SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE 15 MONTHS ENDED
31 DECEMBER 2017

Company Number 1985809

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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 3 July 2018, 12.30pm at 90 Fenchurch Street, London EC3M 4ST for the following purposes:

1. To receive the Directors' Report and Financial Statements for the fifteen months ended 31 December 2017 and if they are approved to adopt them;

2. To re-appoint Directors; and

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

By Order of the Board

K Halpenny
Secretary

Date: 3 July 2018

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.

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 (Resigned 5 December 2016)	Pinsent Masons LLP
B. W. D. Richards	Consultant Gowling WLG (UK) LLP
P. J. H. Vaughan	Consultant Simmons & Simmons LLP
E. C. J. Wells	Consultant Hogan Lovells International LLP

CHAIRMAN'S REPORT

I am pleased to present my Chairman's Report for the fifteen months ended 31 December 2017.

Financial Highlights

The Company produced a loss of £1.115m with free reserves of £2.491m in the year. The cause of this was twofold. The first was that a total of £453k was written off in respect of the supplementary call announced in September 2016. The second was that, as the Company is in the process of winding up its business, it generates no income but still has to incur operating expenses. In respect of the £453k supplementary call written off, the amount includes premiums due from firms who have been liquidated or have ceased trading, as well as those who have not yet paid. The Board is actively pursuing firms that it believes are in a position to pay.

The Company exceeded its regulatory capital requirement of £2.250m by £0.240m. The result last year (to 30 September 2016) was a surplus of £1.385m and an excess of £1.356m over the regulatory capital solvency requirement of £2.250m.

As a company in run-off, the investment policy was directed at preserving capital in order to meet the Company's liabilities. Accordingly, the Company maintained a very conservative investment policy, with its funds invested predominately in Government Treasury Bills and cash, which generate safe but low returns.

Review of the year

The Part VII Transfer

This is advancing reasonably well. The Board's original expectation was that the business transfer would be completed in the course of 2017. But for reasons unrelated to the viability of the proposed transfer (the Prudential Regulation Authority was only recently able to deal with the backlog of applications it faced), the timetable was revised to assume completion of the business transfer towards the end of 2018.

One of the primary reasons for concluding an agreement with Randall & Quilter was to transfer the risk of any deterioration in SIMIA's claims liabilities away from firms that insured with SIMIA. As a result of a reinsurance contract signed with Randall & Quilter in late 2016, any deterioration in SIMIA's claims that may occur prior to finalisation of the business transfer will be borne by Randall & Quilter and not SIMIA. Once the business transfer under Part VII of the Financial Services and Markets Act 2000 (**"FSMA"**) has been approved, as SIMIA will then have transferred all its insurance liabilities to Randall & Quilter, it will no longer be required to provide an indemnity to firms it insured under its insurance contracts. Discharging these contracts will fall to Randall & Quilter.

A key element of the business transfer under FSMA is the production of a report by an Independent Expert (**the "IE Report**") addressing the question of whether the business transfer could have an adverse effect on SIMIA's insureds. The IE Report's produced by Ernst & Young has concluded that the transfer will not adversely affect SIMIA's insureds - indeed by removing the risk of supplementary calls it will assist them – and the IE Report has now been agreed by the Prudential Regulation Authority.

The Board will provide you with more details of the transfer, and of the IE report at the Extraordinary General Meeting scheduled for 3 July 2018. Firms will be invited to approve the transfer of SIMIA's insurance business at that meeting with the benefit of the information provided by the relevant documents.

As to the timetable for SIMIA's final closure, SIMIA will need to (a) distribute any surplus it holds after the business transfer, (b) apply to withdraw its insurance permissions with the relevant regulatory authorities and then (c) dissolve. The Directors are currently working to ensure that this happens as soon as reasonably possible.

Contingent Asset- Profit Commission

Under the reinsurance contract SIMIA has concluded with Randall & Quilter, and as part of the agreement in relation to the transfer of SIMIA's insurance business to Randall & Quilter, in the event that the amount paid and estimated for SIMIA's claims (the ultimates) is equal to or less than what was agreed at the time of the reinsurance agreement, SIMIA could be due a maximum of £500k in profit commission. The profit commission will be triggered if, between completion of the reinsurance contract in 2016 and completion of the business transfer, there is no deterioration in the claims. However, as receipt of the profit commission is not certain, it has not been accounted for in the year end accounts.

