PAMIA LIMITED

DIRECTORS’ REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2012

Company No. 2418817

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PAMIA LIMITED

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of the Members will be held at the Chartered Institute of Patent Attorneys, 95 Chancery Lane, London, WC2A 1DT on 13 March 2013 at 5.00pm for the following purposes:

- To receive the Directors' Report and Financial Statements for the year ended 31 May 2012 and if they are approved to adopt them;
- to appoint Directors; and
- to appoint auditors and authorise the Directors to fix their remuneration.

By order of the Board

K. Halpenny
Secretary

Date: 25 July 2012

Note: (i) A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote instead of him. A person so appointed must be a member of the Association. The instrument appointing a proxy shall be deposited with the Secretary not less than 48 hours before the meeting.

Note: (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 all members prior to the meeting together with a form of proxy.

PAMIA LIMITED

DIRECTORS, MANAGEMENT AND PROFESSIONAL ADVISERS

DIRECTORS OF PAMIA LIMITED

* A.R. Findlay (Chairman)	Reddie & Grose
T. Copsey	Kilburn & Strode
R. Gardner	Frank B Dehn
* D.A. Gill	W. P. Thompson & Co.
A. C. Hayes	Boult Wade Tennant
K. Hodkinson	Marks & Clerk
P. Howard	Carpmaels & Ransford
* J. Jappy	Gill Jennings & Every
J.G. Leeming	J. A. Kemp & Co
B.R. Lucas	Lucas & Co.
M. Lunt	Harrison Goddard Foote
D. A. McCarthy	Maclachlan & Donaldson
* I. E. McKelvey	Serjeants
* J. Milsom (appointed 14/03/2012)	CPA Global Ltd
C. Murphy	I Pulse
J.B. Pennant	D. Young & Co.
S. Storer	Stevens Hewlett & Perkins
K. Széll	Venner Shipley

* Members of the Audit Committee

SECRETARY

K. Halpenny

MANAGERS

Thomas Miller Professional Indemnity, 90 Fenchurch Street, London, EC3M 4ST

Directors of Thomas Miller Professional Indemnity

R. Cunningham A. Salim

K. Halpenny

INVESTMENT MANAGERS

Thomas Miller Investment Limited, 90 Fenchurch Street, London, EC3M 4ST

INSURANCE CONSULTANTS

Willis Limited, The Willis Building, 51 Lime Street, London, EC3M 7DQ.

AUDITORS

Littlejohn LLP, 1 Westferry Circus, Canary Wharf, London, E14 4HD.

PAMIA LIMITED

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report and financial statements for the year ended 31 May 2012.

The Company provides mutual insurance for patent and trademark practices against risks arising from professional negligence.

The Company has appointed Thomas Miller Professional Indemnity 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 Thomas Miller Professional Indemnity and Thomas Miller Investment Ltd are owned by Thomas Miller Holdings Limited.

The Company has no employees.

The Board of Directors have effected a Directors' and Officers' Liability Insurance Policy to indemnify the Directors or 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 is detailed in note 8 to the Financial Statements.

Directors

The Directors of the Association are shown on page 2.

In accordance with Clause 54 of the Articles of Association, J. Jappy, J. Leemimg, B. Lucas, D. McCarthy, C. Murphy and J. Pennant retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment.

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's 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's auditors are aware of that information.

Some of the Directors are nominated by members. From time to time the Company will enter into settlements of claims bought by members who have nominated Directors. Such Directors exclude themselves from discussion and decision relating to such claims including the settlement thereof.

All Directors are required to declare whether they have any interest other than as Directors in any of the business set out in the Agenda at every Board and Committee meeting.

REPORT OF THE DIRECTORS (Continued)

Directors' Responsibilities

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting 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.

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.

