

**PAMIA LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MAY 2013**

Company No. 2418817

# PAMIA LIMITED

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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 12 March 2014 at 5.00pm for the following purposes:

- To receive the Directors' Report and Financial Statements for the year ended 31 May 2013 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: 24 July 2013

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 LLP
T. Copsey	Kilburn & Strode LLP
R. Gardner	Dehns
* D.A. Gill	W. P. Thompson
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
B.R. Lucas	Lucas & Co.
M. Lunt	Harrison Goddard Foote
D. A. McCarthy	MacLachlan & Donaldson
* I. E. McKelvey (Resigned 21 March 2013)	Serjeants
* J. Milsom (Resigned 21 March 2013)	CPA Global
C. Murphy	Ipulse
J.B. Pennant	D. Young & Co.
S. Storer	Stevens Hewlett & Perkins
K. Széll	Venner Shipley LLP

\* 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

R.A.A.Harnal

A.Mee

A.Salim

#### **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**

PKF 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 2013.

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, A. R. Findlay, T. Copsey, K. Hodgkinson, M. Lunt and K. Széll retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment.

I.McKelvey and J.Milson resigned during the year. The Board wish to thank them for their contribution to the affairs of the Company.

In the case of each of the persons who are Directors at the time this report is approved, the following applies:

- (a) so far as the Directors are aware, there is no relevant audit information of which the company'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 brought 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.

## PAMIA LIMITED

### 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 £1,298,812 (2012: £331,078) and this was transferred to reserves. The reserves now amount to £18,591,828, which is made up of free reserves of £11,921,297 and claim reserves of £6,670,531. The comparative figure for 2012 is £16,826,248, which is made up of free reserves of £10,622,485 and claim reserves of £6,203,763.

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.

## PAMIA LIMITED

### 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.

	2013 £'000	2012 £'000
Premium Written	3,131	3,443
Reinsurance Premium	(1,108)	(1,200)
Change in UPR provision	-	1
Net claims	(1,332)	(1,597)
Operating expenses	(561)	(557)
Surplus on technical account	130	90
Investment Income	1,410	277
Surplus on ordinary activities before tax	1,540	367
Tax	(241)	(35)
Surplus for the financial year	1,299	332
Free reserves at year end	11,922	10,623

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 8.26% (2012: 2.19%).

The Company has 58% its holdings in UK, US and European bonds, 23% is in equities, 11% in Alternative investments (Fund of Hedge Funds) and 8% in UCITS.

Capital resources for regulatory purposes at £11.9m, exceeds its required regulatory capital of £3.4m by £8.5m.

## PAMIA LIMITED

### REPORT OF THE DIRECTORS (CONTINUED)

#### **Meetings of the Directors**

The Board of the Company met formally on three occasions during the year to carry out the general and specific responsibilities entrusted to it by the Members under the Articles of 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 & Risk Committee** comprising David Gill (Chairman), 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 Rebecca Gardner (Chairman), David Gill, Adrian Hayes, Mark Lunt and Sarah Storer 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 Brian Lucas (Chairman), Tim Copsey, Paul Howard, John Jappy, John Leeming, 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 three occasions in the course of the year.

**The Rating & Reinsurance Committee** comprising John Leeming (Chairman), Alice Findlay, Rebecca Gardner, Keith Hodgkinson 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 (Chairman), 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 (Chairman) and David Gill are responsible for formulating the company's business strategy and agreeing the Management Fee. 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.



**PAMIA LIMITED**

**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**

PKF Littlejohn LLP (formerly named 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 handwritten signature in black ink, appearing to read 'A. R. Findlay', written in a cursive style.

**A. R. Findlay**  
**Chairman**

**24.July 2013**

## **PAMIA LIMITED**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PAMIA LIMITED**

We have audited the Financial Statements of PAMIA Limited for the year ended 31 May 2013 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 2013 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.