Supplementary Call

A supplementary call of £6m (the "**Call**") was made in September 2016. The need for the Call and the amount was explained in a letter dated 7 July 2016. In summary, there had been an unexpected deterioration in SIMIA's claims resulting in an erosion of its regulatory solvency position. Additionally, the agreement to transfer SIMIA's insurance liabilities to Randall & Quilter required the payment of a risk premium to them. The pricing of the agreement with Randall & Quilter was that SIMIA would pay them the technical provisions SIMIA was holding in respect of its claims liabilities (£8.617 million) plus a risk premium of £1.750 million.

Dealing with the risk of further supplementary calls, the view of the Board and Managers is that this risk has been minimised as a result of the business transfer agreement with Randall & Quilter; and to the extent that it is an extant risk, it only arises in relation to SIMIA's regulatory capital and the risk that, sometime prior to conclusion of the business transfer, SIMIA's free capital will fall below its regulatory requirement. The Directors do not anticipate that this will happen.

Distribution of Surplus on Closure

SIMIA's Articles of Association were amended in early 2017 to clarify that any surplus held by it following a successful conclusion of the Part VII process should be returned to those firms that had paid their share of the Call. The reason for this was that the bulk of the Call had been made to ensure that SIMIA met its regulatory capital requirement, rather than for the purpose of paying claims.

The financial projections show that a total of approximately £2 million could be available for distribution prior to SIMIA's closure.

SIMIA's accounting period was extended to 31 December 2017 with a view to enabling SIMIA to complete the Part VIII transfer by the end of 2017. However the Directors are now hoping to complete the process by the end of 2018.

CHAIRMAN'S REPORT (continued)

Finally, I would like to thank the Directors of the Company, all of whom have spent considerable additional time and effort to ensure the successful transfer of the Company's insurance business. I would also like to thank the Managers for their contribution and their continued commitment to administering the Company's run-off.

Patrick Russell
Chairman
3 July 2018

STRATEGIC REPORT

The Directors have pleasure in presenting their Report and the Financial Statements for the fifteen months ended 31 December 2017.

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 allegations of professional negligence.

Following the decision of the members of the Company in March 2011, the Company ceased to accept any new business and was placed into run-off.

The loss arising from the year's operations after tax was £1,115,486 (2016: surplus £1,378,916) and this was transferred to reserves. The free reserves now amount to £2,494,623 (2016: £3,606,022).

As the Company has reinsured all its insurance liabilities with Randall & Quilter, it is no longer exposed to the risk of any deterioration in its claims, thereby avoiding deterioration in its balance sheet.

Financial Results

The following table compares key financial information for the fifteen months to 31 December 2017.The Statement of total comprehensive income and movement in reserves (on page 14) and the Statement of Financial Position (on page 15), together with the notes to the Financial Statements, set out the Company's financial performance in detail for the 15 months to 31 December 2017 compared to the twelve months for the year ended 30 September 2016. The reason for extending the Company's year- end was the expectation at the time that it might be possible to complete the business transfer by 31 December 2017.

	2017 £'000	2016 £'000
Premium	-	5,953
Reinsurance premium	-	(11,081)
Net ultimate claims movement	-	7,132
Operating expenses	(1,134)	(619)
(Deficit) / surplus on technical account	(1,134)	1,385
Investment Income after Tax	18	(6)
(Deficit) / surplus for the financial year	(1,116)	1,379
Free reserves at year end	2,490	3,606

Investments

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 100% holdings in Cash and Cash equivalents (Treasury Bills).

The investment return for the year excluding cash at bank was 0.29% (2016: 0.48%).

STRATEGIC REPORT (continued)

Regulatory

The Company obtained a waiver from its regulator from complying with the new Solvency II regime which came into effect from 1 January 2017, on the basis that all of its insurance liabilities will be extinguished or transferred by January 2019. As a result of this waiver the Company's capital regulatory requirement is set at £2.250m.

At the year-end the Company exceeded its regulatory capital requirement by £0.240m.

Risks

The principal risks and uncertainties facing SIMIA have been discussed in the Director's Report.

Patrick Russell
Chairman
3 July 2018

DIRECTORS REPORT

The Directors have pleasure in presenting their annual report together with the audited financial statements of the Company for the fifteen months ended 31 December 2017.