Review of the year

The Company continued to provide professional indemnity insurance for patent and trademark practices. The surplus arising out of the year's operations after tax was £331,078 (2011: £912,502) and this was transferred to reserves. The reserves now amount to £16,826,248, which is made up of free reserves of £10,622,485 and claim reserves of £6,203,763. The comparative figure for 2011 is £15,770,704, which is made up of free reserves of £10,291,407 and claim reserves of £5,479,297.

These reserves have been retained to meet claims and the solvency requirement under the Financial Services and Markets Act 2000. The Directors anticipate no significant changes in the Company's future activities.

REPORT OF THE DIRECTORS (Continued)

Financial Results

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

	2012 £'000	2011 £'000
Premium Written	3,443	3,219
Reinsurance Premium	(1,200)	(1,187)
Change in UPR provision	1	2
Net claims	(1,597)	(949)
Operating expenses	(557)	(534)
Surplus on technical account	90	551
Investment Income	277	483
Surplus on ordinary activities before tax	367	1,034
Tax	(35)	(122)
Surplus for the financial year	332	912
Free reserves at year end	10,623	10,291

The Directors have set in place formal investment policies and objectives. The primary objective is to preserve capital to maintain solvency and pay future claims and expenses. Its secondary objective is to maximise the longer-term rate of investment return. The investment return for the year under review was 2.19% (2011: 3.92%).

The Company's investments are divided between a Short Term fund, dedicated to satisfy its short term and cash requirements, invested in UCITS sterling cash funds and a Long Term Fund invested in sterling cash, bonds and equities. The Company has 8% of its holdings in the Short Term Fund and 92% in the Long term Fund. The Long term Fund consists of 57% holdings in UK, US and European bonds, 20% is in equities and 15% in UCITS.

Capital resources for regulatory purposes at £10.6m, exceeds the required regulatory capital of £2.3m by £8.3m.

REPORT OF THE DIRECTORS (CONTINUED)

Meetings of the Directors

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

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

The Annual Reports and Financial Statements for the year ended 31 May 2012 were approved by the Board for submission to the members of the Association at the Annual General Meeting.

Board Committees

The Board has delegated specific authority to a number of committees. The Board is informed of the main issues discussed, as all minutes of the meetings of the committees are included in the Board's agenda papers.

The Audit Committee comprising David Gill, Alice Findlay, John Jappy, Ian McKelvey and John Milsom assists the Board in discharging its responsibilities for the integrity of the Financial Statements, compliance with the regulatory requirements, and assessing the Business Risk of the Company. The Committee met on three occasions in the course of the year.

The Investment Committee comprising Sarah Storer, Rebecca Gardner, David Gill, Adrian Hayes and Mark Lunt assist the Board in reviewing in detail the performance of PAMIA's investments and make recommendations to the Board in respect of the Investment Policy and other investment related issues. The Committee met on three occasions in the course of the year.

The Claims Committee comprising Paul Howard, Tim Copsey, John Jappy, John Leeming, Brian Lucas, Colm Murphy, Jeremy Pennant and Kate Széll assists the Board in reviewing in detail PAMIA's claim reserves and claims reserves policy. The Committee met on two occasions in the course of the year.

The Rating & Reinsurance Committee comprising Alice Findlay, Rebecca Gardner, John Leeming and Denis McCarthy assists the Board in reviewing in detail the rating system of the Company and to make annual recommendations to the Board in respect of the rating to be applied to the next policy year. The Committee also reviews PAMIA's reinsurance programme. The Committee met on one occasion in the course of the year.

The Nominations Committee comprising Sarah Storer, Alice Findlay and David Gill advise the Board on the appointment and retention of Directors and Consultants and assist the Managers in providing guidance to Directors on their responsibilities. The Committee met on one occasion in the course of the year.

The Management Committee comprising Alice Findlay and David Gill are responsible for formulating the company's business strategy. They meet with the Managers before each Board meeting to discuss the items included in the Board agenda. The Committee met on three occasions in the course of the year.

