

**SOLICITORS INDEMNITY MUTUAL INSURANCE
ASSOCIATION LIMITED**

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
30 SEPTEMBER 2011**

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

CONTENTS	PAGE
Notice of Meeting	1
Directors and Manager	2
Report of the Directors	3
Report of the Independent Auditors	8
Income and Expenditure Account	10
Balance Sheet	11
Cash Flow Statement	12
Notes to the Financial Statements	13
Registered Office	26

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTICE OF MEETING

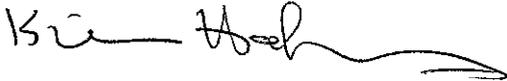
Notice is hereby given that the Annual General Meeting of the Members will be held on Monday 20 February 2012, at 12 noon, at 90 Fenchurch Street, London EC3M 4ST for the following purposes:

To receive the Directors' Report and Financial Statements for the year ended 30 September 2011 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



K Halpenny
Secretary

Date: 9 January 2012

- 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 Resigned 22 February 2011
P.M. Crossley	Hammonds LLP
C. J. Harris	Clyde & Co LLP
A.M. Horne	Hill Dickinson LLP Appointed 3 November 2010
R. J. Parker *	Reed Smith LLP
A. J. Paton	Pinsent Masons LLP
C. C. Perrin	Clifford Chance LLP
B. W. D. Richards *	Lawrence Graham LLP
J. F. Rosenheim	SNR Denton LLP
P. J. H. Vaughan	Simmons & Simmons LLP
E. C. J. Wells *	Hogan Lovells LLP

* Member of the Audit and Investment Committee

SECRETARY

K Halpenny

MANAGER

S.I.M.I.A. Management Company,
90 Fenchurch Street, London, EC3M 4ST.

Directors of S.I.M.I.A. Management Company.

P.T.E. Massey
A. Salim

AUDITORS

Moore Stephens LLP, Chartered Accountants
150 Aldersgate Street, London, EC1A 4AB

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 2011.

Principal Activities

The principal 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 S.I.M.I.A. 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 during the year are shown on page 2.

In accordance with Article 48 Messrs. C.J. Harris, R.J. Parker, J.F. Rosenheim and P.J.H. Vaughan retire by rotation and being eligible will seek reappointment at the forthcoming Annual General Meeting. In addition A.J. Paton having been appointed during the year must retire and being eligible will seek reappointment at the forthcoming Annual General Meeting.

R.Challands resigned as Director as at 22 February 2011. The Board would like to thank him for his contribution to the affairs of the Company.

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

Following February's Annual General Meeting, the members decided on 24 March 2011 by Special Resolution that the Company should cease accepting new business and be placed into run-off.

The rationale for the decision was the appreciation that, in a liberalised market, premium rates were unsatisfactory and likely to remain so for the foreseeable future, while at the same time the claims experience and environment were deteriorating.

As a following insurer, SIMIA did not set its own premium rates but accepted the rates set by the leading insurers in the market. Those rates have proved – with the passing of time – to have been inadequate to meet the incurred claims on seven of the last ten policy years.

More critically, the claims experience has deteriorated dramatically in the past year. Claims paid (net of reinsurance and other recoveries) for the current year stand at £6.6m, compared to £4.7m last year. In addition the increased volatility in the claims and a changed claims pattern has resulted in claims incurred of £16.0m compared to £3.0m in the previous year.

Against this background, despite making four Supplementary Calls since the Company was incepted, the Board has concluded that there is no alternative to a substantial further call being made on members, to deal not only with the immediate consequences of the deterioration reported above but also with the likely longer term deterioration it presages. In addition, it may be necessary – despite the Company being in run-off – to raise at least some additional capital in order to meet the requirements of Solvency II.

In the course of the year there was considerable deterioration in the claims on the 2003 to 2006 policy years. The size and nature of the deterioration suggests a changed pattern than previous years. The claims experience in the past rarely resulted in payments at or around the upper limit of SIMIA's exposure to individual claims, which has been £4.5m since 1991. For the policy years 1991 to 2004 the Company only had one total loss of this magnitude: the changed pattern now suggests one total loss for each of the policy years since 2005. This has resulted in an increased provision for the assumed liabilities in respect of the most recent policy years.

