

**SOLICITORS INDEMNITY MUTUAL INSURANCE
ASSOCIATION LIMITED**

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
30 SEPTEMBER 2013**

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	7
Income and Expenditure Account	9
Balance Sheet	10
Cash Flow Statement	11
Notes to the Financial Statements	12
Registered Office	25

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 25 February 2014, 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 2013 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: 3 December 2013

- 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
P.M. Crossley	Retired 26.02.2013	Hammonds LLP
C. J. Harris		Clyde & Co LLP
A.M. Horne		Hill Dickinson LLP
R. J. Parker	Retired 26.02.2013	Reed Smith LLP
A. J. Paton		Pinsent Masons LLP
C. C. Perrin	Retired 26.02.2013	Clifford Chance LLP
B. W. D. Richards *		Lawrence Graham LLP
J. F. Rosenheim	Retired 31.12.2012	SNR Denton LLP
P. J. H. Vaughan		Simmons & Simmons LLP
E. C. J. Wells *		Hogan Lovells International LLP

* Member of the Audit, Investment and Claims 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.

R.A.A. Harnal
M.K. Levey
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 2013. The Report incorporates the disclosure requirements of both the Strategic Review and the Directors Report as required by Companies Act 2006

Principal Activities

The principal activity of the Company during the year was the management of the run-off of the Company's business as a mutual insurer of Solicitors against risks arising from professional negligence following the decision of the Members of the Company in March 2011 to cease accepting any new business and to place the Company into run-off.

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 as at year end are shown on page 2.

In accordance with Article 19 Messrs. A.M.Horne, P.J. Russell and E.C.J.Wells retire by rotation and being eligible offer themselves for re-appointment 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 (Continued)

State Of Affairs

SIMIA is in its second year of run-off.

The claims experience for the year ended 30 September 2013 suggests a slowing in the claims deterioration and the emergence of a more settled claims pattern. Although the early policy years (policy year 2006 and prior years) continue to deteriorate, the deterioration is less severe than last year and has come mainly in an increase in claims estimates rather than payments on claims. The total deterioration this year before taking into account the claims handling provision and expenses of £0.420m (2012: £1.148m) is all attributable to the 1998 and 2004 policy years.

In the course of the year the Directors agreed to close the 2001 Policy Year.

The 2007 and subsequent policy years they are developing in a satisfactory manner although the 2008, 2009 and 2010 policy years are relatively undeveloped. The claims experience on these years suggest that a final outcome for each of them may be in line with the forecast.

During the course of the year the Company submitted a revised Scheme of Operation (Run-off plan) to the PRA which anticipates a ten-year run-off period.

Financial Results

The Income and Expenditure Account (on page 9) and the Balance Sheet (on page 10), 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 2013 and 30 September 2012.

	2013 £'000	2012 £'000
Gross premium written	179	15,251
Provision for unearned premiums	-	27
Reinsurance premium	70	(835)
Net claims incurred	(435)	(1,148)
Operating expenses	(585)	(682)
(Deficit)/surplus on technical account	(771)	12,613
Net Investment Income & Tax	4	120
(Deficit)/surplus for the financial year	(767)	12,733
Free reserves at year end	2,723	3,490

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 0.27%.

The Company exceeded the Base Capital Resource Requirement (BCRR) of £2.238m by £0.485m.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

REPORT OF THE DIRECTORS (Continued)

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 Association.

The Directors received and discussed written reports from the Managers on financial development, investment of its portfolio, major claims paid or outstanding, payments of supplementary calls, closing of policy years, and approval of the run-off plan.

The Annual Reports and Financial Statements for the year ended 30 September 2012 were approved by the Board for submission to the members of the Association at the Annual General Meeting.

Board Committees

As the Company is in run-off the Board decided to reduce the number of committees by amalgamating the terms of reference of the Claims and Reserving Committee with those of the Audit and Investment Committee and renaming the latter committee the Audit, Investment and Claims Committee.

The Audit, Investment and Claims Committee now comprises Messrs E.C.J. Wells. (Chairman), B.W.D.Richards, and P.J. Russell it assists the Board in discharging its responsibilities for the integrity of the Financial Statements, compliance with regulatory requirements, assessing the business risks the Company faces, determining as well as monitoring the Company's investment policy and overseeing the run-off plan. It also assists the Board in, reviewing notified claims to ensure that the Company holds adequate individual and overall claims reserves. The Committee met on three occasions in the course of the year.

Risk Management

The Company is exposed to financial risk to its assets and on its 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 Investment and Claims 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 supplementary calls is mitigated by strong credit control procedures and monitored by regular reports 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. The reserves held by the Company for individual notifications are reviewed twice a year by the Audit, Investment and Claims Committee, and that Committee also reviews the overall claims reserves at each meeting.