REPORT OF THE DIRECTORS (CONTINUED)

Risk Management

The Company is exposed to financial risk through its assets and liabilities. The most significant risks are market risk, insurance risk, credit risk, liquidity risk, capital risk and currency risk. The Company has policies and procedures in place to manage these risks.

The Management of these risks is disclosed in Note 17 to the financial statements.

Auditors

Littlejohn LLP has signified its willingness to continue in office as auditors. A resolution for their re-appointment and to authorise the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

By order of the Board

A. R. Findlay
Chairman

Dated: 25 July 2012

REPORT OF THE AUDITORS

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PAMIA LIMITED

We have audited the Financial Statements of PAMIA Limited for the year ended 31 May 2012 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone, other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

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

Scope of the audit of 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. 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 31 May 2012 and of its result 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.

Opinion on other matter prescribed by the Companies Act 2006

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PAMIA LIMITED (CONTINUED)

Matters on which we are required to report by exception

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.

We have nothing to report in respect of the above matters.

Paul Hopper (Senior statutory auditor)
For and on behalf of Littlejohn LLP
Statutory auditor

1 Westferry Circus
Canary Wharf
London E14 4HD

25 July 2012

PAMIA LIMITED

INCOME AND EXPENDITURE ACCOUNT
For the year ended 31 May 2012

	Note	2012	2011
TECHNICAL ACCOUNT		£	£
Earned premiums, net of reinsurance			
Advance Call		4,152,173	3,883,477
Premium deferral	3	(709,597)	(664,078)
Gross premium written		3,442,576	3,219,399
Outward reinsurance premiums		(1,200,255)	(1,186,562)
		2,242,321	2,032,837
Change in gross provision for unearned premiums		1,220	2,417
Change in provision for unearned premiums, reinsurers' share		(309)	(595)
Change in net provision for unearned premiums		911	1,822
Earned premium net of reinsurance		2,243,232	2,034,659
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(872,925)	(548,554)
Reinsurers' share		-	563
Net claims paid	5	(872,925)	(547,991)
Change in provision for claims – gross and net amount	6	(724,466)	(401,274)
Claims incurred, net of reinsurance		(1,597,391)	(949,265)
Net operating expenses	7	(556,892)	(534,089)
Balance on technical account		88,949	551,305
NON-TECHNICAL ACCOUNT			
Balance on the technical account		88,949	551,305
Investment income	8	542,534	503,133
Unrealised (losses)/gains on investments		(194,682)	104,198
Investment expenses and charges	9	(70,523)	(124,446)
Surplus on ordinary activities before tax		366,278	1,034,190
Tax on ordinary activities	10	(35,200)	(121,688)
Surplus on ordinary activities after tax		331,078	912,502
Surplus at 1 June 2011		10,291,407	9,378,905
Surplus at 31 May 2012		10,622,485	10,291,407

All amounts derive from continuing operations. There are no recognised gains or losses other than the surplus on ordinary activities after tax for the current and preceding financial periods.

The notes on pages 13 to 24 form an integral part of these financial statements.

PAMIA LIMITED

Company number 2418817

BALANCE SHEET
As at 31 May 2012

	Note	2012	2011
ASSETS			
Investments			
Other financial investments	11	17,175,900	16,097,572
Other assets			
Cash at bank		1,202,860	746,131
Other debtors		2,429	2,282
Prepayments and accrued income			
Accrued interest		86,320	72,771
Other prepayments and accrued income		643	648
		18,468,152	16,919,404
LIABILITIES AND RESERVES			
Reserves			
Income and expenditure account		10,622,485	10,291,407
Technical provision			
Provision for unearned premiums			
Gross amount		770	1,990
Reinsurance amount		(204)	(513)
		566	1,477
Claims outstanding			
Gross and net amount		6,203,763	5,479,297
		6,204,329	5,480,774
Creditors			
Creditors arising out of reinsurance operations		6,872	6,691
Other creditors including tax	12	195,930	182,952
		202,802	189,643
Accruals and deferred income	13	1,438,536	957,580
		18,468,152	16,919,404

These financial statements were approved by the Board of Directors and were signed on its behalf on 25 July 2012 by:

Director:

Director:

Signed on behalf of the Managers:

Thomas Miller Professional Indemnity

The notes on pages 13 to 24 form an integral part of these financial statements.