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 in detail in Note 4 under the heading Management of Risk.

The Company's key risks are the following:

- Insurance risk – incorporating underwriting and reserving risk;
- Market risk – incorporating investment risk, and interest rate risk;
- Credit risk – the risk that a counterparty is unable to pay amounts in full when due;
- Liquidity and cash flow risk – the risk that cash may not be available to pay obligations when they fall due; and
- Operational risk the risk of failure of internal processes or controls.

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 9 to the Financial Statements.

Going Concern

Although the Company intends to complete a PART VII transfer, it is dependent upon the courts and the regulators granting formal approval, which is why the Directors have assumed that the Company will be a going concern for the next twelve months.

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 Directors have a 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 will suffice to meet any additional capital requirements and other liabilities.

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 REPORT (Continued)

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' C.J.Harris and P.J.H.Vaughan 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 Companies 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.

During the fifteen months ended 31 December 2017 the Directors held four formal meetings. The meetings were held on 6 December 2016, 15 May 2017, 6 November 2017 and 15 December 2017.

The Directors 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 four meetings included:

Audit: The auditors' report on the 2016 financial statements and the annual return to the Prudential Regulation Authority (PRA) for the year ending 30 September 2016 were approved by the Board and formally adopted at the Annual General Meeting held on 15 May 2017.

Claims: Following the transfer of the management of SIMIA's claims to Randall & Quilter, the Board now performs a monitoring role of the claims development.

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

Finances: Financial forecasts and financial reports for the year. Reports on unpaid supplementary calls and the options available for pursuing debtors.

Business Transfer: This item has taken up a considerable amount of Board time. The Board, had to deal with the appointment of the IE proposed by Randall & Quilter and consider the report produced by the IE; it had to review all the documents to be presented to the court for approval as part of the directions hearing under the Part VII process; it had to deal with seeking the approval of the Law Society to the part VIII transfer; and it had to agree draft resolutions for submission to the members.

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

Other Matters: Approved communication letters sent to members. Approved revised management fee agreement and discussions on the Managers' management fee.

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

Peter Russell

P.J. Russell
Chairman
Date: 3 July 2018

REPORT OF THE INDEPENDENT AUDITORS

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

We have audited the financial statements of Solicitors Indemnity Mutual Insurance Association Limited for the fifteen months ended 31 December 2017 which are set out on pages 17 to 34. 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.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate, or

- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Association's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

REPORT OF THE INDEPENDENT AUDITORS (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Association and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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.

REPORT OF THE INDEPENDENT AUDITORS (continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities Statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Association or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Councils website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Moore Stephens LLP.

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

5 July 2018

STATEMENT OF TOTAL COMPREHENSIVE INCOME AND MOVEMENT IN RESERVES

	Note	15 months to 31 December 2017 £	12 months to 30 September 2016 £
TECHNICAL ACCOUNT			
Earned premium net of reinsurance			
Gross premiums written	5	-	6,000,000
Outward reinsurance premiums	6	-	(11,080,789)
		-	(5,127,411)
Earned premuims net of reinsurance		-	(5,127,411)
Claims paid			
Gross amount	7	(1,113,052)	(2,435,712)
Reinsurers' share		1,113,052	414,828
		-	(2,020,884)
Change in			
Gross provision for claims	7	(2,316,247)	198,577
Third party recoveries		-	(154,998)
Reinsurance recoveries	7	2,316,247	9,109,539
		-	9,153,118
Net ultimate claims movement		-	7,132,234
Net operating expenses	9	(1,133,670)	(666,793)
Balance on the technical account		(1,133,670)	1,384,652
NON TECHNICAL ACCOUNT			
Investment result - realised	10	21,070	(1,575)
Unrealised gains/losses on investments	10	-	40,013
Investment expenses and charges	10	-	(44,445)
		21,070	(6,007)
(Deficit) / surplus on ordinary activities before tax		(1,112,600)	1,378,645
Tax on ordinary activities	11	(2,886)	271
Total Comprehensive Income/(Expense) for Financial Year		(1,115,486)	1,378,916
Reserves at 30 September 2016		3,606,022	2,227,106
Surplus/ (deficit) for the financial year		(1,115,486)	1,378,916
Reserves at 31 December 2017		2,490,536	3,606,022

All income and expenditure relate to continuing activities.

