

**SOLICITORS INDEMNITY MUTUAL INSURANCE  
ASSOCIATION LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
30 SEPTEMBER 2015**

# **SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED**

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# SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

## NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of the Members will be held on Tuesday 23 February 2016, at 12.30pm, 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 2015 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 December 2015

- 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 Representative of 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) *	Consultant Charles Russell Speechlys LLP
C. J. Harris	Consultant Clyde & Co LLP
A.M. Horne	Consultant Kennedys Law LLP
A. J. Paton	Pinsent Masons LLP
B. W. D. Richards *	Consultant Wragge Lawrence Graham & Co LLP
P. J. H. Vaughan	Simmons & Simmons LLP
E. C. J. Wells *	Consultant 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.Cunningham  
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

## CHAIRMAN'S REPORT

I am pleased to present my Chairman's Report for the year ended 30 September 2015, which was the fourth year of run-off.

In the year to 30 September 2015 we recorded a deficit of £244,249 compared to a deficit of £251,639 in the previous year. The two main drivers for the deficit are increased reinstatement premiums and low investment income. The majority of investments are in Treasury bills and cash, for reasons which I will come to. The faster than anticipated release of claim reserves provisions has not fully off-set the effect of these twin drivers.

The Company's claims position continues to be volatile. The total gross payment in claims for the year of £7.287m is lower than the £9.626m paid last year. However, the trend of claims settling earlier is continuing from last year. This should reduce the time the Company spends in run-off and consequently the administrative cost of the run-off. The trend of claims settling early has resulted in a release of £1.143m claims reserve compared to £0.755m last year.

I have referred in previous years to the risk of having to make further supplementary calls in order to comply with the Company's regulatory solvency capital requirement under Solvency II, which comes into effect on 1 January 2016. I am pleased to report that during the year the Board applied for and received permission from its regulator's to take advantage of the grace period provided to insurance companies in run-off under Solvency II – the transitional arrangements. Under the transitional arrangements the Company does not have to meet its Solvency II regulatory capital requirement following the introduction of Solvency II on 1 January 2016 but will need to have terminated its activities by 31 December 2018.

This is not the end of the risk because in the meantime the Company is still obliged to meet the solvency capital requirement under Solvency 1. It is likely that as the run-off matures this obligation will not be met. The Board has therefore applied for a waiver from the regulators to allow it to hold reserves below the current required amount. The principal justification for the waiver is the right to make supplementary calls and the proven record in collecting them. Should this waiver be granted then the risk of making supplementary calls to meet solvency requirements would reduce significantly, at least until the end of the transitional period.

There also remains the risk posed by the inherent volatility of the Company's claims, namely a deterioration in known claims and even, still, the emergence of claims not previously notified to the relevant top-up market. This is the main reason the managers recently wrote directly to all member firms seeking information about claims and circumstances.

One way of removing uncertainty and achieving finality for Members as well as avoiding the risk of having to meet the Solvency II capital requirements in 2019 is to dispose of the Company's book of business to a specialist run-off entity. The Board has been in discussion with suitable entities. These discussions have established that the premium payable would likely require a supplementary call. The Directors are continuing these discussions because as the run-off matures so the interest of purchasers in the rump of what is left will decline. The Board will not conclude a disposal without referring the matter to the Members, so an EGM will be called if the discussions with interested parties result in a proposal which the Board considers is sufficiently meritorious to be put to Members for a vote.

As a company in run off with no ongoing income, it must perforce adopt a very conservative investment policy, with the aim of preserving capital in funds readily available to meet the Company's liabilities. This is served by being invested primarily in Government Treasury bills and cash, which have low returns.

Finally I would like to thank the Directors of the Company who provide their time, energy and expertise in steering the Club through the challenges of the run-off. I would also like to thank the Managers for their continued commitment to administering the Company's run-off.



**Patrick Russell**  
**Chairman**  
**9 December 2015**

# SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

## STRATEGIC REPORT

The Directors have pleasure in presenting their Report and the Financial Statements for the year ended 30 September 2015.