Reinsurance risk relates to the possibility of a reinsurer defaulting and being unable to meet their obligations under the treaties. This risk has been mitigated by only placing reinsurance with reinsurers holding a Standard & Poor rating of A- or higher and limiting the maximum line with any one reinsurer to 25 per cent on any one layer. As the Company is now in run- off it no longer purchases reinsurance.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

REPORT OF THE DIRECTORS (Continued)

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 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: 3 December 2013

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 financial statements of Solicitors Indemnity Mutual Insurance Association Limited for the year ended 30 September 2013 which are set out on pages 9 to 24. 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2013 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.

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.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

REPORT OF THE INDEPENDENT AUDITORS (continued)

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and 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 and 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 and on behalf of Moore Stephens LLP, Statutory Auditor
150 Aldersgate Street
London
EC1A 4AB

Dated: 3 December 2013

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

INCOME AND EXPENDITURE ACCOUNT

For the year ended 30 September

	Note	2013 £	2012 £
TECHNICAL ACCOUNT			
Earned premium net of reinsurance			
Gross premiums written	2(b)	178,684	15,250,878
Outward reinsurance premiums	5	70,458	(835,255)
		<u>249,142</u>	<u>14,415,623</u>
Change in gross provision for unearned premiums	6	-	42,154
Reinsurers' share	6	-	(14,646)
Change in net provision for unearned premiums	6	-	27,508
	(A)	<u>249,142</u>	<u>14,443,131</u>
Claims paid net of reinsurance			
Claims paid			
Gross amount	7(a)	(4,194,805)	(11,394,683)
Reinsurers' share	7(b)	2,771,708	4,121,607
		<u>(1,423,097)</u>	<u>(7,273,076)</u>
Change in the provision for claims			
Gross amount	2(d),7(c)	4,322,819	5,866,591
Third party recoveries		711,712	148,056
Reinsurers' share	7(d)	(4,046,899)	110,463
		<u>987,632</u>	<u>6,125,110</u>
Claims incurred net of reinsurance	(B)	<u>(435,465)</u>	<u>(1,147,966)</u>
Net operating expenses	8 (C)	(584,829)	(682,077)
Balance on the technical account	A+B+C=	<u>(771,152)</u>	<u>12,613,088</u>
NON TECHNICAL ACCOUNT			
Investment income	9	134,379	430,775
Unrealised (losses) on investments	10	(58,764)	(197,599)
Investment expenses and charges	9	(70,455)	(83,338)
	D	<u>5,160</u>	<u>149,838</u>
(Deficit)/surplus on ordinary activities before tax	A+B+C+D	(765,992)	12,762,926
Tax on ordinary activities	11(a)	(1,034)	(29,987)
(Deficit)/surplus for the financial year		<u>(767,026)</u>	<u>12,732,939</u>
Reserves at 1 October		3,490,020	(9,242,919)
Reserves at 30 September		<u>2,722,994</u>	<u>3,490,020</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 12 to 24 form an integral part of these Financial Statements.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

Company Number 1985809

**BALANCE SHEET
As at 30 September**

		2013	2012
		£	£
ASSETS			
Investments			
Other financial investments	12	24,540,169	8,686,841
Reinsurers' share of technical provisions			
Claims outstanding	7(d)	2,357,066	6,403,965
Debtors arising out of direct insurance			
- Due within one year		74,275	15,102,885
Other debtors	13	1,425,482	808,855
Cash at bank		90,102	3,762,034
Accrued interest		65,747	45,354
Prepayments	14	13,972	14,708
		<u>28,566,813</u>	<u>34,824,642</u>
LIABILITIES			
Reserves			
Income and expenditure account		<u>2,722,994</u>	<u>3,490,020</u>
Technical Provisions			
Claims outstanding			
Gross amount	2(d), 7(c)	<u>24,736,991</u>	<u>29,059,810</u>
		24,736,991	29,059,810
Creditors			
Reinsurance creditor		726,892	1,755,077
Other creditors	15	379,936	519,735
		<u>1,106,828</u>	<u>2,274,812</u>
		<u>28,566,813</u>	<u>34,824,642</u>

These Financial Statements were approved by the Board of Directors and were signed on its behalf on 3 December 2013 by:

Director:

Director:

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

The accounting policies and notes on pages 12 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**