The Board decided on 9 January 2012 to make a Supplementary Call of £15.8m to address the issues mentioned above and to continue to meet its liabilities to its insureds' as they fall due. It should be noted that in the event of the claims deteriorating beyond the current estimates, the Board will make further Supplementary Calls to ensure that the Company meets all its liabilities, and Solvency II capital requirements.

The Company has also prepared a ten year run off plan for submission to the FSA which details the forecast income and expenses during the run off period. This plan will be updated at least once a year and overseen by the Audit & Investment Committee.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

REPORT OF THE DIRECTORS (Contd)

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 performance in detail. The following table compares key financial information for the year-end 30 September 2011 and 30 September 2010.

	2011 £'000	2010 £'000
Premium written	6,915	8,257
Special and General Supplementary Calls	6,375	3,476
Reinsurance premium	(3,933)	(5,250)
Net claims incurred	(22,588)	(7,678)
Operating expenses	(812)	(903)
(Deficit) on technical account	(14,043)	(2,098)
Net Investment Income & Tax	248	370
(Deficit) for the financial year	(13,795)	(1,728)
(Deficit) / free reserves at year end	(9,243)	4,552

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 excluding cash at bank was 4.15%

The Deficit of £9.2m means that the Company failed to meet its required regulatory capital by £13.5m as at 30 September 2011. This position will be corrected by the Supplementary Call of £15.8m agreed by the Board on 9 January 2012.

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 2010 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, P.J. Russell 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 five occasions in the course of the year.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

REPORT OF THE DIRECTORS (Contd)

The Claims and Reserving Committee comprising Messrs A.J. Paton, J.F.Rosenheim and Ms A. Horne assists the Board in reviewing the major ongoing and reported claims to ensure that the Company's 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 twice in the course of the year.

The Reinsurance Committee comprising Messrs C.J.Harris, P.J.Russell and E.C.J.Wells assists the Board in ensuring that the Company gets the required level of cover with the appropriately rated reinsurers. The Committee did not meet during the course of the year. The Company did not write any business following the decision to go into run-off and consequently did not require reinsurance for the 2011 policy 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 an ad-hoc basis and did not meet in the course of the year.

The Marketing Committee comprising Messrs P.Crossley, R.Parker and P.Vaughan assists the Board in formulating and monitoring the Company's marketing and sales policy and recruiting new members. The Committee met once during the course of the year.

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 Manager 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 a Standard & Poor 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.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

REPORT OF THE DIRECTORS (Contd)

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Financial Statements for each financial year. Under that law, the Directors have elected to prepare the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Standards and applicable law). Under Company law, the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the Profit or Loss of the Company for that period. In preparing these Financial Statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

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: 9 January 2012

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

REPORT OF THE INDEPENDENT AUDITORS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED ('THE COMPANY')

We have audited the Company's Financial Statements of Solicitors Mutual Insurance Association Limited for the year ended 30 September 2011 which are set out on pages 10 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Directors Responsibilities Statement set out on pages 6 and 7 the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of financial statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Report of the Directors to identify material inconsistencies with the audited Financial Statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2011 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

REPORT OF THE INDEPENDENT AUDITORS (contd)

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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Financial Statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Financial Statements are not in agreement with the accounting records or returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Simon Gallagher (Senior Statutory Auditor)
For & on behalf of Moore Stephens LLP, Statutory Auditor
150 Aldersgate Street
London, EC1A 4AB