The notes on pages 17 to 34 form an integral part of these Financial Statements.

SOLICITORS INDEMNITY MUTUAL INSURANCE ASSOCIATION LIMITED

Company Number 1985809

STATEMENT OF FINANCIAL POSITION

	Note	31 December 2017 £	30 September 2016 £
ASSETS			
Investments			
Other financial investments	12	7,196,457	3,077,983
Reinsurers' share of technical provisions			
Claims outstanding	7	6,835,645	9,151,892
Debtors arising out of reinsurance operations	7	704,086	970,680
Debtors arising out of direct insurance			
- Due within one year		-	6,449,357
Cash and cash equivalents	13	40,555	104,519
Accrued interest		-	273
Prepayments	14	8,736	15,910
TOTAL ASSETS		14,785,479	19,770,614
LIABILITIES			
Reserves			
Income and expenditure account		2,490,536	3,606,022
Technical Provisions			
Claims outstanding			
Gross amount	7	6,835,645	9,151,892
		6,835,645	9,151,892
Creditors			
Randall & Quilter creditor	15	4,634,402	5,367,000
Reinstatement creditor	15	704,086	970,680
Other creditors	16	120,810	675,020
		5,459,298	7,012,700
TOTAL LIABILITIES AND RESERVES		14,785,479	19,770,614

The notes on pages 17 to 34 form an integral part of these Financial Statements

These Financial Statements were approved by the Board of Directors and were signed on its behalf on 3 July 2018 by:

Peter Russell

P. J.Russell:
Chairman

E.C.J. Wells: CtLall
Director

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

R.A.A. Harnal: RAAHarnal

CASH FLOW STATEMENT

	Note	15 months to 31December 2017 £	12 months to 30 September 2016 £
Operating activities			
Premiums received		5,476,665	23,709
Reinsurance premium paid		(732,598)	(5,174,835)
Claims paid		(2,317,396)	(2,435,712)
Reinsurance recoveries received		2,317,396	414,828
Operating expenses paid		(710,679)	(522,964)
Taxation paid		-	-
Net cash provided/(used) by operating activities		**4,033,388**	**(7,694,974)**
Cash flows from investing activities			
Purchase of investments		(6,368,175)	(39,871,131)
Sale of investments		2,250,000	47,581,271
Interest received		20,823	(46,020)
Net cash flow from investing activities		**(4,097,352)**	**7,664,120**
Net increase / (decrease) in cash and cash equilavents		**(63,964)**	**(30,854)**
Cash and cash equivalents at the beginning of the year		104,519	135,373
Cash and cash equivalents at the end of the year	**13**	40,555	104,519

NOTES TO THE FINANCIAL STATEMENTS

1. Constitution and ownership

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 and 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 asset is to be distributed to the members in accordance with the provisions contained in the Articles of Association.

2. Accounting Policies

2.1 Statement of compliance and basis of preparation

These Financial Statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standards FRS102, "The Financial Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"). Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103") and the Companies Act 2006.

The Financial Statements have been prepared under the provisions of the UK Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance groups.

The Financial Statements have been prepared under the historical cost basis except for other financial investments which are presented at fair value.

2.2 Gross premiums written

The gross premiums written comprise General and Special Supplementary Call adjustments relating to prior periods.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

2.3 Claims

As the Company has entered into a 100% reinsurance contract with Randall & Quilter, it is no longer responsible for the management and payment of claims. This also includes the setting of any claims reserves.

The claims provision in the Balance Sheet represents:

(i) Estimated claims and defence costs as at 31 December 2017 on notified claims for all policy years.
(ii) An additional amount to provide against adverse development on estimated and un estimated claims and circumstances.

Claims incurred in the Income and Expenditure Account includes:

(i) Claims and defence costs paid during the year;

2.4 Reinsurance recoveries

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

2.5 Financial instruments

The Company has chosen to apply the recognition, measurement and disclosure requirements of FRS 102 in respect of financial instruments.

Financial instruments are recognised on the Company's Balance Sheet when the Company becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at transaction price and are classified as either 'basic' or 'other' in accordance with Section 11 of FRS 102. Subsequent to initial recognition, they are measured as set out below.

