

**SOLICITORS INDEMNITY MUTUAL INSURANCE
ASSOCIATION LIMITED**

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
30 SEPTEMBER 2008**

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

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SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of the Members will be held on Tuesday 30 June 2009, at 12 noon, at 90 Fenchurch Street, London EC3M 4ST for the following purposes:

To receive the Directors' Report and Financial Statements for the year ended 30 September 2008 and if they are approved to adopt them;

To appoint Directors; and

To re-appoint the auditors and authorise the Directors to fix their remuneration.

By Order of the Board

I.R. Jarrett ACIS
Secretary

Date: 8 December 2008

- Notes:
- i) A Member entitled to attend and vote at the above Meeting is entitled to appoint one or more proxies to attend and vote instead of him. A person so appointed must be a Member of the Company. The instrument appointing a proxy must be deposited with the Secretary not less than forty-eight hours before the meeting.
 - ii) An agenda booklet for the Annual General Meeting setting out the resolutions and containing the minutes of the last Annual General Meeting will be sent to Members prior to the Meeting together with a form of proxy.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

DIRECTORS OF THE COMPANY

P. J. Russell (Chairman)	Charles Russell LLP
R. Challands	Bond Pearce LLP
P.M. Crossley	Hammonds LLP
J. A. Gosling	Addleshaw Goddard LLP
C. J. Harris	Clyde & Co LLP (Appointed 8 December 2008)
R.. J. Parker *	Reed Smith LLP
A. J. Paton	Pinsent Masons LLP (Appointed 8 December 2008)
C. C. Perrin	Clifford Chance LLP
B. W. D. Richards *	Lawrence Graham LLP
J. F. Rosenheim	Denton Wilde Sapte LLP
P. J. H. Vaughan	Simmons & Simmons
E. C. J. Wells *	Lovells LLP

* Member of the Audit and Investment Committee

SECRETARY

I.R. Jarrett

MANAGERS

SIMIA Management Company,
90 Fenchurch Street, London, EC3M 4ST.

Directors of SIMIA Management Company.

I.R. Jarrett
P.T.E. Massey
A. Salim

AUDITORS

Moore Stephens LLP, Chartered Accountants and Registered Auditors,
St Paul's House, Warwick Lane, London, EC4M 7BP.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their Report and the Financial Statements for the year ended 30 September 2008.

Principal Activities

The principle activities of the Company during the year were the mutual insurance of Solicitors against risks arising from professional negligence.

The Company has appointed S.I.M.I.A. Management Company as sole managers to manage its business affairs and operations and has appointed Thomas Miller Investment Ltd to manage the Company's investment portfolio. Both SIMIA Management Company and Thomas Miller Investment Ltd are owned by Thomas Miller Holdings Limited.

The Company has no employees.

The Board of Directors purchased Directors' and Officers' Liability Insurance to indemnify the Directors and Officers of the Company against loss arising from any claim made against them jointly or severally by reason of any wrongful act in their capacity as Director or Officer of the Company. The insurance also covers the Company's loss when it is required or permitted to indemnify the Directors or Officers pursuant to the law, Common or Statutory, or the Articles of Association. The cost of the insurance is met by the Company and the premium is detailed in note 8 to the Financial Statements.

Directors and Officers

The names of the Directors of the Company who served during the year are shown on page 2.

In accordance with the Article 48 Messrs. R Challands, P J Russell and E.C.J. Wells retire by rotation and being eligible will seek reappointment at the forthcoming Annual General Meeting.

In addition, in accordance with Article 53(D) Messrs C.J.Harris and A.J.Paton having been appointed Directors during the year must retire and being eligible will seek reappointment at the forthcoming Annual General Meeting.

In the case of each of the persons who are Directors at the time this report is approved, the following applies:

- (a) So far as the Directors are aware, there is no relevant audit information of which the Company auditors are unaware, and
- (b) They have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company auditors are aware of that information.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

REPORT OF THE DIRECTORS (Contd)

State Of Affairs

Although the Company is a Qualifying Insurer, it only writes risks in the layers above £1m. In recent years some firms have placed their entire compulsory layer of £2m (or £3m in the case of LLP's) on the commercial market which has led to an overall reduction in the Company's risk exposure.

During the year under review, the insurance market remained soft and, in general, premium rates were lower than in the previous year. The 7% fall in the Company's premium income is consistent with the market trend. The cost of the reinsurance programme was also lower than in the previous year, the reduction reflecting the Company's good claims record.