Dated: 9 January 2012

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

INCOME AND EXPENDITURE ACCOUNT
For the year ended 30 September

	Note	2011 £	2010 £
TECHNICAL ACCOUNT			
Earned premium net of reinsurance			
Advance call		7,215,803	9,209,284
Special supplementary call		3,859,569	3,475,619
General supplementary call		2,515,325	-
Premium deferral		(1,054,954)	(1,338,024)
Gross premiums written	2(b)	12,535,743	11,346,879
Outward reinsurance premiums	5	(3,933,412)	(5,250,150)
		<u>8,602,331</u>	<u>6,096,729</u>
Change in gross provision for unearned premiums	6	1,151,619	458,104
Reinsurers' share	6	(396,898)	(72,776)
Change in net provision for unearned premiums	6	<u>754,721</u>	<u>385,328</u>
	(A)	<u>9,357,052</u>	<u>6,482,057</u>
Claims incurred net of reinsurance			
Claims paid			
Gross amount	7(a)	(14,469,808)	(6,422,500)
Reinsurers' share	7(b)	7,856,545	1,743,078
		<u>(6,613,263)</u>	<u>(4,679,422)</u>
Change in the provision for claims			
Gross amount	2(d),7(c)	(12,828,110)	(8,872,468)
Third party recoveries	13	(1,387,926)	1,953,316
Reinsurers' share	7(d)	(1,758,524)	3,920,910
		<u>(15,974,560)</u>	<u>(2,998,242)</u>
	(B)	<u>(22,587,823)</u>	<u>(7,677,664)</u>
Net operating expenses	8 (C)	(812,100)	(903,130)
Balance on the technical account	A+B+C=	<u>(14,042,871)</u>	<u>(2,098,737)</u>
NON TECHNICAL ACCOUNT			
Investment income	9	453,930	514,729
Unrealised (loss) / gains on investments	10	(57,859)	58,258
Investment expenses and charges	9	(83,091)	(81,787)
	D	312,980	491,200
(Deficit) on ordinary activities before tax	A+B+C+D	(13,729,891)	(1,607,537)
Tax on ordinary activities	11(a)	(65,210)	(120,821)
(Deficit) for the financial year		(13,795,101)	(1,728,358)
Reserves at 1 October 2010		4,552,182	6,280,540
Reserves at 30 September 2011		<u>(9,242,919)</u>	<u>4,552,182</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 25 form an integral part of these Financial Statements.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

Company Number 1985809

**BALANCE SHEET
30 September**

		2011	2010
		£	£
ASSETS			
Investments			
Other financial investments	12	9,416,269	14,292,676
Reinsurers' share of technical provisions			
Provision for unearned premiums		14,646	411,544
Claims outstanding	7(d)	<u>6,293,502</u>	<u>8,052,026</u>
		6,308,148	8,463,570
Debtors arising out of direct insurance			
- Due within one year		5,407,187	1,219,604
- Due in more than one year		1,685,761	3,726,434
Other debtors	13	565,390	1,966,816
Cash at bank		4,577,337	1,065,310
Accrued interest		133,291	132,595
Prepayments	14	<u>14,708</u>	<u>13,582</u>
		<u><u>28,108,091</u></u>	<u><u>30,880,587</u></u>
LIABILITIES			
Reserves			
Income and expenditure account		<u>(9,242,919)</u>	<u>4,552,182</u>
Technical Provisions			
Provision for unearned premiums			
Gross amount		42,156	1,193,775
Claims outstanding			
Gross amount	2(d), 7(c)	<u>34,926,401</u>	<u>22,098,291</u>
		34,968,557	23,292,066
Creditors			
Reinsurance creditor		2,054,061	2,680,138
Other creditors	15	<u>328,392</u>	<u>356,201</u>
		<u>2,382,453</u>	<u>3,036,339</u>
		<u><u>28,108,091</u></u>	<u><u>30,880,587</u></u>

These Financial Statements were approved by the Board of Directors and were signed on its behalf on 9 January 2012 by:

Director:

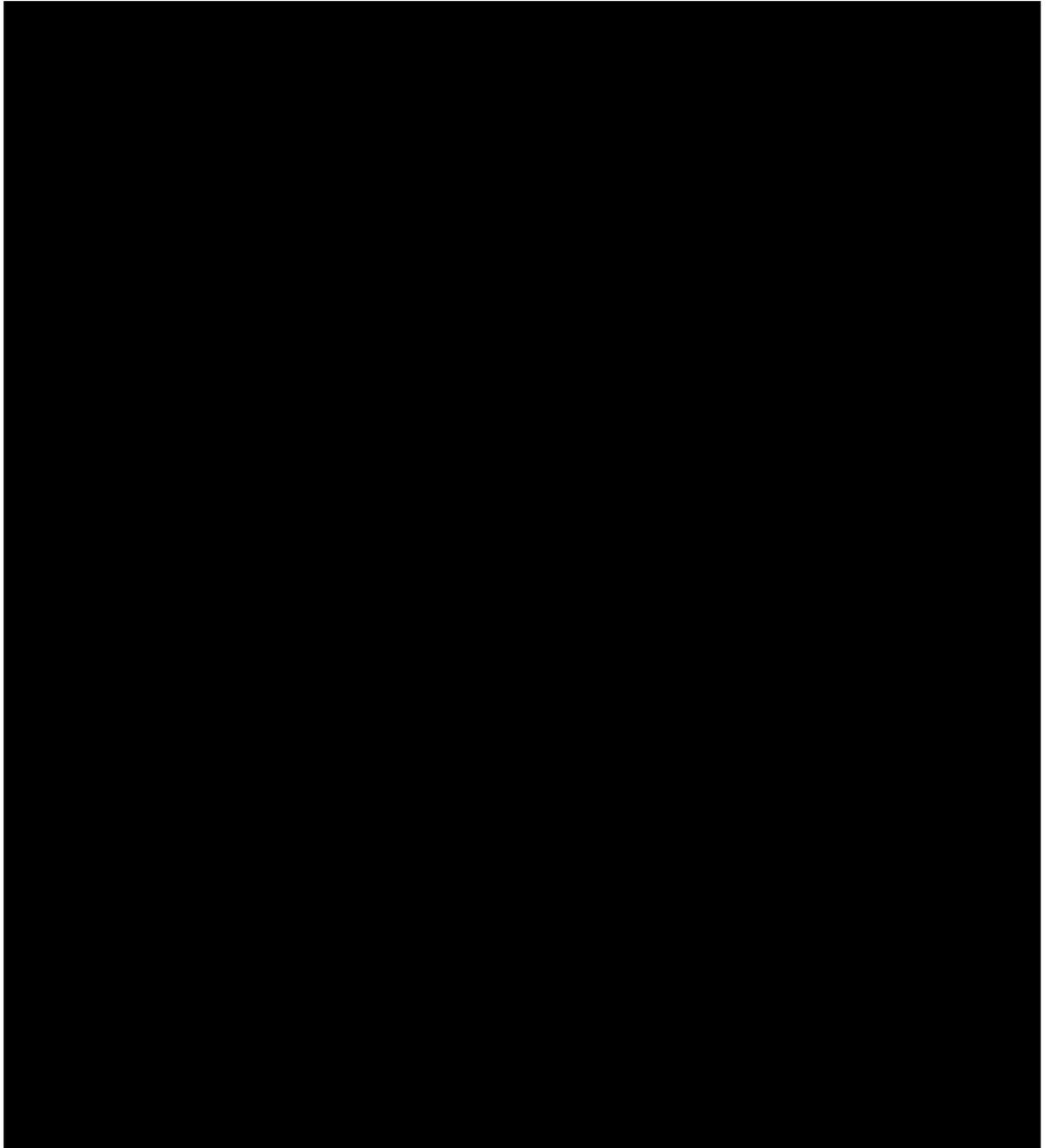
Director:

Signed on behalf of the Managers:
S.I.M.I.A. Management Company

The accounting policies and notes on pages 13 to 25 form an integral part of these Financial Statements.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

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



The accounting policies and notes on pages 13 to 25 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 Supplementary 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 schedule 3 to the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2010 (SI 2010/410) of the Companies Act 2006 and in accordance with applicable accounting standards in the U.K. and with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005 (as amended in December 2006). The Statutory "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

(i) Going concern basis

The accounts have been prepared on a going concern basis even though the results show a deficit of £13.8m in the Income and Expenditure account and £9.2m in the Balance Sheet.

The accounts have been prepared on a going concern basis because of the Company's ability to raise additional capital by way of Supplementary Calls on open policy years. The Company has the power to make Special Supplementary Calls – payment of up to 100% of the premium deferral originally granted to members – and General Supplementary Calls. General Supplementary Calls are limited to three times the gross premium paid by members in any one policy year. The Company's ability to make Supplementary Calls of this magnitude will suffice to meet any additional capital requirements.

The Company has made Supplementary Calls in previous years and the Board approved an additional Supplementary Call of £15.8m on 9 January 2012 to correct the deficit in its Balance Sheet.

(ii) Annual accounting

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.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting Policies (continued)

(iii) Policy year accounting

The Company's business is accounted for on an annual basis. For the purposes of reporting to Members, all transactions, including calls, reinsurance premiums payable, claims and reinsurance recoveries, are allocated to the policy year to which they relate. In the case of claims and reinsurance recoveries, the appropriate year is decided by the date on which the claim or the potential claim giving rise to the claim is notified to the Company. Other income and expenditure is allocated to the current policy year.

Members remain liable for their rateable proportions of any excess of claims and expenses over income for any open policy year. Underwriting years are closed only when the Directors are satisfied that the information on claims payable is sufficiently reliable to enable the outcome of that year to be determined with reasonable accuracy. The Income and Expenditure account presents the aggregate of changes during the financial year on all policy years, both open and closed.