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire, or when the Company has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised only once the liability has been extinguished through discharge, cancellation or expiry.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting Policies (continued)

2.6 Other Financial Investments

The Company classifies its financial investments at fair value through profit and loss because they are managed and their performance is evaluated on a fair value basis.

Financial investments are recognised at trade date and subsequently measured at fair value. Fair values of financial investments traded in active markets are measured at bid price. Where there is no active market, fair value is measured by reference to other factors such as independent valuation reports.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions at an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

The costs of financial investments denominated in currencies other than UK sterling are translated into UK sterling on the date of purchase. Any subsequent changes in value, whether arising from market value or exchange rate movements, are charged or credited to the Income and Expenditure Account in the period in which they occur.

Net gains or losses arising from changes in fair value of financial investments at fair value through profit or loss are presented in the Income and Expenditure Account within 'Unrealised gains/ (losses) on investments' in the period in which they arise.

2.7 Investment Returns

Investment returns comprise dividend income on fixed interest securities, interest on deposit and cash.

Investment income is recognised on an accruals basis.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting Policies (continued)

2.8 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand balances with banks and investments on the money market instruments which are readily convertible, being those with original maturities of three months or less.

2.9 Taxation

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date. The rates used in these calculations are those which are expected to apply when the timing differences crystallise, based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the Financial Statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax balances are not discounted.

3. Critical accounting and estimates and judgements

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The following critical accounting estimates and judgements are made by the Company:

3.1 The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. Estimates are made for the expected ultimate cost of claims, whether reported or unreported, at the end of the reporting period.

As the Company has entered into a 100 % reinsurance agreement on all open claims the net impact of any claims deterioration is Nil. See Note 7.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Critical accounting and estimates and judgements (continued)

3.2 Fair value estimations

In accordance with Section 34 of FRS 102, as a financial institution, SIMIA applies the requirements of paragraph 11.27 of FRS 102. This requires, for financial instruments held at fair value in the statement of financial position, disclosure of fair value measurements by the level of the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets and liabilities;
Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (that is, prices) or indirectly (that is, derived from prices); and
Level 3 – inputs for assets or liability that are not based on observable market data (that is, unobservable inputs).

The tables below present the Company's assets and liabilities measured at fair value by the level of the fair value hierarchy:

As at 31 December 2017	Level 1	Level 2	Total
	£	£	£
Fixed interest-Government	-	-	-
UCITS	7,187,520	-	7,187,520
Cash-Settlement account	8,937	-	8,937
Total	7,196,457	-	7,196,457

As at 30 September 2016	Level 1	Level 2	Total
	£	£	£
Fixed interest-Government	-	2,249,701	2,249,701
UCITS	819,345	-	819,345
Cash-Settlement account	8,937	-	8,937
Total	828,282	2,249,701	3,077,983

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Management of Risk

The Company is governed by the Board of Directors which drives decision making within the Company from Board level through to operational decision making within the Managers. The Board considers the type and scale of risk that the Company is prepared to accept in its ordinary course of activity and this is used to develop strategy and decision making.

The Company is focused on the identification and management of potential risks. This covers all aspects of risk management including that to which the Company is exposed through its core activity as a provider of insurance services, and the broader range of risks. The Company's key risks are the following:

4.1 Insurance risk – incorporating underwriting and reserving risk;
4.2 Market risk – incorporating investment risk, and interest rate risk;
4.3 Credit risk – the risk that a counterparty is unable to pay amounts in full when due;
4.4 Liquidity and cash flow risk – the risk that cash may not be available to pay obligations when they fall due; and
4.5 Operational risk-the risk of failure of internal processes or controls.

4.1 Insurance Risk

As the Company has been in run off since March 2011 and does not underwrite any new business, it no longer has an exposure to Insurance risk from underwriting. The only Insurance risk it has is in respect of business entered before run off. This risk is managed through its reinsurance cover, and the management of claims costs.

Reinsurance

The Company's reinsurance programme has eliminated the insurance risk to the business as during the fifteen months ended 31 December 2017, the Company entered into a Loss Portfolio Transfer with Randall & Quilter, which reinsured 100% of the Company's insurance liabilities.

The risk of the Company's reinsurers being unable to meet their obligations is presented in section 4.3 on Credit Risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Management of Risk (continued)

4.1 Insurance Risk (continued)

Reserving process

The reserving for the Report and Accounts was carried out by Randall & Quilter, who have taken over the responsibility of the reserving process.