Claims paid net of reinsurance recoveries of £6.1m were considerably higher than in the previous year (£1.6m). Although no discernible trend can be detected, there were a greater number of claims paid falling within the Company's retention.

The outstanding claims have been reviewed by the Claims Committee of the Board and the overall provision was agreed by the whole Board. The outstanding claims position as at 30 September 2008 net of reinsurance and third party recoveries is estimated at £10.4m (2007 - £9.1m). The basis for drawing up those provisions is set out in accounting policy note 2(d) and note 7 to the Financial Statements.

The Directors have reconfirmed their policy of continuing to increase free reserves and accordingly any excess over the provisions made for the last six policy years will be called from premium deferral. This policy is set out in greater detail in note 7(c) to the Financial Statements. In order to strengthen this policy the Board decided for the 2008/09 policy year to lower the level of premium reduction given to members. The reduction in premium falls from 22.5% to 15 % for members placing cover between £3.5m to £4.5m, and from 17.5% to 10% for members placing cover between £2m to £3.5m.

Financial Results

The Income and Expenditure Account (on page 10) and the Balance Sheet (on page 11), together with the notes to the Financial Statements, set out the Company's financial position in detail. The following table compares key financial information for the year end 30 September 2008 to 30 September 2007.

	2008 £'000	2007 £'000
Premium Written	8,212	8,873
Reinsurance Premium	(3,763)	(5,019)
Net claims paid	(6,120)	(1,623)
Operating expenses	(850)	(887)
(Deficit)/surplus on technical account	(2,521)	1,344
Net Investment Income	696	659
(Deficit)/surplus for the financial year	(1,825)	2,003
Free reserves at year end	7,748	9,573

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

REPORT OF THE DIRECTORS (Contd)

The Directors have set in place formal investment policies and objectives. The primary objective is to conserve and accumulate capital to cover future obligations. Within and ancillary to this primary objective is a secondary objective to maximise the post-tax yield. The investment return for the year under review was 5.48%.

In the second half of the year under review, and since the year end investment markets have been in turmoil but the Company's exposure has been protected by the fact that it holds 70% of the funds in Government securities and 25% in UCITS. Of the remainder, the only asset exposed to the markets was 5% held in Unit Trusts.

Free Reserves at £7.8m exceed the required regulatory capital (ICG - Individual Capital Guidance) of £3.7m by £4.1m.

Meetings of the Directors

The Board of the Company met formally on three occasions during the year to carry out the general and specific responsibilities entrusted to it by the Members under the Articles of the Association.

The Directors received and discussed written reports from the Managers on financial development, investment of its portfolio, reports on renewals, reinsurance and on major claims paid or outstanding.

The Annual Reports and Financial Statements for the year ended 30 September 2007 were approved by the Board for submission to the members of the Association at the Annual General Meeting.

Board Committees

The Board has delegated specific authority to a number of committees. The Board is informed of the main issues discussed as all minutes of the meetings of the committees are distributed to the Board.

The Audit and Investment Committee comprising Messrs R.J.Parker, B.W.D.Richards and E.C.J.Wells assists the Board in discharging its responsibilities for the integrity of the Financial Statements, compliance with the regulatory requirements, assessing the Business Risk of the Company, and determining as well as monitoring the investment policy of the Company. The Committee met on four occasions in the course of the year.

The Claims and Reserving Committee comprising Messrs R.Challands, J.A.Gosling and J.F.Rosenheim assists the Board in reviewing the major on going and reported claims to ensure that the Company claims reserves are adequate to pay potential claims as well as ensuring that all claims are being dealt in the correct manner. The Committee met on two occasions in the course of the year.

The Reinsurance Committee comprising Messrs P.J.Russell and E.C.J.Wells assists the Board in ensuring that the Company's gets the required level of cover with the appropriately rated reinsurers. The Committee met on one occasion in the course of the year.

The Nominations Committee comprising Messrs P.J.Russell and E.C.J.Wells ensures that the Board is appropriately skilled to direct a mutual insurance company and that the Directors are appropriately senior and representative of the membership. This Committee meets on a Ad-Hoc basis.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

REPORT OF THE DIRECTORS (Contd)

Risk Management

The Company is exposed to financial risk through its assets and liabilities. The most significant risks are market risk, credit risk, insurance risk and reinsurance risk. The Company has policies and procedures in place to mitigate all these risks.