(iv) Closed policy year

Policy years are closed when sufficient information is available for a result to be determined with reasonable certainty. Policy years 1986 to 2000 are closed.

(b) Gross premiums written

Gross premiums written comprise advance calls, premium deferrals and premium deferrals called back. These 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 accept a specified level of cover for a specified period.

The Company has the right to call back premium deferral given on a notified basis. These are described as Special Supplementary Calls.

The Company has the right to make General Supplementary Calls in respect of any Open Policy Year. The amount of any General Supplementary Call shall not exceed in aggregate a sum equivalent to three times a member's net premium income (gross premium less brokerage or commission) for that policy year.

No specific provision is made in the accounts for any Special or General Supplementary Calls unless and until the Directors decide that any such calls shall be made.

(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.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting Policies (continued)

(d) Claims

Claims are accounted for on a notifications basis.

The claims provision in the Balance Sheet represents:

- (i) Estimated claims and defence costs as at 30 September 2011, on notified claims for all policy years.
- (ii) An additional amount to provide against adverse development on estimated and unestimated claims and circumstances.
- (iii) A provision for the Managers' future claims handling costs in respect of (i) and (ii).

Claims incurred in the Income and Expenditure Account includes:

- (i) Claims and defence costs paid during the year;
- (ii) The claims handling costs of the Managers (see note 7(a)) and
- (iii) The movement in the claims provision (see note 7c)

Case estimates are set using information provided by the lead underwriter and solicitors instructed to act for insureds. Solicitors acting for insureds base their estimates on the information available about individual claims and their experience of similar cases. The Managers' legally qualified in-house claims handlers are guided by the reserves recommended by the solicitors instructed to act for insureds.

Where it is not yet possible to make an assessment of the likely outcome of a claim, the Managers will consider the details of the claims and record estimates where appropriate, including an additional provision for potential deterioration if required.

The Managers report to the Claims and Reserving Committee which considers the estimates and approves the year-end reserves. The Company's claims profile does not readily lend itself to setting claims reserves on the basis of statistical analysis. Past experience is one of the factors used to project the ultimate cost of claims for more recent years.

The provision for outstanding claims is based on information available at the balance sheet date. The majority of claims are settled only after extensive investigation and negotiation, which can take a number of years to complete. Accordingly, the ultimate cost of such claims cannot be known with certainty at the balance sheet date. Subsequent information and events may result in the ultimate liability being greater or less than the amount provided. Any differences between provisions and subsequent settlements are dealt with in the general business technical account in later years.

(e) Reinsurance

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

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(f) Investment income

This comprises investment 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.

(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 £810,000 (2010 - £810,000) from the Company in respect of management fees for the period.

4. Management costs

The management fee paid to S.I.M.I.A. Management Company is apportioned between the different management functions. A portion of the fees is allocated to acquisition costs, in the case of the Company acquisition costs has been interpreted by the Directors and Managers as the cost of underwriting, processing renewals, premium adjustments and credit control. Costs are allocated to: claims handling costs; investment management services and administration expenses which include regulatory compliance, the preparation of accounts and general management.

	2011	2010
	£	£
Acquisition costs (note 8)	408,260	408,260
Claims handling (note 7(a))	163,230	163,230
Administration expenses (note 8)	163,230	163,230
Investment management services (note 9)	75,280	75,280
	<u>810,000</u>	<u>810,000</u>

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

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

The Company writes a maximum of £4.5m any one claim. In respect of the year ended 30 September 2011, the Company has reinsurance protection of £1m in excess of £1m (subject to an aggregate excess of £1m), and £2.5m excess of £2.0m. The Company also had fees break-out cover of £1m in excess of £4.5m. The reinstatement provisions are as follows:

Four reinstatements on the £1m in excess of £1m layer.

Four reinstatements on the £2.5m in excess of £2m layer

For U.S.A. and Canadian exposures (excluded under the main reinsurance contract), the Company has reinsurance contracts which cover claims and defence costs of £3.0m in the aggregate, in excess of £1.5m in the aggregate, costs inclusive, each additional risk. Two reinstatements are available on this layer of Cover.

The maximum possible net loss to the company from one incident is £2.0m.

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:

A large black rectangular redaction box covers the content of the table that would follow the text 'comprises the following:'. The table is not visible.