Operating activities

	Note	2013 £	2012 £
Premiums received from Members		15,207,293	7,240,939
Reinsurance paid		(862,318)	(1,229,650)
Claims paid (note 7(a))		(3,999,461)	(11,394,683)
Reinsurance recovered		2,771,708	4,121,608
Other operating cash flow payments		(890,620)	(455,509)
Net cash inflow / (outflow) from operating activities	16	<u>12,226,602</u>	<u>(1,717,295)</u>

CASH FLOW STATEMENT

Net cash inflow / (outflow) from operating activities	16	12,226,602	(1,717,295)
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Returns on investment and servicing of finance

Investment return		113,985	256,155
Investment expenses		(70,455)	(83,339)
		<u>43,530</u>	<u>172,816</u>

Taxation

Corporation tax paid	11(c)	(29,973)	(65,211)
Increase in cash, deposits and investments in the year	18	<u>12,240,160</u>	<u>(1,609,690)</u>

Cashflows were invested as follows

(Decrease) in cash	17	(3,671,933)	(815,303)
Net portfolio investment			
(Purchase) / sale of units in unit trusts	18	(562,114)	336,446
Sale / (purchase) of fixed income securities	18	<u>16,474,207</u>	<u>(1,130,833)</u>
	18	<u>12,240,160</u>	<u>(1,609,690)</u>

The accounting policies and notes on pages 12 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 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 2011 (SI 2011/410) 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 Directors have assessed the position of the Company and are of the opinion that the Company has adequate resources to meet its insurance and other liabilities as they fall due for payment. The Company has maintained a margin over the minimum regulatory capital requirements for this year, and on the basis of the information currently available, there are no indications that the position will change in the twelve months from the signing of these financial statements. The Directors have reasonable expectation that the Company will be able to continue in operational existence as a going concern for the foreseeable future.

In addition the Company has the 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 and other liabilities.

The Company has made Supplementary Calls in previous years.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting Policies (continued)

(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.

(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 2001 are closed.

(b) Gross premiums written

Gross premiums written comprise advance calls, premium deferrals and Special and General supplementary calls. These represent the total receivable for contracts with an inception date during the accounting period together with any premium and supplementary call 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 cannot however 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.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting Policies (continued)

(b) Gross premiums written (continued)

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.

	2013	2012
	£	£
Advance call	-	(22,284)
Special supplementary call	-	7,376,210
General supplementary call	-	8,423,790
Bad debt recovery / (provision) on supplementary calls	178,684	(528,198)
Premium Deferral	-	1,360
	<u>178,684</u>	<u>15,250,878</u>

(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

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 2013, 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 insured. Solicitors acting for insured's 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 insured's.

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 where appropriate record estimates, including an additional provision for potential deterioration if required.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting Policies (continued)

(d) Claims (continued)

The Managers report to the Audit, Investment and Claims 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.

(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 insured's. 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. Four out of the seven Directors are paid an annual fee of £2,500 and a £2,500 attendance fee per meeting. At the year-end £27,500 was due to the Directors. The Fees paid to each Director are capped at £20,000 per annum. S.I.M.I.A. Management Company received £700,000 (2012 - £810,000) from the Company in respect of management fees for the period.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 fee is allocated to acquisition costs, and in the case of the Company acquisition costs has been interpreted by the Directors and Managers as the cost of processing renewals and premium adjustment. Costs are allocated to: claims handling; investment management services and administration expenses, which include regulatory compliance, the preparation of accounts and general management.

Following the decision to place the Company into run-off, the apportionment of the management fee has been changed from that shown in the Directors' Report and Financial Statement for last year to reflect the functions which now consume a greater proportion of management resource.

	2013	2012
	£	£
Acquisition costs (note 8)	81,397	101,250
Claims handling (note 7(a))	195,344	243,000
Administration expenses (note 8)	358,143	384,750
Investment management services (note 9)	65,116	81,000
	<u>700,000</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).

5. Reinsurance premiums

The Company wrote a maximum of £4.5m any one claim. From the 2008 policy year onwards 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 on the reinsurance contract are as follows:

- Four reinstatements on the layer £1m in excess of £1m.
- Four reinstatements on the layer £2.5m in excess of £2m.

For U.S.A. and Canadian exposures (excluded under the main reinsurance contract), the Company has reinsurance protection which cover claims and defence costs of £3m 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 £2m.