### Review of the Year

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 deficit arising out of the year's operation after tax was (£244,249) (2014: (£251,639)) and this was transferred from reserves. The free reserves now amount to £2,227,106 (2014: £2,471,356).

### Financial Results

The Income and Expenditure Account (on page 11) and the Balance Sheet (on page 12), 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 2015 and 30 September 2014.

	2015 £'000	2014 £'000
Bad debt recovery on supplementary calls	13	123
Reinstatement Reinsurance premium	(908)	(621)
Net claims incurred	1,143	755
Operating expenses	(501)	(520)
(Deficit) on technical account	(253)	(263)
Net Investment Income & Tax	9	11
(Deficit) for the financial year	(244)	(252)
Free reserves at year end	2,227	2,471

The Directors have set in place formal investment policies and objectives. The primary investment objective is to conserve and accumulate capital to cover future obligations.

The Company has 92.63% holdings in Cash and Cash equivalents (Treasury Bills) and 7.37% holding in Government guaranteed corporate bonds. The investment return for the year excluding cash at bank was 0.43 % (2014: 0.34%).

The Company exceeded the Base Capital Resource Requirement (BCRR) of £2.176m by £0.051m.

# **SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED**

## **STRATEGIC REPORT (continued)**

### **FINANCIAL 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, reinsurance risk and liquidity 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 reinsurance contracts. This risk was 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.

**Liquidity risk** of the Company is mitigated by the availability of assets within the balance sheet of the Company, which can readily be converted into cash to meet liabilities as they fall due.

# **SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED**

## **DIRECTORS REPORT**

The Directors have pleasure in presenting their annual report together with the audited financial statements of the Company for the year ended 30 September 2015.

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 principal risks and uncertainties facing the Company have been covered under the heading Financial Risk Management.

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 7 to the Financial Statements.

### **Going Concern**

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue operations for the foreseeable future. For this reason, the going concern basis has been adopted in preparing the accounts.

### **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' B.W.D.Richards, 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

## DIRECTORS REPORT (Continued)

### Meetings of the Directors

During the year ended 30 September 2015 the Directors held three formal meetings on 2 December 2014, 24 February 2015 and 30 June 2015.

They also maintained contact with the Managers between meetings, in order to fulfil the general and specific responsibilities entrusted to them by the Members under the Company's Articles and Rules. The items considered and reported at the three meetings included:

**Audit:** The auditors' report on the 2014 financial statements and the annual return to the Prudential Regulatory Authority (PRA) for the year ending 30 September 2014 were approved by the Board and formally adopted at the Annual General Meeting held on 24 February 2015.

**Claims:** Approval of year-end claims reserves. Review of claims and notifications received in the year, closing of policy years and reports on cash calls from the Assigned Risk Pool (ARP).

**Directors:** Re-appointment of Directors and renewal of Directors and Officers liability insurance.

**Finances:** Financial forecasts and financial reports for the year. Received report from Internal audit on claims reserving process, approval of run-off plan, report on unpaid supplementary calls,

**Regulatory:** Approval of Solvency II waiver application to the Regulator. Received reports on changes to Approved Persons Regime and whistleblowing policy.

**Investments:** Receipt of reports on investment performance and a revised Investment Policy.

**Other Matters:** Review of progress regarding finding buyers for the Company, approval of management fee agreement, and discussions on management fee.

### Board Committees

**The Audit, Investment and Claims Committee** 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 four occasions in the course of the year.

# SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

## DIRECTORS REPORT (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: 9 December 2015

# **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 2015 which are set out on pages 11 to 26. 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 8, 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 2015 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 (Continued)

### Emphasis of Matter – Technical Provisions

In forming our opinion, which is not modified, we have considered the adequacy of the disclosures made in accounting policy note 2(c) and note 6 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 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: <sup>14</sup> December 2015

**SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED**

<b>INCOME AND EXPENDITURE ACCOUNT</b>			
<b>For the year ended 30 September</b>			
	<b>Note</b>	<b>2015</b>	<b>2014</b>
		<b>£</b>	<b>£</b>
<b>TECHNICAL ACCOUNT</b>			
Earned premium net of reinsurance			
Gross premiums written	2(b)	12,793	122,548
Outward reinsurance premiums	5	<u>(907,991)</u>	<u>(621,087)</u>
		(895,198)	(498,539)
	(A)	<u>(895,198)</u>	<u>(498,539)</u>
Claims paid net of reinsurance			
Claims paid			
Gross amount	6(a)	(7,415,578)	(9,793,886)
Reinsurers' share	6(b)	<u>4,606,392</u>	<u>1,729,015</u>
		(2,809,186)	(8,064,871)
Change in the provision for claims			
Gross amount	2(c),6(c)	5,883,931	9,502,591
Third party recoveries		(559,257)	(710,902)
Reinsurers' share	6(d)	<u>(1,372,134)</u>	<u>28,098</u>
		3,952,540	8,819,787
Claims incurred net of reinsurance	(B)	<u>1,143,354</u>	<u>754,916</u>
Net operating expenses	C & 7	(500,640)	(520,125)
Balance on the technical account	A+B+C	<u>(252,484)</u>	<u>(263,748)</u>
<b>NON TECHNICAL ACCOUNT</b>			
Investment income	8	86,599	117,529
Unrealised losses on investments	9	(30,585)	(43,778)
Investment expenses and charges	8	<u>(45,423)</u>	<u>(58,930)</u>
	D	<u>10,591</u>	<u>14,821</u>
Deficit on ordinary activities before tax	A+B+C+D	(241,893)	(248,927)
Tax on ordinary activities	10(a)	<u>(2,356)</u>	<u>(2,712)</u>
Deficit for the financial year		(244,249)	(251,639)
Reserves at 1 October		2,471,355	2,722,994
Reserves at 30 September		<u>2,227,106</u>	<u>2,471,355</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 14 to 26 form an integral part of these Financial Statements.

# SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

Company Number 1985809

## BALANCE SHEET As at 30 September

		2015	2014
		£	£
<b>ASSETS</b>			
Investments			
Other financial investments	11	10,748,110	15,540,678
Reinsurers' share of technical provisions			
Claims outstanding	6(d)	1,013,030	2,385,164
Debtors arising out of direct insurance			
- Due within one year		-	2,257
Other debtors	12	154,998	714,256
Cash at bank		135,373	15,063
Accrued interest		33,863	35,890
Prepayments	13	7,500	12,718
		<u>12,092,874</u>	<u>18,706,026</u>
<b>LIABILITIES</b>			
Reserves			
Income and expenditure account		<u>2,227,106</u>	<u>2,471,356</u>
Technical Provisions			
Claims outstanding			
Gross amount	2(c), 6(c)	<u>9,350,469</u>	<u>15,234,400</u>
		9,350,469	15,234,400
Creditors			
Reinsurance creditor		431,726	911,929
Other creditors	14	83,573	88,341
		<u>515,299</u>	<u>1,000,270</u>
		<u>12,092,874</u>	<u>18,706,026</u>

These Financial Statements were approved by the Board of Directors and were signed on its behalf on 9 December 2015 by:

P. J. Russell:  
Chairman

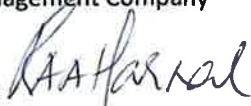


E.C.J. Wells:  
Director



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

R.A.A. Harnal:



The accounting policies and notes on pages 14 to 26 form an integral part of these Financial Statements.

**SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED**

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

<b>Operating activities</b>	Note	<b>2015</b>	<b>2014</b>
		£	£
Premiums received from Members		15,050	194,566
Reinsurance paid		(1,388,194)	(436,050)
Claims paid (note 6(a))		(7,415,578)	(9,793,886)
Reinsurance recovered		4,606,392	1,729,015
Other operating cash flow payments		(499,580)	(811,821)
Net cash inflow / (outflow) from operating activities	15	<u>(4,681,910)</u>	<u>(9,118,176)</u>
 <b>CASH FLOW STATEMENT</b>			
Net cash (outflow) / inflow from operating activities	15	(4,681,910)	(9,118,176)
 <b>Returns on investment and servicing of finance</b>			
Investment return		88,626	147,385
Investment expenses		(45,422)	(58,928)
		<u>43,204</u>	<u>88,458</u>
 <b>Taxation</b>			
Corporation tax paid	10(c)	(2,964)	(1,034)
(Decrease) / increase in cash, deposits and investments in the year	17	<u>(4,641,670)</u>	<u>(9,030,752)</u>
 <b>Cashflows were invested as follows</b>			
Increase / (decrease) in cash	16	120,310	(75,039)
 <b>Net portfolio investment</b>			
Sale / (purchase) of units in unit trusts	17	1,467,603	531,208
(Purchase) / Sale of fixed income securities	17	(6,229,583)	(9,486,921)
	17	<u>(4,641,670)</u>	<u>(9,030,752)</u>

The accounting policies and notes on pages 14 to 26 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 base regulatory capital requirements for this year.

The Directors have reasonable expectation that the Company will be able to continue in operational existence as a going concern for the foreseeable future on the basis that 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.

#### (iii) Policy year accounting

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. 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. 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.

	2015	2014
	£	£
Bad debt recovery on supplementary calls	<u>12,793</u>	<u>122,548</u>

The bad debt recovery is a write back of the provision on outstanding supplementary calls that have now been received.

#### (c) 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 2015, on notified claims for all policy years.
- (II) An additional amount to provide against adverse development on estimated and un estimated 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 6(a)); and
- (III) The movement in the claims provision (see note 6c).

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 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)

#### (c) 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.

#### (d) Reinsurance

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

#### (e) 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.

#### (f) 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.

#### (g) 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.

# SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 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 Representatives of Members of the Company and other than the insurance; the Directors have no financial interests in the Company. Five 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 £5,000 was due to one Director. The Fees paid to each Director are capped at £20,000 per annum. S.I.M.I.A. Management Company received £460,000 (2014 - £600,000) 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 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 recovering unpaid supplementary calls. 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 to reflect the functions which now consume a greater proportion of management resource.

	<b>2015</b>	<b>2014</b>
	<b>£</b>	<b>£</b>
Acquisition costs (note 7)	53,490	69,770
Claims handling (note 6(a))	128,360	167,434
Administration expenses (note 7)	235,360	306,982
Investment management services (note 8)	42,790	55,814
	<u>460,000</u>	<u>600,000</u>

Claims handling costs are treated as part of claims paid (note 6(a)).

Acquisition and administration expenses are included in the net operating expenses (note 7).

### 5. Reinsurance premiums

The Company wrote a maximum of £4.5m plus defence costs 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.

# SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 5. Reinsurance premiums (continued)

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.

### 6(a). Claims paid

	2015	2014
	£	£
Gross claims and costs	7,287,218	9,626,452
Claims handling (note 4)	128,360	167,434
	<u>7,415,578</u>	<u>9,793,886</u>

### 6(b). Reinsurers' share of gross claims paid

	2015	2014
	£	£
Reinsurance recoveries	<u>4,606,392</u>	<u>1,729,015</u>

### 6(c). Change in gross provision for claims

	2015	2014
	£	£
Claims outstanding at end of year	9,350,469	15,234,400
Claims outstanding at beginning of year	(15,234,400)	(24,736,991)
(Decrease) in gross provision for claims	<u>(5,883,931)</u>	<u>(9,502,591)</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.

# SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 6(c). Change in gross provision for claims (continued)

Overall there was an improvement in the claims ultimates experienced in the year. In the earlier years (1998 and 2003) there was a small change suggesting that the deterioration experienced over the last few years is reducing at each year end. The 2004 policy year improved in the year but the 2005 and 2006 policy years deteriorated as some claims were settled above the original estimate. The 2007 policy year still has a number of open claims on it but the year-end position has seen an improvement on the expected ultimates. The outcome of the 2008 and 2009 policy years remains relatively uncertain, but the claims experience suggests that the final outcome will be in line with expectations. As such the ultimates for each of these years has been maintained at £6million. The 2010 policy year's ultimates has also improved reflecting the fact that the Company did not issue insurance policies to a number of large firms thereby reducing the Company's claims risk for the year.