7(a). Claims paid

	2011	2010
	£	£
Gross claims and costs	14,872,340	6,648,121
Claims handling (note 4)	163,230	163,230
Third party recoveries	<u>(565,762)</u>	<u>(388,851)</u>
	<u>14,469,808</u>	<u>6,422,500</u>

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

	2011	2010
	£	£
Reinsurance recoveries	<u>7,856,545</u>	<u>1,743,078</u>

7(c). Change in gross provision for claims

	2011	2010
	£	£
Claims outstanding at end of year	34,926,401	22,098,291
Claims outstanding at beginning of year	<u>(22,098,291)</u>	<u>(13,225,823)</u>
Increase in gross provision for claims	<u>12,828,110</u>	<u>8,872,468</u>

For many years the Company considered itself to be an insurer of a "quasi-catastrophe" nature. This was because it generally insured the layers above £2m or £3m and very few claims resulted in payments in excess of £1m or £2m from the ground up.

The Company's more recent claims experience however suggests that the layers of insurance above £2m or £3m have become working layers. The recent deterioration in the claims has resulted in a change in the assessment of the likely final outcome of the most recent policy years.

The deterioration of claims on the 2003 to 2006 policy years that occurred in the course of the year suggests that the severity of the claims has increased even though the frequency of claims remains relatively stable. Thus, although the Company uses reinsurance to limit its exposure to claims, it has become clearer this year that the potential to pay claims at or around the total loss amount of £4.5m has increased. The increased claims reserve for the recent policy years recognises this development in the claims pattern.

The second development that occurred in the course of the year was the relatively early deterioration of the recent policy years, which suggests that the ultimate claims liabilities for these years could be greater than originally assumed.

The Company uses excess of loss reinsurance to limit its exposure to the cost of claims to £2m. This high level of retention means that it is exposed to potentially substantial variations in the cost of claims from year to year. More than one such claim can arise in any one year and two such claims on the reinsurance will involve a total charge of at least £3m in the Company's Income and Expenditure Account, an amount which is substantial in relation to the Company's free reserves.

Having reviewed the notifications made to date in respect of all policy years, the Claims and Reserving Committee of the Board considers the gross claims provision of £34.9m (net £28.6m) for all policy years to be reasonable.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7(c). Change in gross provision for claims (contd)

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 2010 policy year.

Of the claims incurred figure of £22.6m (2010 - £7.7m), £14.7m represents the deterioration in respect of prior years (2010 – deterioration of £4.8m).

Adverse developments on individual claims can cause large movements in the incurred. The deterioration of £14.7m analysed across the relevant policy years is as follows:

Policy Year	Deterioration	Improvement
2001		£0.600m
2003	£0.823m	
2004	£1.552m	
2005	£0.100m	
2006	£4.350m	
2007	£1.499m	
2008	£3.5m	
2009	£3.5m	

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

	2011	2010
	£	£
R/I share of claims outstanding at the end of the year	6,293,502	8,052,026
R/I share of claims outstanding at the beginning of the year	<u>(8,052,026)</u>	<u>(4,131,116)</u>
(Decrease) / increase in R/I share of claims outstanding	<u>(1,758,524)</u>	<u>3,920,910</u>