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

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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:

	2013	2012
	£	£
Change in gross provision for unearned premiums	-	42,154
Change in the provision for unearned premiums, reinsurers' share	-	(14,646)
	<u>-</u>	<u>27,508</u>

7(a). Claims paid

	2013	2012
	£	£
Gross claims and costs	3,999,461	11,151,683
Claims handling (note 4)	195,344	243,000
	<u>4,194,805</u>	<u>11,394,683</u>

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

	2013	2012
	£	£
Reinsurance recoveries	<u>2,771,708</u>	<u>4,121,607</u>

7(c). Change in gross provision for claims

	2013	2012
	£	£
Claims outstanding at end of year	24,736,991	29,059,810
Claims outstanding at beginning of year	<u>(29,059,810)</u>	<u>(34,926,401)</u>
(Decrease) in gross provision for claims	<u>(4,322,819)</u>	<u>(5,866,591)</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.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

The deterioration in claim ultimates experienced in the year was caused by adverse movement in respect of the 1998 and 2004 policy years. One claim on each year deteriorated. The movements in the 2005 and 2006 policy years (see table below) are attributable to existing claims being moved between the years rather than a genuine deterioration. Policy year 2007 is developing in a satisfactory manner. Policy years 2008, 2009 and 2010 are relatively undeveloped but the claims experience suggests that the final outcome will be in line with expectations.

The deterioration in claim ultimates of £0.420m (2012 £1.148m) analysed across the relevant policy years is as follows:

Policy Year	Deterioration £	Improvement £	Total £
1995	-	15,675	15,675
1998	(250,000)	-	(250,000)
2004	(1,267,289)	-	(1,267,289)
2005	-	1,101,291	1,101,291
2006	(19,798)	-	(19,798)
2007	-	-	-
2008	-	-	-
2009	-	-	-
2010	-	-	-
	<u>(1,537,087)</u>	<u>1,116,966</u>	<u>(420,121)</u>
Release from claims handling provisions			180,000
Claims handling expenses (Note 4)			<u>(195,344)</u>
			<u>(435,465)</u>

Having reviewed the notifications made to date in respect of all policy years, the Audit, Investment and Claims Committee of the Board considers the gross claims provision of £24.737m and net claims provisions of £20.955m (2012: Gross claims provision £29.060m and net claims provision of £21.942m) for all policy years to be reasonable.

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.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

	2013	2012
	£	£
R/I share of claims outstanding at the end of the year	2,357,066	6,403,965
R/I share of claims outstanding at the beginning of the year	<u>(6,403,965)</u>	<u>(6,293,502)</u>
	<u>(4,046,899)</u>	<u>110,463</u>

The reinsurers' share represents the provision for that part of the gross claims provision, which is recoverable from reinsurers. It 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

	2013	2012
	£	£
Acquisition costs		
Management costs (note 4)	81,397	101,250
Brokerage	-	55
	<u>81,397</u>	<u>101,305</u>
Administration expenses		
Legal and Professional fees	29,925	-
Directors' and Officers' Liability Insurance	19,365	19,610
Printing costs	-	1,420
Meeting expenses	1,908	575
Directors fees	37,500	-
Regulatory fees	13,500	11,751
Financial Services Compensation Scheme Levy	-	20,480
Auditors' remuneration	43,090	38,964
Auditors' remuneration in respect for prior period	-	42,472
Run-off fee	-	60,750
Management costs (note 4)	<u>358,144</u>	<u>384,750</u>
	<u>584,829</u>	<u>682,077</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.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Investment income

	2013	2012
	£	£
Interest on listed investments	92,000	168,080
Bank deposit interest	1,891	137
	<u>93,891</u>	<u>168,217</u>
Gains on realisation of investments	40,488	262,558
	<u>134,379</u>	<u>430,775</u>

Investment expenses and charges

	2013	2012
	£	£
Investment management expenses:		
Banking and custodial charges	5,339	2,338
Investment management services (note 4)	65,116	81,000
	<u>70,455</u>	<u>83,338</u>

10. Unrealised gains on investments

	2013	2012
	£	£
Market value (note 12)	24,540,173	8,686,841
Cost (note 12)	24,505,823	8,593,727
Gains at year end	<u>34,350</u>	<u>93,114</u>
Unrealised (losses) on fixed interest securities	<u>(58,764)</u>	<u>(197,599)</u>
	<u>(58,764)</u>	<u>(197,599)</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	2013	2012
	£	£
UK Corporation tax at 20% (2012 - 20%)	1,034	84,495
Marginal Relief	-	(19,285)
Total current tax (note 11(b))	<u>1,034</u>	<u>65,210</u>

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Taxation (continued)

- (b) The tax assessed for the period is lower than the standard rate of corporation tax in the UK (20%). The differences are explained below:

	2013	2012
	£	£
(Deficit) / surplus on ordinary activities before tax	<u>(765,992)</u>	<u>12,762,926</u>
(Deficit)/surplus on ordinary activities multiplied by Standard rate of corporation tax in the UK of 20 % (2012: 20%)	(153,198)	2,552,585
<i>Effects of:</i>		
Non-taxable mutual insurance operations	154,230	(2,522,617)
Other taxable items	<u>2</u>	<u>19</u>
Current tax charge	<u>1,034</u>	<u>29,987</u>