**PAMIA LIMITED**

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

**Matters on which we are required to report by exception**

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

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



**Paul Hopper (Senior Statutory Auditor)**  
**For and on behalf of PKF Littlejohn LLP**  
**Statutory auditor**

1 Westferry Circus  
Canary Wharf  
London E14 4HD

24 July 2013

**PAMIA LIMITED**  
**INCOME AND EXPENDITURE ACCOUNT**  
**For the year ended 31 May 2013**

<b>TECHNICAL ACCOUNT</b>	Note	2013 £	2012 £
<b>Earned premiums, net of reinsurance</b>			
Advance Call		3,768,475	4,152,173
Premium deferral	3	(637,964)	(709,597)
Gross premium written		<u>3,130,511</u>	<u>3,442,576</u>
Outward reinsurance premiums		<u>(1,108,317)</u>	<u>(1,200,255)</u>
		2,022,194	2,242,321
Change in gross provision for unearned premiums		242	1,220
Change in provision for unearned premiums, reinsurers' share		(64)	(309)
Change in net provision for unearned premiums		178	911
Earned premium net of reinsurance		<u>2,022,372</u>	<u>2,243,232</u>
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross amount		(3,341,349)	(872,925)
Reinsurers' share		2,476,218	-
Net claims paid	5	<u>(865,131)</u>	<u>(872,925)</u>
Change in provision for claims – gross and net amount	6	(466,768)	(724,466)
Claims incurred, net of reinsurance		<u>(1,331,899)</u>	<u>(1,597,391)</u>
Net operating expenses	7	<u>(560,718)</u>	<u>(556,892)</u>
Balance on technical account		<u>129,755</u>	<u>88,949</u>
<b>NON-TECHNICAL ACCOUNT</b>			
Balance on the technical account		129,755	88,949
Investment income	8	461,155	542,534
Unrealised gains/(losses) on investments		1,028,857	(194,682)
Investment expenses and charges	9	<u>(80,144)</u>	<u>(70,523)</u>
Surplus on ordinary activities before tax		1,539,623	366,278
Tax on ordinary activities	10	<u>(240,811)</u>	<u>(35,200)</u>
Surplus on ordinary activities after tax		1,298,812	331,078
Surplus at 1 June 2012		<u>10,622,485</u>	<u>10,291,407</u>
Surplus at 31 May 2013		<u>11,921,297</u>	<u>10,622,485</u>

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 25 form an integral part of these financial statements.

**PAMIA LIMITED**

Company number 2418817

**BALANCE SHEET  
As at 31 May 2013**

	Note	2013	2012
<b>ASSETS</b>			
<b>Investments</b>			
Other financial investments	11	18,247,076	17,175,900
<b>Other assets</b>			
Cash at bank		1,362,728	1,202,860
Debtors arising out of direct insurance operation		2,459	2,429
Debtors arising out of reinsurance operations		363,724	-
<b>Prepayments and accrued income</b>			
Accrued interest		78,287	86,320
Other prepayments and accrued income		654	643
		<u>20,054,928</u>	<u>18,468,152</u>
 <b>LIABILITIES AND RESERVES</b>			
<b>Reserves</b>			
Income and expenditure account		11,921,297	10,622,485
<b>Technical provision</b>			
Provision for unearned premiums			
Gross amount		527	770
Reinsurance amount		(139)	(204)
		388	566
Claims outstanding			
Gross and net amount		<u>6,670,531</u>	<u>6,203,763</u>
		<u>6,670,919</u>	<u>6,204,329</u>
 <b>Creditors</b>			
Creditors arising out of reinsurance operations		6,872	6,872
Other creditors including tax	12	312,585	195,930
		<u>319,457</u>	<u>202,802</u>
<b>Accruals and deferred income</b>	13	1,143,255	1,438,536
		<u>20,054,928</u>	<u>18,468,152</u>

These financial statements were approved by the Board of Directors and were signed on its behalf on 24 July 2013 by:

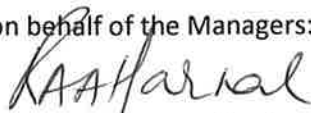
Chairman:  
A.Findlay



Director:  
D.A.Gill



Signed on behalf of the Managers:



Thomas Miller Professional Indemnity

The notes on pages 13 to 25 form an integral part of these financial statements.