CASH FLOW STATEMENT
For the year ended 31 May 2012

Reconciliation from Surplus on ordinary activities before tax to net cash inflow from operating activities

	Note	2012	2011
		£	£
Surplus on operating activities before tax		366,278	1,034,190
Investment return		(347,852)	(607,331)
Investment expenses		70,523	124,446
(Increase) in debtors		(142)	(2,207)
Increase/(decrease) in creditors		486,376	(297,033)
Increase in provision for claims		724,466	401,274
(Decrease) in net provision for unearned premiums		(911)	(1,822)
Net cash inflow from operating activities	14	1,298,738	651,517

CASHFLOW STATEMENT

	Note	2012	2011
Net cash inflow from operating activities	14	1,298,738	651,517
Returns on investments and servicing finance			
Investment return		517,319	327,209
Investment expenses	9	(70,523)	(124,446)
		446,796	202,763
Taxation			
Corporation tax paid		(27,461)	(152,497)
Net inflow into cash, deposits and investments in the year	15,16	1,718,073	701,783

CASHFLOWS WERE INVESTED AS FOLLOWS:

	Note	2012	2011
		£	£
(Decrease)/increase in cash	16	456,729	(511,856)
Net portfolio investment			
Purchase of fixed income securities	16	521,739	849,481
Purchase/(disposal) of units in unit trusts	16	739,605	364,158
	15,16	1,718,073	701,783

The notes on pages 13 to 24 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Constitution

The Company is incorporated in England and Wales as a company limited by guarantee and not having any share capital. It is authorised by the Financial Services Authority to conduct insurance business on the mutual principle and there is, accordingly, no profit and loss account.

In pursuance of its business and in accordance with its Memorandum, Articles of Association and its Rules, the Association has the right to make unlimited calls on its Members to meet its liabilities. No specific provision has been made in the financial statements for any such calls unless and until the Directors decide that any such calls shall be made.

In the event of the winding up of the Company, after its liabilities have been satisfied, the remaining assets shall be distributed to the Members as set out in the Articles of Association.

2. Accounting policies

The financial statements have been prepared in accordance with the Companies Act 2006, applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of investments and comply with the guidance on Accounting for Insurance Business as revised by the Association of British Insurers in December 2006. The particular accounting policies adopted are described below.

The Company has adopted the provisions of Financial Reporting Standard 26 (Financial Instruments: Recognition and Measurement) and Financial Reporting Standard 29 (Financial Instruments: Disclosure) in these financial statements. The adoption of these standards has had no effect on the results for this year or the comparative period. The impact of the adoption of these standards has been on the disclosures within the financial statements.

Going Concern

The Directors have assessed the position of the Company and are of the opinion that the Company has adequate resources to meet its insurance and other liabilities as they fall due for payment. The Company has maintained a margin over the minimum regulatory capital requirements in both this and prior years, and on the basis of the information currently available, there are no indications that the position will change. Therefore, the directors have reasonable expectation that the Company will be able to continue in operational existence as a going concern for the foreseeable future.

(a) Basis of accounting for underwriting transactions

All business is accounted for on an annual basis.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

(b) Premiums

The gross premium written is the total receivable for contracts incepting during the accounting period together with any premium adjustments relating to prior periods. It also includes provisions for bad debts, deferred calls and return premiums.

The provision for unearned premiums comprises the element of gross premiums written, which is estimated to be earned in the following or subsequent financial years.

This has been calculated on a policy-by-policy basis.

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct business.

(c) Claims

The claims provision in the Balance Sheet represents:

(i) Estimated claims as at 31 May 2012.