Market risk relates to the risk of changes in the financial markets affecting the value of the Company's investments. The investment performance is monitored by means of reports from the Investment Managers to the members of the Audit and Investment Committee who in turn report to the Board.

Credit risk relates to the risk of members failing, in whole or in part, to meet their obligations to the Company. Exposure to non payment of premiums is mitigated by strong credit control procedures and monitored by regular reports from the Managers to the Board.

Insurance Risk is the risk associated with claims on the Company. Exposure is mitigated by a strategy of risk transfer through the Company's reinsurance programme and holding sufficient free reserves. Claims provisions are monitored by the Claims and Reserving Committee to ensure that adequate claims reserves are held.

Reinsurance risk relates to the possibility of a reinsurer defaulting and being unable to meet their obligations under the treaties. This risk is mitigated by only placing reinsurance with security holding an S & P rating of A- or higher and limiting the exposure to a maximum line with any one reinsurer of 25 per cent on any one layer. The ratings are kept under review and to date no reinsurer has fallen below the rating criteria.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 income and expenditure of the Company for that period. In preparing those Financial Statements, the Directors are required to

- * select suitable accounting policies and then apply them consistently;
- * make judgements and estimates that are reasonable and prudent;
- * state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- * prepare the Financial Statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Financial Statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors have received guidance from the Managers on Directors' duties and responsibilities. The Audit and Investment Committee are responsible to ensure that formed the obligations imposed under The Prudential Guidance Guidelines issued by the Financial Services Authority are met.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

REPORT OF THE DIRECTORS (Contd)

AUDITORS

The Company's auditors, Messrs Moore Stephens LLP, have expressed their willingness to continue to serve as the Company's auditors. A resolution for their re-appointment and to authorise the Directors to fix their remuneration will be submitted to the forthcoming Annual General Meeting.

By order of the Board

P.J. Russell
Chairman

Date: 8 December 2008

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

REPORT OF THE INDEPENDENT AUDITORS

Independent Auditor's Report to the Members of Solicitors Indemnity Mutual Insurance Company Limited

We have audited the Financial Statements of Solicitors Indemnity Mutual Insurance Company Limited for the year ended 30 September 2008 which are set out pages 10 to 24. These Financial Statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's Members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 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 and the Company's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Financial Statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Financial Statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

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 on 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 misstatement, 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.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

REPORT OF THE INDEPENDENT AUDITORS (CONTINUED)

Independent Auditor's Report to the Members of Solicitors Indemnity Mutual Insurance Association Limited (continued)

Opinion

In our opinion:

- the Financial Statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 September 2008 and of its results for the year then ended;
- the Financial Statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the Financial Statements.

Emphasis of Matter – Technical Provisions

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in accounting policy note 2(d) and note 7 of the Financial Statements concerning the inherently uncertain ultimate outcome of liability claims and the amount of the technical provisions. In view of the significance of this uncertainty we consider that it should be drawn to your attention.

**St Paul's House
Warwick Lane
LONDON EC4M 7BP**

Moore Stephens LLP
Registered Auditors
Chartered Accountants

Dated: 8 December 2008

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

**INCOME AND EXPENDITURE ACCOUNT
For the year ended 30 September 2008**

	Note	2008 £	2007 £
TECHNICAL ACCOUNT			
Earned premium net of reinsurance			
Advance call		10,369,141	11,495,677
Deferral		<u>(2,187,972)</u>	<u>(2,430,674)</u>
Gross premiums written	2(b)	8,181,169	9,065,003
Outward reinsurance premiums	5	<u>(3,763,107)</u>	<u>(5,018,570)</u>
		4,418,062	4,046,433
Change in gross provision for unearned premiums	6	168,854	(233,312)
Reinsurers' share	6	<u>(138,196)</u>	41,550
Change in net provision for unearned premiums	6	30,658	<u>(191,762)</u>
	(A)	<u>4,448,720</u>	<u>3,854,671</u>
Claims incurred net of reinsurance			
Claims paid			
Gross amount	7(a)	(5,039,344)	(3,063,731)
Reinsurers' share	7(b)	250,087	1,261,299
		<u>(4,789,257)</u>	<u>(1,802,432)</u>
Change in the provision for claims			
Gross amount	2(d),7(c)	(1,070,676)	775,745
Reinsurers' share	7(d)	<u>(259,600)</u>	<u>(596,462)</u>
		<u>(1,330,276)</u>	<u>179,283</u>
	(B)	<u>(6,119,533)</u>	<u>(1,623,149)</u>
Net operating expenses	8 (C)	(850,148)	(887,184)
Balance on the technical account	A+B+C=	<u>(2,520,961)</u>	<u>1,344,338</u>
 NON TECHNICAL ACCOUNT			
Investment income	9	1,036,610	944,945
Unrealised gains /(losses) on investments	10	12,951	44,005
Investment expenses and charges	9	<u>(82,491)</u>	<u>(70,816)</u>
	D	967,070	918,134
(Deficit)/ surplus on ordinary activities before tax	A+B+C+D	<u>(1,553,891)</u>	2,262,472
Tax on ordinary activities	11(a)	<u>(271,099)</u>	<u>(259,439)</u>
(Deficit)/ surplus for the financial year		<u>(1,824,990)</u>	2,003,033
Reserves at 1 October 2007		9,572,551	7,569,518
Reserves at 30 September 2008		<u>7,747,561</u>	<u>9,572,551</u>