The improvement in the claim ultimate's of £1.143m (2014 improvement £0.755m) analysed across the relevant policy years is as follows:

Policy Year	Deterioration £	Improvement £	Total £
2001	-	236	236
2002	-	647	647
2003	(164)	-	(164)
2004	-	257,501	257,501
2005	(8,968)	-	(8,968)
2006	(867,659)	-	(867,659)
2007	-	620,121	620,121
2008	-	-	-
2009	-	-	-
2010	-	1,058,000	1,058,000
	<u>(876,791)</u>	<u>1,936,505</u>	<u>1,059,714</u>

Release from claims handling provisions	212,000
Claims handling expenses (Note 4)	<u>(128,360)</u>
	<u>1,143,354</u>

Having reviewed the notifications made to date in respect of all policy years, the Audit, Investment and Claims Committee of the Board considers that the gross claims provision of £9.350m and net claims provisions of £8.337m (2014: Gross claims provision £15.234m and net claims provision of £12.135m) for all policy years is 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)

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

	<b>2015</b>	<b>2014</b>
	<b>£</b>	<b>£</b>
R/I share of claims outstanding at the end of the year	1,013,030	2,385,164
R/I share of claims outstanding at the beginning of the year	<u>(2,385,164)</u>	<u>(2,357,066)</u>
	<u>(1,372,134)</u>	<u>28,098</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 cost payments made and estimated claims and cost 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.

### 7. Net operating expenses

	<b>2015</b>	<b>2014</b>
	<b>£</b>	<b>£</b>
<b>Acquisition costs</b>		
Management costs (note 4)	53,490	69,770
<b>Administration expenses</b>		
Legal and Professional fees	41,551	600
Directors' and Officers' Liability Insurance	16,960	18,212
Printing costs ( release of provision)	-	(1,960)
Meeting expenses	841	983
Directors fees	87,500	77,500
Auditors' remuneration	64,938	48,036
Management costs (note 4)	235,360	306,984

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)

### 8. Investment income

	2015	2014
	£	£
Interest on listed investments	45,294	44,943
Bank deposit interest	476	3,104
	<u>45,770</u>	<u>48,047</u>
Gains on realisation of investments	40,829	69,482
	<u>86,599</u>	<u>117,529</u>

### Investment expenses and charges

	2015	2013
	£	£
Investment management expenses:		
Banking and custodial charges	2,633	3,116
Investment management services (note 4)	42,790	55,814
	<u>45,423</u>	<u>58,930</u>

### 9. Unrealised losses on investments

	2015	2014
	£	£
Market value (note 11)	10,748,110	15,540,678
Cost (note 11)	10,788,127	15,550,106
Gains at year end	<u>(40,017)</u>	<u>(9,428)</u>
Unrealised (losses) on fixed interest securities	<u>(30,585)</u>	<u>(43,778)</u>
	<u>(30,585)</u>	<u>(43,778)</u>

### 10. 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	2015	2014
	£	£
UK Corporation tax at 20% (2014 - 20%)	2,118	2,712
Under/(over) provision from previous year	238	-
Total current tax	<u>2,356</u>	<u>2,712</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:

	2015 £	2014 £
(Deficit) on ordinary activities before tax	<u>(241,893)</u>	<u>(248,927)</u>
(Deficit) on ordinary activities multiplied by Standard rate of corporation tax in the UK of 20 %(2014: 20%)	(48,379)	(49,785)
<i>Effects of:</i>		
Non-taxable mutual insurance operations	50,497	52,511
Other taxable items	-	-
Current tax (rebate) charge	<u>2,118</u>	<u>2,726</u>

- (c) **Balance Sheet**

	2015 £	2014 £
<b>Taxation Creditor</b>		
Taxation creditor brought forward	2,726	1,034
Payment of corporation tax	<u>(2,964)</u>	<u>(1,034)</u>
	(238)	-
UK Corporation tax for the current year	2,118	2,726
Prior Year under provision	238	-
Creditor as at 30 September (note 14)	<u>2,118</u>	<u>2,726</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)