(ii) An additional amount to provide against adverse development on estimated claims and reported circumstances as at 31 May 2012; and

(iii) A provision for the Managers' future claims handling costs in respect of (i) and (ii).

Claims incurred in the Income and Expenditure account include:

(i) Claims and costs paid during the period;

(ii) The claims handling costs of the Managers; and

(iii) The movement in the claims provision.

And are stated net of applicable reinsurance recoveries.

The uncertainty inherent in the process of estimating outstanding claims reserves are such that in the normal course of events unforeseen or unexpected future developments may cause the ultimate cost of settling the outstanding liabilities to differ from that presently estimated. Having regard to this uncertainty, and in light of the information presently available, in the opinion of the Directors the provision for outstanding claims is fairly stated.

(d) Investment income

This comprises gains and losses on investments and income received during the year adjusted in respect of interest receivable at the year-end.

Realised gains or losses represent the difference between net sales proceeds and purchase price or, in the case of investments valued at amortised cost, the latest carrying value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

Unrealised gains and losses on investments represent the difference between the current value of investments at the balance sheet date and their purchase price. The movement in unrealised investment gains/losses includes an adjustment for previously recognised unrealised gains/losses on investments disposed of in the accounting period.

(e) Taxation

Tax is charged on investment income & gains on investment. Unrealised gains and losses as a result of movements in the market value of unit trusts are accounted for through the Non-Technical Account. A taxation charge or credit does not arise until the accounting period in which the unit trusts are sold.

Deferred taxation is recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future at rates enacted or substantially enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that the liability to, or relief from, tax is expected to arise in the foreseeable future. Deferred tax assets and liabilities are not discounted.

(f) Investments

Investments including forward currency contracts are shown at market value. Unrealised investment gains and losses are taken to the non-technical account. Investments are designated at fair value through the income and expenditure account on initial recognition

(g) Net operating expenses

The management fee allocated to acquisition costs has been interpreted as the cost of underwriting, processing renewals, premium adjustments and credit control. Administrative expenses include regulatory compliance, the preparation of accounts and general management.

3. Premium deferral

The Directors decided that all Members should continue to be entitled to deferral of premium. Those Members purchasing cover of less than £2,000,000, who were already committed, would be entitled to a 15% deferral of the advance call (net of brokerage) for the 2011/12 policy year, increasing to 17.5% for those Members purchasing cover of £2,000,000 or more.

In the event of a policy year going into deficit and any additional funds being required, any deferred call made for that year would be recovered by the Company before any supplementary call were to be levied.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Management fee

The Companies Act 2006 and Association of British Insurers (Statement of Recommended Practice) requires the management fee paid to Thomas Miller Professional Indemnity to be apportioned between the different management functions. This fee has to be allocated to acquisition costs, which in the case of PAMIA Limited has been interpreted by the Directors and Managers as the cost of underwriting, processing renewals, premium adjustments and credit control; claims handling costs; investment management expenses and administration expenses which include regulatory compliance, the preparation of accounts and general management.

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

The apportionment of management costs under the required headings is as follows:

	2012	2011
	£	£
Acquisition costs (note 7)	298,524	269,342
Claims handling costs (note 5)	282,308	252,303
Administrative expenses (note 7)	152,599	136,380
Investment management costs (note 9)	45,780	40,914
	779,211	698,939

5. Claims incurred net of reinsurance

	2012	2011
	£	£
Claims	323,914	84,978
Third party recovery	(101,412)	(157,580)
Legal costs and expenses	368,115	368,853
Management fee (note 4)	282,308	252,303
Reinsurance recoveries	-	(563)
	872,925	547,991

6. Change in the provision for claims – gross and net amount

	2012	2011
	£	£
Claims outstanding at end of year	6,203,763	5,479,297
Claims outstanding at beginning of year	(5,479,297)	(5,078,023)
Increase in gross provision for claims	724,466	401,274

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 claims. The estimates for 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 regularly. The gross provision for claims includes allowances for adverse development and the Managers' claims handling costs (see note 2c).