All activities represent continuing activities. There are no recognised gains or losses other than those shown in the Income and Expenditure Account.

The accounting policies and notes on pages 13 to 24 form an integral part of these Financial Statements.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

**BALANCE SHEET
30 September 2008**

		2008	2007
		£	£
ASSETS			
Investments			
Other financial investments	12	19,210,383	19,454,372
Reinsurers' share of technical provisions			
Provision for unearned premiums		655,862	794,057
Claims outstanding	7(d)	<u>2,268,284</u>	<u>2,527,884</u>
		2,924,146	3,321,941
Debtors arising out of direct insurance			
Other debtors	13	13,500	15,492
Deferred tax asset	11(d)	-	5,760
Cash at bank		383,154	1,875,210
Accrued interest		148,852	98,098
Prepayments	14	<u>191,747</u>	<u>140,352</u>
		<u>22,920,590</u>	<u>24,956,831</u>
LIABILITIES			
Reserves			
Income and expenditure account		<u>7,747,561</u>	<u>9,572,551</u>
Technical Provisions			
Provision for unearned premiums			
Gross amount		1,662,431	1,831,285
Claims outstanding			
Gross amount	2(d), 7(c)	<u>12,707,755</u>	<u>11,637,079</u>
		14,370,186	13,468,364
Creditors			
Reinsurance creditor		400,622	1,137,003
Other creditors	15	<u>402,221</u>	<u>778,913</u>
		802,843	1,915,916
		<u>22,920,590</u>	<u>24,956,831</u>

These Financial Statements were approved by the Board of Directors and were signed on its behalf on 8 December 2008 by:

Signed on behalf of the Managers:
SIMIA Management Company

The accounting policies and notes on pages 13 to 24 form an integral part of these Financial Statements.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

**CASH FLOW STATEMENT
For the year ended 30 September 2008**

Operating activities

	Note	2008	2007
		£	£
Premiums received from Members		8,177,967	9,091,724
Reinsurance paid		(4,499,488)	(5,143,435)
Claims paid (note 7a)		(4,989,238)	(3,160,360)
Reinsurance recovered		199,981	1,732,424
Other operating cash flow payments		<u>(1,283,407)</u>	<u>(771,781)</u>
Net cash (outflow)/inflow from operating activities	16	<u>(2,394,185)</u>	<u>1,748,572</u>

CASH FLOW STATEMENT

Net cash (outflow)/inflow from operating activities	16	(2,394,185)	1,748,572
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Returns on investment and servicing of finance

Investment return		923,649	948,505
Investment expenses		<u>(81,671)</u>	<u>(70,816)</u>
		<u>841,978</u>	<u>877,689</u>

Taxation

Corporation tax paid	11(e)	(258,176)	(151,146)
Increase in cash, deposits and investments in the year	18	<u>(1,810,383)</u>	<u>2,475,115</u>

Cashflows were invested as follows

(Decrease)/increase in cash	18	(1,492,056)	260,480
Net portfolio investment			
Sale of units in unit trusts	18	(910,253)	2,020,213
Purchase of fixed income securities	18	<u>591,926</u>	<u>194,422</u>
	17,18	<u>(1,810,383)</u>	<u>2,475,115</u>

The accounting policies and notes on pages 13 to 24 form an integral part of these Financial Statements.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Constitution

The Company is incorporated in England as a company limited by guarantee and not having a share capital.

In pursuance of its business and in accordance with its Memorandum, Articles of Association and its Rules, the Company has the right to make calls on its Members to meet its liabilities.