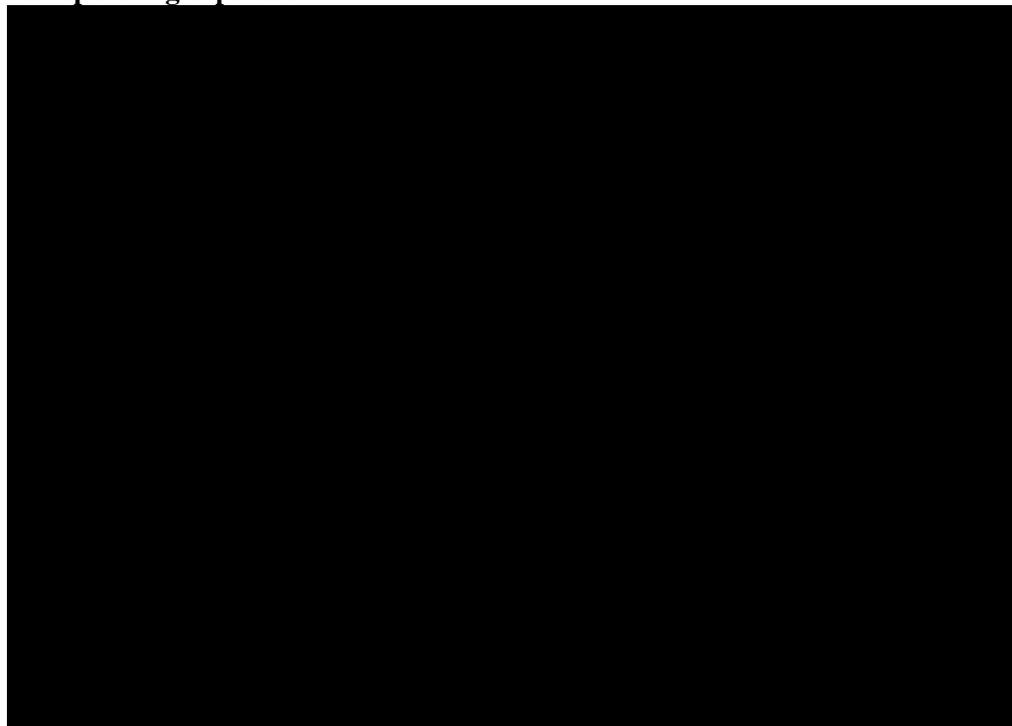
The reinsurers' share represents the provision for that part of the gross claims provision, which is recoverable from reinsurers and is based on estimated recoveries against actual claims and costs payments made and estimated claims and costs provisions.

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.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Net operating expenses



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.

There were no Directors' emoluments during the year.

9. Investment income

	2011	2010
	£	£
Interest on listed investments	285,392	302,027
Bank deposit interest	740	1,161
	<u>286,132</u>	<u>303,188</u>
Gains on realisation of investments	167,798	211,541
	<u>453,930</u>	<u>514,729</u>

Investment expenses and charges

	2011	2010
	£	£
Investment management expenses:		
Banking and custodial charges	7,811	6,507
Investment management services (note 4)	75,280	75,280
	<u>83,091</u>	<u>81,787</u>

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

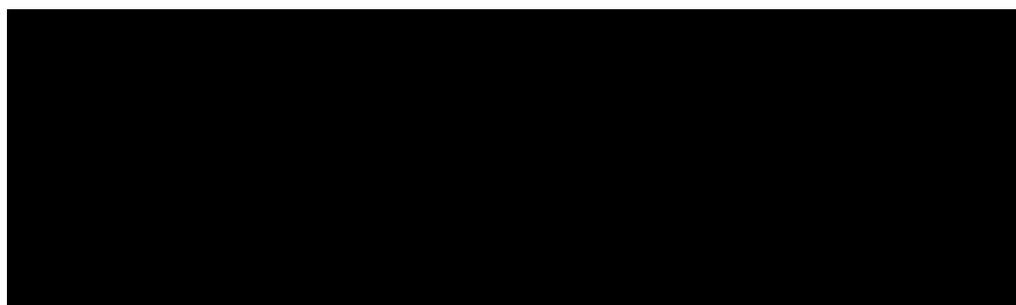
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Unrealised gains on investments

	2011	2010
	£	£
Market value (note 12)	9,416,267	14,292,676
Cost (note 12)	<u>9,125,557</u>	<u>13,944,106</u>
Gains at year end	<u>290,710</u>	<u>348,570</u>
Unrealised gains on equities	-	42,091
Unrealised (losses)/gains on bonds	<u>(57,859)</u>	<u>16,167</u>
Unrealised gains movement during the year	<u>(57,859)</u>	<u>58,258</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:



- (b) The tax assessed for the period is lower than the standard rate of corporation tax in the UK (27% / 28%). The differences are explained below:

	2011	2010
	£	£
(Deficit) on ordinary activities before tax	<u>(13,729,891)</u>	<u>(1,607,537)</u>
Surplus on ordinary activities multiplied by Standard rate of corporation tax in the UK of 27% / 28%	(3,707,071)	(450,110)
<i>Effects of:</i>		
Non-taxable mutual insurance operations	3,791,566	587,646
Marginal Relief	(19,285)	(17,653)
Other taxable items	-	9
Under provision in prior year	<u>-</u>	<u>929</u>
	<u>65,210</u>	<u>120,821</u>

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Taxation (Contd)

(c) Balance Sheet

Taxation Creditor	2011	2010
	£	£
Taxation creditor brought forward	119,892	391,449
Payment of corporation tax	<u>(119,892)</u>	<u>(392,378)</u>
	-	(929)
UK Corporation tax for the current year	84,495	137,545
Marginal relief	<u>(19,285)</u>	<u>(17,653)</u>
Creditor as at 30 September (note 15)	<u>65,210</u>	<u>119,892</u>

(d) Deferred taxation

There was no deferred tax asset at the year-end.