**PAMIA LIMITED**

**CASH FLOW STATEMENT**  
For the year ended 31 May 2013

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

	Note	2013 £	2012 £
Surplus on operating activities before tax		1,539,623	366,278
Investment return		(1,490,012)	(347,852)
Investment expenses		80,144	70,523
(Increase) in debtors		(363,765)	(142)
(Decrease)/increase in creditors		(291,571)	486,376
Increase in provision for claims		466,768	724,466
(Decrease) in net provision for unearned premiums		(178)	(911)
Net cash (outflow)/inflow from operating activities	14	(58,991)	1,298,738

**CASHFLOW STATEMENT**

Net cash (outflow)/inflow from operating activities	14	(58,991)	1,298,738
<b>Returns on investments and servicing finance</b>			
Investment return		472,316	517,319
Investment expenses	9	(80,144)	(70,523)
		392,172	446,796
<b>Taxation</b>			
Corporation tax paid		(127,866)	(27,461)
Net inflow into cash, deposits and investments in the year	15,16	205,315	1,718,073

**CASHFLOWS WERE INVESTED AS FOLLOWS:**

Increase in cash	16	£ 159,868	£ 456,729
<b>Net portfolio investment</b>			
Purchase of fixed income securities	16	2,591,963	521,739
(Disposal)/purchase of units in unit trusts	16	(2,546,516)	739,605
	15,16	205,315	1,718,073

The notes on pages 13 to 25 form an integral part of these financial statements.

## PAMIA LIMITED

### 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 Prudential Regulation 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.

##### 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.

##### (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.

## PAMIA LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 2. Accounting policies (continued)

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 2013.
- (ii) An additional amount to provide against adverse development on estimated claims and reported circumstances as at 31 May 2013; 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.

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.



## PAMIA LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 2. Accounting policies (continued)

##### (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 2012/13 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.

**PAMIA LIMITED**

**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:

	2013	2012
	£	£
Acquisition costs (note 7)	312,185	298,524
Claims handling costs (note 5)	295,553	282,308
Administrative expenses (note 7)	159,759	152,599
Investment management costs (note 9)	47,928	45,780
	<u>815,425</u>	<u>779,211</u>

**5. Claims incurred net of reinsurance**

	2013	2012
	£	£
Claims	1,567,972	323,914
Third party recovery	-	(101,412)
Legal costs and expenses	1,477,824	368,115
Management fee (note 4)	295,553	282,308
Reinsurance recoveries	(2,476,218)	-
	<u>865,131</u>	<u>872,925</u>

**PAMIA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

	2013	2012
	£	£
Claims outstanding at end of year	6,670,531	6,203,763
Claims outstanding at beginning of year	<u>(6,203,763)</u>	<u>(5,479,297)</u>
Increase in gross provision for claims	<u>466,768</u>	<u>724,466</u>

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 2012/2013 policy year.

**7. Net operating expenses**

	2013	2012
	£	£
<b>Acquisition costs</b>		
Management fee (note 4)	312,185	298,524
Brokerage	<u>46,277</u>	<u>51,181</u>
	358,462	349,705
<b>Administration expenses</b>		
Directors' and Officers' liability insurance	3,901	3,916
FSA Insurance fee	5,933	3,305
Auditors' remuneration – audit of financial statements	22,438	19,460
Auditors' remuneration for other services	3,496	2,034
Entertaining	-	5,167
Communication costs	-	720
Directors' meetings	6,729	7,926
Professional fees	-	12,060
Management fee (note 4)	<u>159,759</u>	<u>152,599</u>
	202,256	207,187
	<u>560,718</u>	<u>556,892</u>

There were no Directors' emoluments paid or payable during the year (2012-£Nil).