In the event of the winding up of the Company, after its liabilities have been satisfied, any remaining assets would be distributed to the Members in accordance with the provisions contained in the Articles of Association.

2. Accounting Policies

These Financial Statements have been prepared under the historical cost convention as modified to include investments at market value, in compliance with Section 255 and Schedule 9A of the Companies Act 1985 and in accordance with applicable accounting standards in the UK and with the Statement of Recommended Practice issued by the Association of British Insurers in December 2007. The Companies Act 1985 heading "Profit and Loss Account" is replaced by "Income and Expenditure Account" throughout these Financial Statements consistent with the mutual status of the Company. The particular accounting policies adopted are described below.

(a) Accounting convention

These Financial Statements have been prepared on an annual accounting basis, with the premiums charged to Members and the claims incurred, and reinsurance allocated to the underwriting policy year to which they relate. The realised and unrealised investment income is allocated proportionately to the average balance of funds on each policy year. Operating expenses are allocated to the current year.

Policy years are closed when sufficient information is available for a result to be determined with reasonable certainty. Policy years 1987, 1988, 1989, 1990, 1995, 1996, 1997, 1998, 1999 and 2000 are closed.

(b) Gross premiums written

Gross premiums written comprise advance calls, premium deferrals and represent the total receivable for contracts with an inception date during the accounting period together with any premium adjustments relating to prior periods.

Advance calls are calls made gross of deferral and recognised on an inception basis.

Premium deferral (reduction as per the Rules of the Company) is given to those Members committing to renewing their membership for two years.

No specific provision is made in the accounts for any supplementary calls unless and until the Directors decide that any such calls shall be made.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting Policies (continued)

(c) Change in net provision for unearned premiums

Unearned premium is the proportion of premium that is debited in one accounting period but relates to subsequent accounting periods. This has been calculated on a daily pro-rata basis.

(d) Claims

Balance Sheet

The claims provision in the Balance Sheet comprises:

- i) Estimated claims as at the Balance Sheet date.
- ii) Additional provision to allow for adverse developments on estimated claims, including those claims where no estimate is currently thought to be required.
- iii) Provision for the Managers' future claims handling costs.

The claims estimates are based upon the information supplied by the members, the lead underwriters and solicitors.

Income and Expenditure Account

The figure for claims incurred in the Income and Expenditure Account comprises claims and costs paid during the year, the claims handling costs of the Managers and the movement in the claims provision since the last Balance Sheet date.

(e) Reinsurance recoveries

Reinsurance recoveries and reinstatement premiums are accrued to match the relevant claims that have been charged to the Income and Expenditure Account.

(f) Investment income

This comprises income received during the year adjusted in respect of interest receivable at the year end. The investment income is apportioned among and between the different policy years and reserves from which the funds originated.

(g) Investments

Investments are stated in the Balance Sheet at market value. Unrealised investment gains and losses as a result of movements in the market value of investments are accounted for through the Non-Technical Account. Realised gains and losses are recognised at time of disposal as proceeds less original acquisition costs.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(h) Taxation

Unrealised gains and losses as a result of movements in the market value of unit trusts and fixed interest investments are accounted for through the Non-Technical Account. A taxation charge or credit arises based on the unrealised movement in the year.

3. Related party disclosures

The Company has no share capital and is controlled by the Members who are also the insureds. The resulting insurance transactions are consequently deemed to be between related parties but these are the only transactions between the Company and the Members.

All the Directors are Members of the Company and other than the insurance the Directors have no financial interests in the Company.

S.I.M.I.A. Management Company received £768,000 (2007 - £725,000) from the Company in respect of management fees for the period.

4. Management costs

The Companies Act 1985, Schedule 9A and Association of British Insurers (Statement of Recommended Practice) requires the management fee paid by Solicitors Indemnity Mutual Insurance Association Limited to be apportioned between the different management functions. This fee has to be allocated to acquisition costs, which in the case of Solicitors Indemnity Insurance Association Limited has been interpreted by the Directors and Managers as the cost of underwriting, processing renewals, premium adjustments and credit control; claims handling costs; investment management expenses and administration expenses which include regulatory compliance, the preparation of accounts and general management.

In order to comply with this requirement, the Managers have made an apportionment.

	2008	2007
	£	£
Acquisition costs (note 8)	387,090	365,419
Claims handling (note 7a)	154,767	146,101
Administration expenses (note 8)	154,767	146,101
Investment management services (note 9)	71,376	67,379
	<u>768,000</u>	<u>725,000</u>

Claims handling costs are treated as part of claims paid (note 7a).