(c) **Balance Sheet**

Taxation Creditor	2013	2012
	£	£
Taxation creditor brought forward	29,987	65,210
Payment of corporation tax	<u>(29,973)</u>	<u>(65,210)</u>
	14	-
UK Corporation tax for the current year	1,034	29,987
Marginal relief	-	-
Creditor as at 30 September (note 15)	<u>1,048</u>	<u>29,987</u>

(d) **Deferred taxation**

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

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Other Financial Investments

	Market Value 2013 £	Market Value 2012 £	Cost 2013 £	Cost 2012 £
Other financial investments comprise:				
Fixed interest securities	22,341,545	5,926,102	22,307,197	5,832,988
Units in unit trusts	2,193,924	2,748,255	2,193,924	2,748,255
Cash Deposits	4,700	12,484	4,702	12,484
	<u>24,540,169</u>	<u>8,686,841</u>	<u>24,505,823</u>	<u>8,593,727</u>

	Market Value 2012 £	Market Value 2011 £	Cost 2012 £	Cost 2011 £
Other financial investments comprise:				
Fixed interest securities	5,926,102	6,991,975	5,832,988	6,701,263
Units in unit trusts	2,748,255	2,373,972	2,748,255	2,373,972
Cash Deposits	12,484	50,322	12,484	50,322
	<u>8,686,841</u>	<u>9,416,269</u>	<u>8,593,727</u>	<u>9,125,557</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.

SI 2011/410 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

	2013 £	2012 £
Claims recoveries from third parties	1,425,158	713,446
Other Debtor	324	95,409
	<u>1,425,482</u>	<u>808,855</u>

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

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. Prepayments

	2013	2012
	£	£
Fees paid in advance	<u>13,972</u>	<u>14,708</u>

15. Other creditors

	2013	2012
	£	£
Accrued expenses	76,737	45,528
Insurance premium tax	302,151	444,220
Taxation (note 11(c))	1,048	29,987
	<u>379,936</u>	<u>519,735</u>

16. Net cash flow from operating activities

	2013	2012
	£	£
Reconciliation from surplus on ordinary activities before tax to net cash outflow from operating activities		
(Deficit) / surplus on ordinary activities before tax	(765,992)	12,762,926
Decrease / (Increase) in debtors	15,029,019	(8,009,937)
(Decrease) in creditors	(1,043,633)	(167,828)
(Decrease) in provision for unearned premiums	-	(27,508)
(Decrease) in net provision for claims	(987,632)	(6,125,111)
Realised investment income	(134,379)	(430,775)
Decrease in market value of investments	58,764	197,599
Investment expenses	70,455	83,339
Net cash inflow / (outflow) from operating activities	<u>12,226,602</u>	<u>(1,717,295)</u>

17. Movement in opening and closing portfolio investments

	2013	2012
	£	£
Net cash (outflow) for period	(3,671,933)	(815,303)
Portfolio investments	<u>15,912,092</u>	<u>(794,389)</u>
Movement arising from cashflows	12,240,159	(1,609,692)
Movement on investment valuations	<u>(58,764)</u>	<u>64,961</u>
Movement for the year	12,181,395	(1,544,731)
Portfolio investments at 1 October	<u>12,448,876</u>	<u>13,993,606</u>
Portfolio investments at 30 September	<u>24,630,271</u>	<u>12,448,875</u>

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. Movement in cash deposits and investments in the year

	As at 1 October 2012	Cash flow	Changes to market value	As at 30 September 2013
	£	£	£	£
Fixed interest securities	5,926,103	16,474,206	(58,764)	22,341,545
Units in unit trusts	2,760,738	(562,114)	-	2,198,624
Cash at bank	3,762,034	(3,671,932)	-	90,102
	<u>12,448,875</u>	<u>12,240,160</u>	<u>(58,764)</u>	<u>24,630,271</u>

The comparative figures for last year were:

	As at 1 October 2011	Cash flow	Changes to market value	As at 30 September 2012
	£	£	£	£
Fixed interest securities	6,991,975	(1,130,833)	64,961	5,926,103
Units in unit trusts	2,424,292	336,446	-	2,760,738
Cash at bank	4,577,337	(815,303)	-	3,762,034
	<u>13,993,604</u>	<u>(1,609,690)</u>	<u>64,961</u>	<u>12,448,875</u>

19. Location and nature of business

All operations are the Run Off of 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