### 11. Other Financial Investments

	Market Value 2015 £	Market Value 2014 £	Cost 2015 £	Cost 2014 £
Other financial investments comprise:				
Fixed interest securities	6,550,676	12,810,846	6,590,692	12,820,274
Units in unit trusts	4,090,388	2,723,760	4,090,389	2,723,760
Cash Deposits	107,046	6,072	107,046	6,072
	<u>10,748,110</u>	<u>15,540,678</u>	<u>10,788,127</u>	<u>15,550,106</u>

	Market Value 2014 £	Market Value 2013 £	Cost 2014 £	Cost 2013 £
Other financial investments comprise:				
Fixed interest securities	12,810,846	22,341,547	12,820,274	22,307,197
Units in unit trusts	2,723,760	2,193,924	2,723,760	2,193,924
Cash Deposits	6,072	4,702	6,072	4,702
	<u>15,540,678</u>	<u>24,540,173</u>	<u>15,550,106</u>	<u>24,505,823</u>

All holdings in fixed income securities are in high grade, short term securities traded Over The Counter. All investments in unit trusts are held in Money Market Funds with average maturities of less than 90 days.

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.

### 12. Other debtors

	2015 £	2014 £
Claims recoveries from third parties	<u>154,998</u>	<u>714,256</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)**

**13. Prepayments**

	<b>2015</b>	<b>2014</b>
	£	£
Fees paid in advance	<u>7,500</u>	<u>12,718</u>

**14. Other creditors**

	<b>2015</b>	<b>2014</b>
	£	£
Accrued expenses	59,001	62,521
Insurance premium tax	22,454	23,094
Taxation (note 10(c))	2,118	2,726
	<u>83,573</u>	<u>88,341</u>

**15. Net cash flow from operating activities**

	<b>2015</b>	<b>2014</b>
	£	£
Reconciliation from surplus on ordinary activities before tax to net cash outflow from operating activities		
(Deficit) on ordinary activities before tax	(241,894)	(248,927)
Decrease in debtors	7,474	73,596
(Decrease) in creditors	(484,362)	(108,235)
(Decrease) in net provision for claims	(3,952,540)	(8,819,787)
Realised investment income	(86,599)	(117,529)
Decrease in market value of investments	30,588	43,778
Investment expenses	45,423	58,928
Net cash inflow / (outflow) from operating activities	<u>(4,681,910)</u>	<u>(9,118,176)</u>

**16. Movement in opening and closing portfolio investments**

	<b>2015</b>	<b>2014</b>
	£	£
Net cash inflow / (outflow) for period	120,310	(75,039)
Portfolio investments	<u>(4,761,980)</u>	<u>(8,955,713)</u>
Movement arising from cashflows	(4,641,670)	(9,030,752)
Movement on investment valuations	<u>(30,588)</u>	<u>(43,778)</u>
Movement for the year	(4,672,258)	(9,074,530)
Portfolio investments at 1 October	<u>15,555,741</u>	<u>24,630,271</u>
Portfolio investments at 30 September	<u>10,883,483</u>	<u>15,555,741</u>

# SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 17. Movement in cash deposits and investments in the year

	As at 1 October 2014	Cash flow	Changes to market value	As at 30 September 2015
	£	£	£	£
Fixed interest securities	12,810,846	(6,229,583)	(30,588)	6,550,675
Units in unit trusts	2,729,832	1,467,603	-	4,197,435
Cash at bank	15,063	120,310	-	135,373
	<u>15,555,741</u>	<u>(4,641,670)</u>	<u>(30,588)</u>	<u>10,883,483</u>

The comparative figures for last year were:

	As at 1 October 2013	Cash flow	Changes to market value	As at 30 September 2014
	£	£	£	£
Fixed interest securities	22,341,545	(9,486,921)	(43,778)	12,810,846
Units in unit trusts	2,198,624	531,208	-	2,729,832
Cash at bank	90,102	(75,039)	-	15,063
	<u>24,630,271</u>	<u>(9,030,752)</u>	<u>(43,778)</u>	<u>15,555,741</u>

### 18. 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

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