Acquisition and administration expenses are included in the net operating expenses (note 8).

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. Reinsurance premiums

In respect of the year ended 30 September 2008, the Company had reinsurance protection for payments above £1m, subject to an aggregate excess of £1m. This year the Company has offered an additional £5m of cover on higher excess layers which is wholly reinsured.

The Company also has in place a stop loss policy for the 2000 policy year. This provides cover for a maximum of £3.3m once claims in respect of the 2000 policy year have reached £4m in aggregate.

In arranging reinsurance contracts the Company carries out financial checks on the prospective reinsurers in order to gain confidence that recoveries will be settled if and when they fall due.

6. Unearned premium

Unearned premium is that part of gross premiums written which is estimated to be earned in the following or subsequent financial years.

The Income and Expenditure Account shows the change in the provision for unearned premium and comprises the following:

	2008	2007
	£	£
Change in gross provision for unearned premiums	168,854	(233,312)
Change in the provision for unearned premiums, reinsurers' share	(138,196)	41,550
	<u>30,658</u>	<u>(191,762)</u>

7(a). Claims paid

	2008	2007
	£	£
Gross claims and costs	5,647,386	3,014,259
Claims handling (note 4)	154,767	146,101
Third party recoveries	(762,809)	(96,629)
	<u>5,039,344</u>	<u>3,063,731</u>

7(b). Reinsurers' share of gross claims paid

	2008	2007
	£	£
Reinsurance recoveries	<u>250,087</u>	<u>1,261,299</u>

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7(c). Change in gross provision for claims

	2008	2007
	£	£
Claims outstanding at end of year	12,707,755	11,637,079
Movement in third party recoveries	-	134,000
Claims outstanding at beginning of year	<u>(11,637,079)</u>	<u>(12,546,824)</u>
Increase/(decrease) in gross provision for claims	<u>1,070,676</u>	<u>(775,745)</u>

While there is a large number of professional indemnity claims against the solicitors' profession as a whole, the Company is in essence an insurer of a "quasi-catastrophe" nature as very few claims result in payment from the ground up for an amount in excess of £1m and naturally even fewer for amounts in excess of £2m or more.

The decision of the Law Society to increase the compulsory minimum level of cover to £3m for limited liability partnerships and £2m for all other solicitors' firms has reduced the Company's potential exposure. There are now fewer firms whose cover with the Company is in the layer immediately in excess of £1m.

The estimates for known outstanding claims are based on the judgement of the Managers as to the final cost of each individual case. While the outcome of any particular case can never be predicted with total accuracy, estimates are regularly reviewed in the light of significant developments. The gross provisions for claims include allowances for adverse development and the Managers' future claims handling costs.

Having reviewed the notifications made to date in respect of the last six policy years, the Claims Committee of the Board considers that an ultimate net claims provision of £18.6m is reasonable. In addition, after taking into account claims payments, the claims provision of £12.7m for all policy years is also considered reasonable.

In the event of the claims for those years exceeding the provision the Directors have decided that the excess will be called from premium deferrals in respect of those six years in the way they consider to be most equitable as between the membership of the different policy years. An early warning will be given to the Members in the event of there being an adverse development in the claims which would lead to a realistic possibility of a call being made on premium deferral.

The movement in the gross provision for claims is the difference between the provision for outstanding claims on all policy years at the beginning of the year and the equivalent provision at the end of the year, after deduction of all claims paid during the financial year and addition of the allowance for new claims notified in the 2007/2008 policy year.

Out of the claims incurred figure of £6.1m (2007 - £1.6m), £3.9m represents the deterioration in respect of prior years (2007 - deterioration of £1.1m).

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7(d). Change in Reinsurers' (R/I) share of technical provision

	2008	2007
	£	£
R/I share of claims outstanding at end of year	2,268,284	2,527,884
R/I share of claims outstanding at beginning of year	<u>(2,527,884)</u>	<u>(3,124,346)</u>
(Decrease) in R/I share of claims outstanding	<u>(259,600)</u>	<u>(596,462)</u>

The reinsurers' share represents the provision for that part of the gross claims provision, which is recoverable from reinsurers and is based on estimated recoveries against actual claims and costs payments made and estimated claims and costs provisions.

The movement in the reinsurers' share of outstanding claims is the difference between the provision at the start and at the end of the financial year.