The Company considers that the liability for insurance claims recognised in the statement of financial position is adequate. However, actual experience may differ from the expected outcome.

4.2 Market risk

Market risk is the risk of adverse financial impact as a consequence of market movements such as currency exchange rates, interest rates and price changes. Market risk arises due to fluctuations in both the value of assets held and the value of liabilities.

The investment policy is formally reviewed every three years (but more frequently if required). The policy reflects the risk appetite of the Company and is designed to hold the risk to a level deemed acceptable while maximising return.

The Investment Strategy is formally reviewed annually and sets the parameters within which the Investment Manager must operate in investing the portfolio in order to meet the investment objectives set by the Board.

Interest rate risk management

Interest rate risk arises primarily from investments in fixed interest securities the value of which is inversely correlated to movements in market interest rates.

Interest rate risk is managed through the investment strategy and accordingly debt and fixed interest securities are predominantly invested in high quality corporate and government backed bonds.

Interest rate sensitivity analysis

An increase of 100 basis points in interest rates at the year-end date, with all other factors unchanged will result in a £23k fall in the value of the Company's investments.

A decrease of 100 basis points would have an equal and opposite effect.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Management of Risk (continued)

4.3 Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company.

The key areas where the Company is exposed to credit risk are:

Amounts recoverable under reinsurance contracts;
Counterparty risk with respect to cash and investments.

Amounts recoverable on reinsurance contracts

On 28 September 2017 the Company entered into a Loss Portfolio Transfer Agreement with Randall & Quilter which is not a rated insurance Company, but a run off specialist Company. SIMIA's regulators have been informed of these arrangements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. **Management of risk (continued)**

4.3 Credit risk (continued)

Counterparty risk with respect to cash and investments

The Investment Strategy sets out the investment limits to which the Investment Manager has to adhere. The Company's investment policies require all fixed interest and floating rate investments are to have a minimum long term debt rating of A- from S&P or A3 from Moody's. UCITS, within which cash shall be held, are required to have a minimum rating of AAA from S&P or Moody's.

The following tables provide information regarding aggregate credit risk exposure for financial assets with external credit ratings.

As at 31 December 2017	AAA	AA	BBB+ or less or not rated	Total
	£	£	£	£
Fixed Interest - Governmer	-	-	-	-
UCITS	7,187,520	-	-	7,187,520
Cash-settlement account	-	-	8,937	8,937
Total	7,187,520	-	8,937	7,196,457

As at 30 September 2016	AAA	AA	BBB+ or less or not rated	Total
	£	£	£	£
Fixed Interest - Governmer	-	2,249,701	-	2,249,701
UCITS	819,345	-	-	819,345
Cash-settlement account	-	-	8,937	8,937
Total	819,345	2,249,701	8,937	3,077,983

There were no past due or impaired assets at 30 September 2017 (2016: Nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Management of risk (continued)

4.4 Liquidity Risk

Liquidity and cash flow risk is the risk that cash may not be available to pay obligations as they fall due at a reasonable cost. The Company maintains holdings in short term deposits to ensure there are sufficient funds available to cover anticipated liabilities and unexpected levels of demand. As at 31 December 2017, the Company's short term deposits (including cash and UCITs) amounted to £7,196,457 (2016: £828,282). The Company has sufficient liquid assets to meet its liabilities as they fall due.

The tables below provide a maturity analysis of the Company's financial assets:

As at 31 December 2017

	Short term asset	Within 1 Year	Carrying value in the statement of Financial
	£	£	£
Fixed interest -Government	-	-	-
UCITS	-	7,187,520	7,187,520
Cash -settlement account	8,937	-	8,937
Total	8,937	7,187,520	7,196,457

As at 30 September 2016

	Short term asset	Within 1 Year	Carrying value in the statement of Financial
	£	£	£
Fixed interest -Government	2,249,701	-	2,249,701
UCITS	-	819,345	819,345
Cash -settlement account	8,937	-	8,937
Total	2,258,638	819,345	3,077,983