12. Other Financial Investments

	Market Value 2011 £	Market Value 2010 £	Cost 2011 £	Cost 2010 £
Other financial investments comprise:				
Fixed interest securities	6,991,975	6,729,219	6,701,263	6,480,043
Units in unit trusts	2,373,972	7,518,874	2,373,972	7,419,480
Cash Deposits	<u>50,322</u>	<u>44,583</u>	<u>50,322</u>	<u>44,583</u>
	<u>9,416,269</u>	<u>14,292,676</u>	<u>9,125,557</u>	<u>13,944,106</u>

	Market Value 2010 £	Market Value 2009 £	Cost 2010 £	Cost 2009 £
Other financial investments comprise:				
Fixed interest securities	6,729,219	8,300,045	6,480,043	8,092,959
Units in unit trusts	7,518,874	4,406,324	7,419,480	4,323,095
Cash Deposits	<u>44,583</u>	<u>8,079</u>	<u>44,583</u>	<u>8,079</u>
	<u>14,292,676</u>	<u>12,714,448</u>	<u>13,944,106</u>	<u>12,424,133</u>

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

SI 2010/410 of the Companies Act 2006 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.

13. Other debtors

	2011	2010
	£	£
Claims recoveries from third parties	565,390	1,953,316
Other Debtor	-	13,500
	<u>565,390</u>	<u>1,966,816</u>

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

14. Prepayments

	2011	2010
	£	£
Fees paid in advance	<u>14,708</u>	<u>13,582</u>

15. Other creditors

	2011	2010
	£	£
Accrued expenses	33,953	34,350
Insurance premium tax	229,229	201,959
Taxation (note 11(c))	65,210	119,892
	<u>328,392</u>	<u>356,201</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 before tax to net cash outflow from operating activities	2011	2010
	£	£
(Deficit) on ordinary activities before tax	(13,729,891)	(1,607,537)
(Increase) in debtors	(2,134,535)	(2,030,176)
(Decrease) / increase in creditors	(599,203)	1,967,070
(Decrease) in provision for unearned premiums	(754,721)	(385,328)
Increase in net provision for claims	15,974,560	2,998,242
Realised investment gains	(453,930)	(514,729)
Decrease / (increase) in market value of investments	57,859	(58,258)
Investment expenses	83,091	81,787
	<hr/>	<hr/>
Net cash (outflow) / inflow from operating activities	(1,556,770)	451,071
	<hr/>	<hr/>

17. Movement in opening and closing portfolio investments

	2011	2010
	£	£
Net cash inflows / (outflows) for the period	3,512,027	(1,021,931)
Portfolio investments	<u>(4,986,358)</u>	<u>1,308,432</u>
Movement arising from cashflows	(1,474,331)	286,501
Movement on investment valuations	<u>109,948</u>	<u>269,796</u>
Movement for the year	(1,364,383)	556,297
Portfolio investments at 1 October	<u>15,357,989</u>	<u>14,801,692</u>
Portfolio investments at 30 September	<u>13,993,606</u>	<u>15,357,989</u>

18. Movement in cash deposits and investments in the year

	At 1 October 2010	Cashflow	Changes to market value	At 30 September 2011
	£	£	£	£
Fixed interest securities	6,729,219	217,883	44,873	6,991,975
Units in unit trusts	7,563,460	(5,204,241)	65,075	2,424,294
Cash at bank	1,065,310	3,512,027		4,577,337
	<u>15,357,989</u>	<u>(1,474,331)</u>	109,948	<u>13,993,606</u>

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

The comparative figures for last year were:

	At 1 October 2009 £	Cashflow £	Changes to market value £	At 30 September 2010 £
Fixed interest securities	8,300,046	(1,767,238)	196,411	6,729,219
Units in unit trusts	4,414,405	3,075,670	73,385	7,563,460
Cash at bank	2,087,241	(1,021,931)		1,065,310
	<u>14,801,692</u>	<u>286,501</u>	<u>269,796</u>	<u>15,357,989</u>

19. 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

Registered Office: 90 Fenchurch Street, London, EC3M 4ST