8. Net operating expenses

	2008	2007
	£	£
Acquisition costs		
Management costs (note 4)	387,090	365,419
Brokerage	<u>207,291</u>	<u>280,264</u>
	594,381	645,683
Administration expenses		
Legal and Professional fees	26,674	5,768
Directors' and Officers' Liability Insurance	21,782	18,419
Printing costs	3,786	3,134
Meeting expenses	3,096	779
Financial Services Authority Fees	18,313	16,074
Auditors' remuneration	29,375	35,811
Auditors' remuneration for non audit services	(10,046)	6,786
Financial Services Compensation Scheme Levy	8,020	8,600
Annual return fees	-	30
Management costs (note 4)	<u>154,767</u>	<u>146,101</u>
	<u>850,148</u>	<u>887,184</u>

Acquisition costs are the costs of underwriting, processing renewals and premium adjustments and credit control. Administration expenses include the costs of regulatory compliance, the preparation of accounts and general management.

Auditors' remuneration for non audit services comprises fees for tax computations, audit of regulatory returns and general advice.

There were no Directors' emoluments during the year.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Investment income

	2008	2007
	£	£
Interest on listed investments	575,961	654,418
Bank deposit interest	399,262	282,456
Unit trust distributions	-	12,278
	<u>975,223</u>	<u>949,152</u>
Gains/(losses) on realisation of investments	61,387	(4,207)
	<u>1,036,610</u>	<u>944,945</u>

Investment expenses and charges

	2008	2007
	£	£
Investment management expenses:		
Banking and custodial charges	11,115	3,437
Investment management services (note 4)	71,376	67,379
	<u>82,491</u>	<u>70,816</u>

10. Unrealised gains on investments

	2008	2007
	£	£
Cost (note 12)	19,078,225	19,335,165
Market value (note 12)	19,210,383	19,454,372
Unrealised gains at year end	<u>132,158</u>	<u>119,207</u>
Unrealised (losses)/gains on equities	(357,566)	33,046
Unrealised gains on bonds	370,517	10,959
Unrealised gains movement during the year	<u>12,951</u>	<u>44,005</u>

11. Taxation

- (a) By virtue of its mutual status, the Company is not liable to tax on its insurance operations. It is liable to tax on its investment income and gains. The charge in the Income and Expenditure Account represents:

Income and Expenditure account	2008	2007
	£	£
UK Corporation tax at 30% / 28% (2007 - 30%)	276,132	275,440
Marginal Relief	(11,641)	(16,001)
Deferred tax gain	5,760	-
Under payment from previous year	848	-
Total current tax (note 11b)	<u>271,099</u>	<u>259,439</u>

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Taxation (continued)

- (b) The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30% / 28%). The differences are explained below:

	2008	2007
	£	£
(Deficit)/surplus on ordinary activities before tax	<u>(1,553,891)</u>	<u>2,262,472</u>
Surplus on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% / 28%	(450,628)	678,741
<i>Effects of:</i>		
Non-taxable mutual insurance operations	731,079	(403,301)
Marginal relief	(11,641)	(16,001)
Frozen gain under Section 64 Finance Act 2002 (realised)	5,760	-
Other non-taxable / allowable items	(4,318)	-
Under provision in prior year	848	-
Current tax charge	<u>271,099</u>	<u>259,439</u>

(c) **Balance Sheet**

Taxation Creditor	2008	2007
	£	£
Taxation creditor brought forward	259,320	149,035
Payment of corporation tax	<u>(260,168)</u>	<u>(149,153)</u>
	(848)	(118)
UK Corporation tax for the current year	276,250	275,439
Marginal relief	(11,641)	(16,001)
Under payments	966	-
Creditor as at 30 September (note 15)	<u>264,491</u>	<u>259,320</u>
Non-taxable investment related expenses		

(d) **Deferred taxation**

Provisions for taxation – deferred taxation	2008	2007
	£	£
Opening balance	(5,760)	(5,760)
Release for the year	5,760	-
Closing balance (note 2 (h))	<u>-</u>	<u>(5,760)</u>

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(e) Cash flow statement

Corporation tax	2008	2007
	£	£
Tax creditor b/fwd	<u>258,176</u>	<u>151,146</u>
	<u>258,176</u>	<u>151,146</u>