4.5 Operational risk

Operational risks refers to the failure of internal processes, systems or controls due to human or other error. In order to mitigate such risks the Company has engaged SIMIA Management Company as Managers to identify and document all key processes and controls in a procedures manual. This manual is embedded into the organisation and available to all staff. Compliance with the procedures and controls documented within the manual is audited on a regular basis through quality control checks and the internal audit function which is directed and reviewed by the Board of Directors. A human resource manual including all key policies has also been documented.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Management of Risk (continued)

4.5 Operational risk (continued)

The sensitivity analysis in note 4 shows the impact of a change in one input assumption with other assumptions remaining unchanged. In reality, there is normally correlation between the change in certain assumptions and other factors which would potentially have a significant impact on the effects noted in note 4

The Company maintains capital, comprising policyholders' funds (surplus and reserves), consistent with the Company's risk appetite and the regulatory requirements.

The Company obtained a waiver from its regulator from complying with the new Solvency II regime which came into effect from 1 January 2017, on the basis that all of its insurance liabilities will be extinguished or transferred by January 2019. . As a result of this waiver the Company's capital regulatory requirement is set at £2.250m.

At the year-end it exceeded its regulatory capital requirement by £0.293m.

5 Gross premiums written

	2017 £	2016 £
Special Supplementary Call	-	2,232,293
General Supplementary Call	-	3,767,707
	-	6,000,000

6. Reinsurance premiums

As the Company is in run off it no longer incurs any reinsurance or reinstatement premiums.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. **Claims and technical provisions**

	£	£
Gross claims and costs	1,113,052	2,310,122
Claims handling (note 8)	-	125,590
	1,113,052	2,435,712

Change in gross provision for claims

	2017 £	2016 £
Claims outstanding at end of year	6,835,645	9,151,892
Claims outstanding at beginning of year	(9,151,892)	(9,350,469)
(Decrease) in gross provision for claims	(2,316,247)	(198,577)

The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular case and the ultimate cost of notified claims. The estimates for known outstanding claims are based on the best estimates and judgment of the Managers of the final cost of individual cases. These estimates are as reliable as possible given the details of the cases and taking into account all the current information. However, the final outcome of individual cases may prove to be significantly different to the estimates made at the balance sheet date. The estimates are reviewed as required, and at least annually. The gross provision for claims includes allowances for adverse development.

A reasonable allowance has been made for adverse claims development in the future. The claim profile does not 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.

As part of the reinsurance contract with Randall and Quilter, Randall and Quilter now manage SIMIA's book of claims and SIMIA therefore no longer requires a claims handling provision within the financial statements. The split of claims outstanding between claims estimates and IBNER is as follows:

	2017 £	2016 £
Claims estimates	3,429,140	5,296,892
IBNER	3,406,505	3,855,000
Total	6,835,645	9,151,892

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. 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 this has been interpreted by the Directors and Managers as the cost of recovering unpaid supplementary calls. Costs are allocated to: acquisition costs, claims handling, investment management services and administration expenses. Administrative expenses include regulatory compliance, the preparation of accounts and general management.

	2017	2016
	£	£
Claims handling costs (note 7)	-	128,360
Administrative costs (note 9)	400,000	235,360
Investment management services (note 10)	-	42,790
Acquisition costs (note 9)	-	53,490
	400,000	460,000

9. Net operating expenses

	2017	2016
	£	£
Acquisition costs (note 8)	-	52,330
Administration expenses		
Legal and Professional fees	47,342	136,174
Directors' and Officers' Liability Insurance	21,876	17,100
Meeting expenses	542	168
Directors fees	149,471	120,172
Auditors' remuneration	59,740	62,350
Annual return fees	1,696	1,657
Bad debt write off on supplementary calls	453,003	46,622
Administration costs (note 8)	400,000	230,220
	1,133,670	666,793

Administration costs include the costs of regulatory compliance, the preparation of accounts and general management.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Investment income

	2017	2016
	£	£
Interest on listed investments	19,183	8,965
Bank deposit interest	1,887	6,488
	21,070	15,453
(Losses) / gains on realisation of investments	-	(17,028)
	21,070	(1,575)

Investment expenses and charges

	2017	2016
Investment management expenses:	£	£
Banking and custodial charges	-	2,585
Investment management services (note 8)	-	41,860
	-	44,445

Unrealised losses on investments

	2017	2016
	£	£
Market value (note 12)	7,187,527	3,069,051
Cost (note 12)	7,187,527	3,069,051
Gains at year end	-	-
Unrealised (losses) on fixed interest securities	-	(40,013)
	-	(40,013)

