheet and adjusted if necessary, so that the final balance sheet for each underwriting year is sufficient to meet the cost of all outstanding claims. In the third year the underwriting result for the first year is released to the income and expenditure account after allowing for all related outstanding claims.

# SOLICITORS' MUTUAL DEFENCE FUND LIMITED

(A company limited by guarantee and not having a share capital)

## ACCOUNTING POLICIES FOR THE YEAR ENDED 30 NOVEMBER 2010

### **Investments**

Investments are stated at market value. Unrealised gains or losses arising on the valuation of investments are dealt with in the Investment Revaluation Reserve (unrealised). On disposal of investments, a transfer is made to the Revenue Reserve (realised) from the Investment Revaluation Reserve (unrealised) in respect of gains and losses realised as a result of the disposal.

The market value of investments traded in active markets (such as publicly quoted entities) is based on quoted market prices at the balance sheet date. The quoted market price used for investments is the mid market price. The market value of investments that are not traded in an active market (for example unlisted bonds) is determined on the basis of latest available prices obtained from brokers who facilitate a market in such investments.

Investment income is accounted for on an accruals basis. Income comprises interest and dividends earned, together with realised gains and losses on disposal of investments.

### **Deferred taxation**

Provision is made at current rates for deferred taxation as a result of timing differences in the accounting and taxation treatment of investment income.

### **Fixed assets**

Fixed assets are stated at cost less accumulated depreciation. Cost of fixed assets is their purchase cost together with any incidental expenses of acquisition.

Depreciation is provided on a straight line basis at rates which are estimated to reduce the assets to their realisable values at the end of their expected useful lives which are set out below:

### **Expected useful life**

Computer equipment	5 years
Furniture and fittings	5 years

### **Pension arrangements**

The company operates a defined contribution pension scheme for its employees. Payments are charged to the income and expenditure account in the period to which they relate.

### **Provisions and contingencies**

No general provisions or contingencies are included in the financial statements in accordance with FRS 12 "Provisions, Contingent Liabilities and Contingent Assets".

# SOLICITORS' MUTUAL DEFENCE FUND LIMITED

(A company limited by guarantee and not having a share capital)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 NOVEMBER 2010

### 1. Reconciliation of underwriting result to operating cash flow

	2010 €	2009 €
Underwriting result	(2,241,410)	(1,975,011)
Depreciation charges	13,404	19,966
(Increase)/decrease in debtors	(1,397,944)	489,948
Increase/(decrease) in creditors	2,657,183	(12,912,453)
Increase/(decrease) in provision for claims (net of re-insurance)	3,757,642	(2,281,767)
	<u>2,788,875</u>	<u>(16,659,317)</u>

### 2. Capital Expenditure and Financial Investment

	2010 €	2009 €
Purchase of tangible fixed assets	23,335	-
	<u>2,280,000</u>	<u>2,100,296</u>
Sale of financial assets		

### 3. Analysis of net funds

	2009 €	Cash flow €	2010 €
Cash at bank	3,395,928	5,237,864	8,633,792
	<u>3,395,928</u>	<u>5,237,864</u>	<u>8,633,792</u>

### 4. Underwriting Result

	2010 €	2009 €
Net contribution income:	3,189,201	2,562,868
Less:		
Legal fees	463,093	138,647
Actuaries fees	46,348	45,150
Depreciation	13,404	19,966
Other administration costs	992,380	828,824
Provision for future claims	3,915,386	3,505,292
	<u>(2,241,410)</u>	<u>(1,975,011)</u>
Underwriting result		

# SOLICITORS' MUTUAL DEFENCE FUND LIMITED

(A company limited by guarantee and not having a share capital)

5. Deficit before taxation	2010	2009
	€	€
The deficit is arrived at after charging the following:		
Director's remuneration:		
For services as director	93,532	87,750
	<u>93,532</u>	<u>87,750</u>
For management services	80,000	123,333
	<u>80,000</u>	<u>123,333</u>
Auditors remuneration:		
Audit services	15,730	15,730
Tax advisory services	3,630	3,630
	<u>3,630</u>	<u>3,630</u>
Depreciation of tangible fixed assets	13,304	19,965
	<u>13,304</u>	<u>19,965</u>
Investment Income:		
Interest and dividends	281,872	545,250
	<u>281,872</u>	<u>545,250</u>
6. Taxation	2010	2009
	€	€
<b>Current year tax</b>		
Deficit before taxation	(1,039,538)	(15,718,240)
Gross deposit interest	67,313	4,041
Equity dividends – cash	(20,925)	(22,432)
Fees	-	10,282
Income not subject to corporation tax	2,241,310	1,975,011
(Profit)/loss on disposal of investments	(920,000)	14,288,479
	<u>328,160</u>	<u>539,480</u>
The charge comprises:		
Corporation tax on interest income @ 25%	82,040	134,870
Deferred taxation asset on interest income	(16,824)	-
	<u>82,040</u>	<u>134,870</u>
Total	<u>65,216</u>	<u>134,870</u>

# SOLICITORS' MUTUAL DEFENCE FUND LIMITED

(A company limited by guarantee and not having a share capital)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 NOVEMBER 2010

### 7. Employees and Remuneration

The average number of persons employed by the company during the year was 7 (2009: 6).