**PAMIA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**8. (i) Investment income**

	2013	2012
	£	£
Interest on listed investments	228,038	262,408
Bank deposit interest	192,125	33,575
	<u>420,163</u>	<u>295,983</u>
Gains on realisation of investments	40,992	246,551
	<u>461,155</u>	<u>542,534</u>

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

	2013	2012
	£	£
Interest on listed investments	228,038	262,408
Gains on realisation of investments	40,992	246,551
Unrealised gains/(losses) on investments	1,028,857	(194,682)
Investment expenses	(80,144)	(70,523)
	<u>1,217,743</u>	<u>243,754</u>

**9. Investment expenses and charges**

	2013	2012
	£	£
Investment management costs (note 4)	47,928	45,780
Bank, custodial and other charges	32,216	24,743
	<u>80,144</u>	<u>70,523</u>

**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:

<b>Income and expenditure account</b>	2013	2012
	£	£
UK corporation tax at 20% (2012-25.83%)	46,835	144,042
Marginal relief	-	(13,743)
Adjustments in respect of prior years	(2,433)	(4,355)
Total current tax (note 10(ii))	<u>44,402</u>	<u>125,944</u>
Deferred tax movement	196,409	(90,744)
Total tax charge	<u>240,811</u>	<u>35,200</u>

**PAMIA LIMITED**

**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 20% for 2013 (2012: 25.83%). The differences are explained below:

	2013	2012
	£	£
Surplus on ordinary activities before tax	<u>1,539,623</u>	<u>366,278</u>
Surplus on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2012: 25.83%)	307,925	94,621
Effects of:		
Non-taxable mutual insurance operations	(25,951)	(22,976)
Non-taxable unrealised losses/(gains) and income on investments	(249,464)	78,544
Disallowable expenses	8,015	9,115
Capital gains net of losses and indexation allowance	6,310	(15,262)
Marginal relief	-	(13,743)
Prior year adjustments	(2,433)	(4,355)
Current tax charge (note 10(i))	<u>44,402</u>	<u>125,944</u>

(iii). **Balance sheet**

	2013	2012
	£	£
<b>Taxation creditor</b>		
Taxation creditor brought forward	130,299	31,816
Prior year adjustment	(2,433)	(4,929)
Payment of corporation tax	<u>(127,866)</u>	<u>(26,887)</u>
	-	-
UK corporation tax	46,835	144,042
Marginal relief	-	(13,743)
Taxation creditor (note 12)	<u>46,835</u>	<u>130,299</u>

	2013	2012
	£	£
<b>Deferred Tax</b>		
Deferred tax liability brought forward	11,002	101,746
Effect of change to tax rate of opening balances	(1,834)	(7,827)
Charge/credit for the year	198,243	(82,917)
Deferred tax movement	196,409	(90,744)
Deferred tax liability carried forward	<u>207,411</u>	<u>11,002</u>

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.

**PAMIA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**11. Other financial investments**

	Market Value 2013 £	Market Value 2012 £	Cost 2013 £	Cost 2012 £
Other financial investments comprise:				
Equities	5,680,995	7,273,040	4,365,504	6,912,021
Alternative (Fund of Hedge Funds)	1,945,405	1,619,982	1,710,576	1,561,881
Fixed interest securities	10,620,646	8,279,720	10,590,231	8,146,962
Forward FX contracts	30	3,158	30	3,158
	<u>18,247,076</u>	<u>17,175,900</u>	<u>16,666,341</u>	<u>16,624,022</u>

	Market Value 2013 £	Market Value 2012 £	Cost 2013 £	Cost 2012 £
Equities	4,237,027	3,363,974	2,921,536	3,002,955
UCITS - cash	1,443,968	3,909,066	1,443,968	3,909,066
	<u>5,680,995</u>	<u>7,273,040</u>	<u>4,365,504</u>	<u>6,912,021</u>

All fixed income securities are listed on a recognised stock exchange.