11. Taxation

11.1 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	2017	2016
	£	£
UK Corporation tax at 19.4% (2016 - 20%)	-	(271)
Under/(over) provision from previous year	-	-
Total current tax paid/(recovered)	-	(271)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Taxation (continued)

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

	2017	2016
	£	£
Surplus / (deficit) on ordinary activities before tax	(1,113,478)	1,378,645
Surplus /(deficit) on ordinary activities multiplied by Standard rate of corporation tax in the UK of 19.4 %(2016: 20%)	(216,015)	275,729
Effects of:		
Non-taxable mutual insurance operations	220,102	(276,000)
Repayment in respect of prior priods	(1,201)	
Current tax/ (rebate) charge	2,886	(271)

11.3 Balance Sheet

Taxation Creditor	**2017**	**2016**
	£	£
Taxation creditor brought forward	-	2,118
Payment of corporation tax	-	(2,118)
	-	-
UK Corporation tax for the current year	4,087	-
Creditor as at 31 December (note 16)	4,087	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Other financial instruments

	Market Value 2017 £	Market Value 2016 £	Cost 2017 £	Cost 2016 £
Other financial investments comprise:				
Fixed interest securities	-	2,249,701	-	2,249,701
UCITS	7,187,520	819,345	7,187,520	819,345
Cash Deposits	8,937	8,937	8,937	8,937
	7,196,457	10,748,110	7,196,457	10,788,127

	Market Value 2016 £	Market Value 2015 £	Cost 2016 £	Cost 2015 £
Other financial investments comprise:				
Fixed interest securities	2,249,701	6,550,676	2,249,701	6,590,692
UCITS	819,345	4,090,388	819,345	4,090,389
Cash Deposits	8,937	107,046	8,937	107,046
	3,077,983	10,748,110	3,077,983	10,788,127

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 Company's investment holdings do not fall into any specific category and as a result, they are disclosed as other financial investments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. Cash and cash equivalents

	2017	2016
	£	£
Cash and cash equivalents	40,555	104,519

14. Prepayments

	2017	2016
	£	£
Fees paid in advance	8,736	15,640

15. Creditors arising out of reinsurance operations

	2017	2016
	£	£
Reinsurance creditor	4,634,402	5,367,000
Reinstatement creditor	704,086	970,680
	5,338,488	6,337,680

This reinsurance creditor balance represents the outstanding amount owed to Randall & Quilter as the consideration for their acquisition of the claims liabilities and claims handling costs pursuant to the terms of the Loss Portfolio Transfer Agreement.

16. Other creditors

	2017	2016
	£	£
Accrued expenses	116,723	155,331
Overseas and UK Insurance premium tax	-	519,689
Taxation (note 11)	4,087	-
	120,810	675,020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. 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 and are completed at arm's length.

All the Directors are Representatives of members of the Company and other than the insurance; the Directors have no financial interests in the Company. The Directors are paid an annual fee of £2,500 and a £2,500 attendance fee per meeting. S.I.M.I.A. Management Company received £400,000 (2016 - £460,000) from the Company in respect of management fees for the period.

18. Randall & Quilter (R&Q) Cash Balance

SIMIA holds cash of £3.917m (2017: £4.8m) in order to pay claims when they fall due on behalf of R&Q. This cash is not held on the balance sheet of SIMIA as it does not meet the requirements of an asset, namely: It is not probable that any future economic benefit associated with the item will flow to SIMIA. In this case all interest or expense on this balance will be passed to R&Q, and therefore the cash cannot be held as an asset of SIMIA.

19. Contingent Asset- Profit Commission

SIMIA is entitled to a profit commission resulting from the reinsurance agreement with Randall & Quilter. This is calculated based on the ultimate claims performance of the SIMIA book after the date of the reinsurance agreement. In the event of the ultimate claims being equal to or less than what was agreed at the time of the reinsurance agreement, SIMIA could be due a maximum of £500k in profit commission.

There is a requirement that SIMIA be reasonably certain of the timing and amount of profit commission income in order to recognise it. Although there has been an improvement in the claims performance, the Directors have taken a prudent and reasonable approach in not recognising the profit commission at this point, given the uncertainty and volatility inherent in the claims book.

20. 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

Managers

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

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