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 2011/2012 policy year.

7. Net operating expenses

	2012	2011
Acquisition costs	£	£
Management fee (note 4)	298,524	269,342
Brokerage	51,181	53,137
	349,705	322,479
Administration expenses		
Directors' and Officers' liability insurance	3,916	3,901
FSA Insurance fee	3,305	3,700
Auditors' remuneration – audit of financial statements	19,460	14,656
Auditors' remuneration for other services	2,034	3,322
Control audit fee	-	13,487
QIS 5 preparation	-	6,854
Entertaining	5,167	7,911
Communication costs	720	9,243
Directors' meetings	7,926	7,741
Professional fees	12,060	4,415
Management fee (note 4)	152,599	136,380
	207,187	211,610
	556,892	534,089

There were no Directors' emoluments paid or payable during the year (2011- £Nil).

8. (i) Investment income

	2012	2011
	£	£
Interest on listed investments	262,408	295,275
Bank deposit interest	33,575	24,513
	295,983	319,788
Gains on realisation of investments	246,551	183,345
	542,534	503,133

(ii) Net gains arising from financial instruments valued at fair value through income and expenditure account

	2012	2011
	£	£
Interest on listed investments	262,408	295,275
Gains on realisation of investments	246,551	183,345
Unrealised (losses)/gains on investments	(194,682)	104,198
Investment expenses	(70,523)	(124,446)
	243,754	458,372

9. Investment expenses and charges

	2012	2011
	£	£
Investment management costs (note 4)	45,780	40,914
Bank, custodial and other charges	24,743	24,925
FX loss	-	58,607
	70,523	124,446

10. Taxation

(i). By virtue of its mutual status, the Association is not liable to tax on its insurance operations. It is liable to tax on its investment income and net gains. The charge in the income and expenditure account represents:

Income and expenditure account	2012	2011
	£	£
UK corporation tax at 25.83% (2011-27.66%)	144,042	42,242
Marginal relief	(13,743)	(10,426)
Adjustments in respect of prior years	(4,355)	(42)
Total current tax (note 10(ii))	125,944	31,774
Deferred tax movement	(90,744)	89,914
Total tax charge	35,200	121,688

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Taxation (continued)

(ii). The tax assessed for the period is higher than the main companies standard rate of corporation tax in the UK 25.83% for 2012 (27.66% 2011). The differences are explained below:

	2012	2011
	£	£
Surplus on ordinary activities before tax	366,278	1,034,190
Surplus on ordinary activities multiplied by standard rate of corporation tax in the UK of 25.83% (2011: 27.66%)	94,621	286,057
Effects of:		
Non-taxable mutual insurance operations	(22,976)	(152,490)
Non-taxable unrealised losses/(gains) and income on investments	78,544	(95,531)
Disallowable expenses	9,115	9,105
Capital gains net of losses and indexation allowance	(15,262)	(4,899)
Marginal relief	(13,743)	(10,426)
Prior year adjustments	(4,355)	(42)
Current tax charge (note 10(i))	125,944	31,774

(iii). **Balance sheet**

	2012	2011
Taxation creditor	£	£
Taxation creditor brought forward	31,816	152,539
Prior year adjustment	(4,929)	-
Payment of corporation tax	(26,887)	(152,539)
	-	-
UK corporation tax	144,042	42,242
Marginal relief	(13,743)	(10,426)
Taxation creditor (note12)	130,299	31,816

	2012	2011
Deferred Tax	£	£
Deferred tax liability brought forward	101,746	11,832
Effect of change to tax rate of opening balances	(7,827)	-
Credit for the year	(82,917)	89,914
Deferred tax movement	(90,744)	89,914
Deferred tax liability carried forward	11,002	101,746

Deferred tax liabilities are provided on equity investments, which are taxable on a realisations basis and are, provided based on the Corporation Tax charge that would arise if realised at current market values at the year-end date.