The staff costs are comprised of:	<b>2010</b>	<b>2009</b>
	€	€
	<b>434,766</b>	319,884
Social welfare costs	<b>45,267</b>	33,727
Pension costs	<b>21,505</b>	27,210
	<u><b>501,538</b></u>	<u>380,821</u>

### 8. Tangible fixed assets

	<b>Computer equipment €</b>	<b>Furniture &amp; fittings €</b>	<b>Total €</b>
<b>Cost</b>			
At 1 December 2009	99,961	33,304	133,265
Additions	23,335	-	23,335
	<u>123,296</u>	<u>33,304</u>	<u>156,600</u>
<b>At 30 November 2010</b>			
<b>Depreciation</b>			
At 1 December 2009	77,630	28,309	105,939
Charge for the year	9,713	3,691	13,404
	<u>87,343</u>	<u>32,000</u>	<u>119,343</u>
<b>At 30 November 2010</b>			
<b>Net book value</b>			
At 30 November 2010	<u>35,953</u>	<u>1,304</u>	<u>37,257</u>
At 30 November 2009	<u>22,331</u>	<u>4,995</u>	<u>27,325</u>

# SOLICITORS' MUTUAL DEFENCE FUND LIMITED

(A company limited by guarantee and not having a share capital)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 NOVEMBER 2010

9. Financial Assets	2010 Market Value €	2010 Cost €	2009 Market Value €	2009 Cost €
Fixed Interest Securities	574,620	306,704	1,783,009	4,525,495
Irish Equities	448,632	704,901	563,803	535,108
US Equities	1,377	123,132	3,018	-
	<u>1,024,629</u>	<u>1,134,737</u>	<u>2,349,830</u>	<u>5,060,603</u>

Subsequent to the year end, the company disposed of all of its investments and received net proceeds of €549,130.

### 10. Debtors

	2010 €	2009 €
Amounts receivable within one year:		
Reinsurance recoverable	3,778,712	2,387,849
Interest receivable	61,425	128,452
Other prepayments	31,731	24,650
Taxation recoverable	69,893	-
Deferred tax asset	16,824	-
	<u>3,958,585</u>	<u>2,540,951</u>
Amounts receivable after more than one year:		
Reinsurance recoverable	<u>184,319,000</u>	<u>158,343,000</u>

### 11. Creditors

	2010 €	2009 €
Amounts falling due within one year		
Deferred contribution income	4,766,383	2,280,100
Other accruals	577,317	406,417
	<u>5,343,700</u>	<u>2,686,517</u>

### 12. Provision for claims

	2010 €	2009 €
Outstanding claims provisions	<u>201,634,000</u>	<u>171,905,000</u>

# SOLICITORS' MUTUAL DEFENCE FUND LIMITED

(A company limited by guarantee and not having a share capital)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 NOVEMBER 2010

### 13. Reserves

	Revenue Reserve (realised)	Investment Revaluation Reserve (unrealised)	Total
	€	€	€
At 1 December 2009	(5,099,576)	(2,834,907)	(7,934,483)
Loss for the period	(1,104,754)	-	(1,104,754)
Unrealised gain on financial assets	-	2,724,799	2,724,799
Realised loss on financial assets (included within loss for the period)	-	(2,690,000)	(2,690,000)
	<hr/>	<hr/>	<hr/>
At 30 November 2010	<u>(6,204,330)</u>	<u>(2,800,108)</u>	<u>(9,004,438)</u>

### 14. Related party transactions

Certain directors are partners in firms who are on the panel of solicitors acting for the fund in defending members interests. These firms are paid legal fees and reimbursed for outlays in the normal course of business.

### 15. Post balance sheet events

In January 2011, the legal action against Bloxhams was settled under confidential terms, which are deemed satisfactory by the directors.

Subsequent to the year end, the Directors decided the Fund will not be offering indemnity from the next renewal. A General Meeting of the Law Society of Ireland was held in May 2011 and was followed by a postal ballot in June 2011 which approved the recommendation of the Society's Council to provide financial support to the Solicitors Mutual Defence Fund Limited up to a maximum of €16 million. In the view of the Directors this will enable an orderly wind down of the Fund and enable it to meet its liabilities over the wind down period of 12 to 15 years.

### 16. Reinsurance

During the year ended 30 November 2009, certain Re-insurers notified the Company that they were fully reserving their rights in relation to all periods in which they had reinsured the Company. These Re-insurers reinsured amounts ranging from 15 to 50 % of all balances ceded depending on the underwriting year. The Company continues to be in discussions with these Re-insurers and recoveries are currently being received from these Re-insurers.