12. Other Financial Investments

	Market Value 2008 £	Market Value 2007 £	Cost 2008 £	Cost 2007 £
Other financial investments comprise:				
Fixed interest securities	13,297,213	12,390,795	12,999,086	12,463,186
Units in unit trusts	5,907,006	4,111,508	6,072,975	3,919,910
Cash Deposits	6,164	2,952,069	6,164	2,952,069
	<u>19,210,383</u>	<u>19,454,372</u>	<u>19,078,225</u>	<u>19,335,165</u>

	Market Value 2008 £	Market Value 2007 £	Cost 2008 £	Cost 2007 £
Units in unit trusts & cash deposits comprise:				
Unit trusts	909,031	754,738	1,075,000	563,140
UCITS	4,997,975	3,356,770	4,997,975	3,356,770
Cash Deposits	6,164	2,952,069	6,164	2,952,069
	<u>5,913,170</u>	<u>7,063,577</u>	<u>6,079,139</u>	<u>6,871,979</u>

All holdings in fixed income securities are in securities traded on recognised exchanges. All investment in unit trusts is in authorised unit trusts. Undertakings for Collective Investment in Transferable Securities (UCITS) are funds held for the short term.

The Companies Act 1985 states the categories of investment income to be disclosed in the Financial Statements. The fund's investment holdings do not fall into any specific category and as a result they are disclosed as other financial investments.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. Other debtors

	2008	2007
	£	£
Claims recoveries from third parties	13,500	13,500
Insurance Premium Tax (UK)	-	1,992
	<u>13,500</u>	<u>15,492</u>

Claims recoveries from third parties are all claims recoveries other than reinsurance recoveries.

14. Prepayments

	2008	2007
	£	£
Fees paid in advance	<u>191,747</u>	<u>140,352</u>

15 Other creditors

	£	£
Accrued expenses	37,219	51,120
Insurance premium tax	90,647	468,473
Direct Insurance	9,864	-
Taxation (note 11c)	264,491	259,320
	<u>402,221</u>	<u>778,913</u>

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. Net cash flow from operating activities

Reconciliation from surplus on ordinary activities

	2008	2007
	£	£
before tax to net cash in/(out)flow from operating activities		
(Deficit)/surplus on ordinary activities before tax	(1,553,891)	2,262,472
(Increase)/decrease in debtors	(54,597)	388,323
(Decrease)/increase in creditors	(1,118,245)	3,431
(Decrease)/increase in provision for unearned premiums	(30,658)	191,762
Increase/(decrease) in net provision for claims	1,330,276	(179,283)
Realised investment gains	(1,036,610)	(944,945)
(Increase) in market value of investments	(12,951)	(44,005)
Investment expenses	82,491	70,816
	<u>(2,394,185)</u>	<u>1,748,572</u>

17. Movement in opening and closing portfolio investments

	2008	2007
	£	£
Net cash (out)/in flow for period	(1,492,056)	260,480
Portfolio investments	<u>(318,327)</u>	<u>2,214,635</u>
Movement arising from cashflows	(1,810,383)	2,475,115
Movement on investment valuations	74,340	39,798
Movement for the year	<u>(1,736,043)</u>	<u>2,514,913</u>
Portfolio investments at 1 October	<u>21,329,582</u>	<u>18,814,669</u>
Portfolio investments at 30 September	<u>19,593,539</u>	<u>21,329,582</u>

18. Movement in cash deposits and investments in the year

	At 1 October 2007	Cashflow	Changes to market value	At 30 September 2008
	£	£	£	£
Fixed interest securities	12,390,795	591,926	314,493	13,297,214
Units in unit trusts	4,118,153	2,035,171	(240,153)	5,913,171
Cash Deposits	2,945,424	(2,945,424)		-
Cash at bank	1,875,210	(1,492,056)		383,154
	<u>21,329,582</u>	<u>(1,810,383)</u>	74,340	<u>19,593,539</u>

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Movement in cash deposits and investments in the year (continued)

The comparative figures for last year were:

	At 1 October 2006 £	Cashflow £	Changes to market value £	At 30 September 2007 £
Fixed interest securities	12,189,623	194,422	6,750	12,390,795
Units in unit trusts	5,010,316	(925,211)	33,048	4,118,153
Cash Deposits	-	2,945,424	-	2,945,424
Cash at bank	1,614,730	260,480	-	1,875,210
	<u>18,814,669</u>	<u>2,475,115</u>	<u>39,798</u>	<u>21,329,582</u>

20. Location and nature of business

All operations are direct professional indemnity insurance written within the United Kingdom. All business is classified as third party liability insurance.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

Registered in England No. 1985809

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