Capital losses realised are provided against the deferred tax liability to the extent that they do not exceed realised gains.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Other financial investments

	Market Value 2012	Market Value 2011	Cost 2012	Cost 2011
	£	£	£	£
Other financial investments comprise:				
Units in unit trust	7,273,040	6,860,483	6,912,021	6,172,414
Absolute Return Fund	1,619,982	674,926	1,561,881	674,474
Fixed interest securities	8,279,720	8,570,671	8,146,962	8,512,632
Forward FX contracts	3,158	(8,508)	3,158	(8,508)
	17,175,900	16,097,572	16,624,022	15,351,012

	Market Value 2012	Market Value 2011	Cost 2012	Cost 2011
	£	£	£	£
Unit trusts	3,363,974	3,098,920	3,002,955	2,410,852
UCITS - cash	3,909,066	3,761,563	3,909,066	3,761,563
	7,273,040	6,860,483	6,912,021	6,172,415

All fixed income securities are listed on a recognised stock exchange. All investments in unit trusts are in authorised unit trusts.

Undertakings for Collective Investment in Transferable Securities (UCITS) are funds held for the short term.

The fair value of forward currency contracts represents the year-end market value. The value of these contracts will fluctuate as a result of movements in the rates of currency exchange.

12. Other creditors including tax

	2012	2011
	£	£
Insurance premium tax	54,629	49,390
Corporation tax (note 10(iii))	130,299	31,816
Deferred tax	11,002	101,746
	195,930	182,952

Insurance premium tax (“IPT”) includes insurance premium taxes due to other EU countries in addition to UK IPT due.

13. Accruals and deferred income

	2012	2011
	£	£
Management fee	178,999	208,805
Accrued expenses	79,752	23,114
Premiums received in advance	1,179,785	725,661
	1,438,536	957,580

14. Net cash flow from operating activities

	2012	2011
Operating activities	£	£
Premiums received from members	3,896,553	2,892,417
Reinsurance paid	(1,200,074)	(1,192,259)
Claims paid	(872,925)	(548,554)
Reinsurance recoveries	-	563
Other operating cash payments	(524,816)	(500,650)
Net cash flow from operating activities	1,298,738	651,517

15. Movement in opening and closing portfolio investments

	2012	2011
	£	£
Net cash flow for period (note 16)	456,729	(511,856)
Portfolio investments	1,261,344	1,213,639
Movement arising from cash flows (note 16)	1,718,073	701,783
Movement in investment valuations (note 16)	(183,016)	287,543
Movement for the year	1,535,057	989,326
Portfolio investments at 1 June	16,843,703	15,854,377
Portfolio investments at 31 May	18,378,760	16,843,703

16. Movement in cash, deposits and investments in the year

	At 1 June 2011	Cash flow	Changes to market value	At 31 May 2012
	£	£	£	£
Cash at bank	746,131	456,729	-	1,202,860
Fixed interest securities	8,570,671	(399,534)	108,583	8,279,720
Absolute Return Fund	674,926	921,273	23,783	1,619,982
Unit trusts	6,860,483	739,605	(327,048)	7,273,040
Forward exchange contracts	(8,508)	-	11,666	3,158
	16,843,703	1,718,073	(183,016)	18,378,760

The comparative figures for last year were:

	At 1 June 2010	Cash flow	Changes to market value	At 31 May 2011
	£	£	£	£
Cash at bank	1,257,987	(511,856)	-	746,131
Fixed interest securities	8,637,295	175,007	(241,631)	8,570,671
Absolute Return Fund	-	674,474	452	674,926
Unit trusts	5,957,257	364,158	539,068	6,860,483
Forward exchange contracts	1,838	-	(10,346)	(8,508)
	15,854,377	701,783	287,543	16,843,703

17. Management of Risk

The Company’s appetite for, and management of, risk is set by the Board of Directors. The Company is primarily focused on the identification and management of potential risks, which fall into five key categories:

1. Market risk - incorporating investment risk, interest rate risk and currency rate risk
2. Insurance risk - incorporating underwriting and reserving risk
3. Credit risk - being the risk that a counterparty is unable to pay amounts in full when due
4. Liquidity risk - being the risk that cash may not be available to pay obligations as they fall due
5. Capital Risk - being the risk that there is not enough capital to meet regulatory requirements.