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**

	2013 £	2012 £
Insurance premium tax	58,339	54,629
Corporation tax (note 10(iii))	46,835	130,299
Deferred tax provision	207,411	11,002
	<u>312,585</u>	<u>195,930</u>

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

**PAMIA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**13. Accruals and deferred income**

	2013	2012
	£	£
Management fee	187,948	178,999
Accrued expenses	52,094	79,752
Premiums received in advance	903,213	1,179,785
	<u>1,143,255</u>	<u>1,438,536</u>

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

	2013	2012
	£	£
<b>Operating activities</b>		
Premiums received from members	2,853,909	3,896,553
Reinsurance paid	(1,108,317)	(1,200,074)
Claims paid	(3,341,349)	(872,925)
Reinsurance recoveries	2,112,494	-
Other operating cash payments	(575,728)	(524,816)
Net cash flow from operating activities	<u>(58,991)</u>	<u>1,298,738</u>

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

	2013	2012
	£	£
Net cash flow for period (note 16)	159,868	456,729
Portfolio investments	45,447	1,261,344
Movement arising from cash flows (note 16)	205,315	1,718,073
Movement in investment valuations (note 16)	1,025,729	(183,016)
Movement for the year	1,231,044	1,535,057
Portfolio investments at 1 June	18,378,760	16,843,703
Portfolio investments at 31 May	<u>19,609,804</u>	<u>18,378,760</u>

**PAMIA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

	At 1 June 2012	Cash flow	Changes to market value	At 31 May 2013
	£	£	£	£
Cash at bank	1,202,860	159,868	-	1,362,728
Fixed interest securities	8,279,720	2,443,269	(102,343)	10,620,646
Absolute Return Funds	1,619,982	148,694	176,729	1,945,405
Unit trusts	7,273,040	(2,546,516)	954,471	5,680,995
Forward exchange contracts	3,158	-	(3,128)	30
	<u>18,378,760</u>	<u>205,315</u>	<u>1,025,729</u>	<u>19,609,804</u>

The comparative figures for last year were:

	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
	<u>16,843,703</u>	<u>1,718,073</u>	<u>(183,016)</u>	<u>18,378,760</u>

**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.



**PAMIA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**17. Management of Risk (continued)**

**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.

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			
	<1 year	>1 yr <2 yr	>2yr <3 yr	>3 yr
Total				
10,621	1,409	34	3,215	5,963
Coupon	2.25 - 3.25%	2.375%	2.0 - 4.875%	0.25 - 5.0%

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 2013 by £106k.

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 £76k.

**Currency Risk**

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

	2013	2012
	£	£
Fixed interest	661,979	840,724
Absolute Return Fund	1,945,404	1,619,982
Unit Trusts	1,346,463	740,628
	<u>3,953,846</u>	<u>3,201,334</u>

A 1% decrease/increase in the rate of exchange between US dollar and sterling would decrease/increase the Company's result by £39k.

**PAMIA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**17. Management of Risk (continued)**

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

	2013	2012
	£	£
Fixed interest	1,778,418	1,170,844
Unit Trusts	719,697	1,102,157
	<u>2,498,115</u>	<u>2,273,001</u>

A 1% decrease/increase in the rate of exchange between Euro and sterling would decrease/increase the Company's result by £24k.

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.

**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.

£'000s	Policies Witten During				
	2013	2012	2011	2010 prior	Total
Bfwd reserve	-	1,612	1,363	3,229	6,204
Payments	(437)	(37)	(118)	(2,749)	(3,341)
Reinsurance recoveries	-	-	-	2,476	2,476
Reserve movement	2,850	(208)	(261)	(1,049)	1,332
Balance cfwd	<u>2,413</u>	<u>1,367</u>	<u>984</u>	<u>1,907</u>	<u>6,671</u>

A 1% increase/decrease in the booked insurance technical provisions would increase/decrease reported surplus by £67k.

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. The reinsurer debtor at year end amounted to £363,724 (2012: 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.

**PAMIA LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**17. Management of Risk (continued)**

**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 Prudential Regulation 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.

## **PAMIA LIMITED**

### **COMPANY INFORMATION**

#### **REGISTERED OFFICE**

90 Fenchurch Street  
London  
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Registered in England and Wales No. 2418817

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