Market Risk

Market risk is the risk of changes in the financial markets affecting the value of the Company’s investments. It is managed by the Company’s investment policy, which is monitored by means of reports from the Investment Managers to the members of the Investment Committee who in turn report to the Board.

The Company’s investment portfolio is allocated between fixed interest securities and investments in collective investment schemes. The holding of the fixed interest securities is designed to mitigate the Company’s exposure to the fluctuations in the Equity markets.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. Management of Risk (continued)

The fixed interest securities held are actively traded and the instruments held at the year-end had a variety of differing terms and coupon rates.

£'000s	Maturity/Term			
Total	<1 year	>1 yr <2 yr	>2yr <3 yr	>3 yr
8,280	333	417	164	7,366
Coupon	4.375%	3.25%	2.125 - 2.375%	1 - 4.875%

A 1% fall/increase in the market value of fixed interest securities would decrease/increase the Company's surplus for the year ended 31 May 2012 by £83k.

A 1% fall/increase in the market value of the Company's holdings in collective investment schemes would decrease/increase the Company's results by £89k.

Currency Risk

A proportion of the Company's investment portfolio is denominated in US$. The sterling equivalent of US denominated balances is detailed below:

	2012	2011
	£	£
Fixed interest	840,724	774,530
Absolute Return Fund	1,619,982	674,926
Unit Trusts	740,628	1,297,314
	3,201,334	2,746,770

A 1% decrease/increase in the rate of exchange between US dollar and sterling would decrease/increase the Company's result by £32k.

A proportion of the Company's investment portfolio is denominated in Euros. The sterling equivalent of Euro denominated balances is detailed below:

	2012	2011
	£	£
Fixed interest	1,170,844	1,737,498
Unit Trusts	1,102,157	566,659
	2,273,001	2,304,157

A 1% decrease/increase in the rate of exchange between Euro and sterling would decrease/increase the Company's result by £23k.

To mitigate the impact of fluctuating exchange rates the Company acquires forward currency contracts, the balance of which is disclosed in note 12 of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. Management of Risk (continued)

Insurance Risk

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, as well as holding adequate claims reserves.

	Policies Witten During				
£’000s	2012	2011	2010	2009 prior	Total
Bfwd reserve	-	1,732	1,304	2,443	5,479
Payments	(335)	(4)	(71)	(463)	(873)
Reinsurance recoveries	-	-	-	-	-
Reserve movement	1,947	(365)	199	(183)	1,598
Balance cfwd	1,612	1,363	1,432	1,797	6,204

A 1% increase/decrease in the booked insurance technical provisions would increase/decrease reported surplus by £62k.

Reinsurance risk is the risk of the Company’s reinsurers being unable to meet their obligations. This risk is mitigated by placing reinsurance only with A- rated reinsurance companies. No amounts were due from reinsurers at the year-end (2011: nil).

Credit Risk

Credit risk is the risk of losses caused by other parties failing, in whole or in part, to meet obligations to the Company. Debtor exposure is mitigated because it is widely spread across the membership. This exposure is monitored by means of reports from the Managers to the Board.

Liquidity Risk

Liquidity 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 that sufficient funds are available to cover anticipated liabilities and unexpected levels of demand.

Capital Risk

The Directors have overall responsibility for managing the Company’s capital base with the principal objective of maintaining sufficient capital to satisfy regulatory requirements. PAMIA Limited is registered by the Financial Services Authority and is subject to its regulatory requirements.

18. Location and nature of business

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

COMPANY INFORMATION

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