

**PAMIA LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MAY 2014**

Company No. 2418817

# PAMIA LIMITED

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## **PAMIA LIMITED**

### **DIRECTORS, MANAGEMENT AND PROFESSIONAL ADVISERS**

#### **DIRECTORS OF PAMIA LIMITED**

* A.R. Findlay (Chairman)	Reddie & Grose LLP
T. Copsey	Kilburn & Strode LLP
W. Fagan (Appointed & resigned in the year)	CPA Global
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
C. Murphy	Venner Shipley LLP
J.B. Pennant	D. Young & Co.
S. Storer	Stevens Hewlett & Perkins
K. Széll (Resigned 26 March 2014)	Venner Shipley LLP
C. H. Watkins (Appointed 16 May 2014)	Secerna LLP

\* Members of the Audit and Risk 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**

### **CHAIRMANS REPORT**

I am pleased to present my fourth Chairman's Report.

In the year to 31st May 2014 we recorded a deficit of £462,770, compared to a surplus of £1,298,812 in the previous year. The main reasons for this deficit were reduced investment income and premium income and increased net claims payments.

The deficit took the reserves held by PAMIA in excess of the minimum amount required by regulators to about £8m. PAMIA's Business Plan sets the acceptable range for these reserves at between £5m and £7.75m. We took action at the 2014 renewal to attempt to reduce these reserves further by making rating reductions and increasing the deferral for members purchasing cover of £2m or more with the aim of bringing them back within the acceptable range.

In the year to 31 May 2013 PAMIA benefited from exceptional investment income, with currency gains being a particularly strong contributing factor. In 2014 some of these currency gains were reversed. Excluding currency movements, PAMIA's investment portfolio would have generated a return of 3.3% in 2014, but including them the return was just 0.5%. PAMIA holds foreign currencies to reflect members' exposure to claims risks in foreign currencies, particularly the US dollar and euro. While the return last year was disappointing, it remains the case that PAMIA has generated a positive investment return in each of the 25 years since it was established. Full credit is due to the Investment Committee and Investment Manager for this achievement. The Investment Committee has just completed its triennial Investment Policy review, the results of which will be implemented on 1 August 2014 with the expectation that this will enable PAMIA to continue to enjoy good investment returns over the medium term.

For the second year in a row, claims payments were higher than normal. Gross payments were £2.74m in 2014 against £3.34m in 2013. After allowing for reinsurance recoveries, net payments were £1.67m and £0.86m respectively. These above average payments reflected the cost of settling a large claim which had been outstanding for some time and taking another claim to trial in the High Court. The latter case was successfully defended, with judgment being handed down in July 2014, and we expect to recover the majority of our legal costs. The underlying claims experience remains stable, with notifications running at about 400 a year and most claims being settled for modest amounts without the need for litigation.

In the year to 31 May 2014 premium income fell by about 3.6%. This reflected the decision taken to reduce the premium rates for the 2013/14 Policy Year as part of the Board's strategy for bringing free reserves back within the acceptable range set out in the Business Plan. Reinsurance premiums increased slightly as a result of PAMIA securing enhanced cover from the reinsurers.

The Board is continuing to review and improve PAMIA's governance as part of its preparations for complying with a new EU driven regulatory regime known as Solvency 2. Excellent progress is being made and PAMIA should comfortably meet the implementation deadline. Much of PAMIA's success rests on the work of its Committees, details of which are provided elsewhere in the Directors' Report and Financial Statements. All the Committee members and Directors give up a considerable amount of time on a purely voluntary basis for the benefit of the membership as a whole and I wish to take this opportunity to thank all of them for their commitment.

**Alice Findlay**  
**Chairman**  
**23 July 2014**

## PAMIA LIMITED

### STRATEGIC REPORT

The Directors have pleasure in presenting the Strategic report for the year ended 31 May 2014.

#### Review of the year

The Company continued to provide professional indemnity insurance for patent and trademark practices. The deficit arising out of the year's operations after tax was (£462,770) (2013: £1,298,812) and this was transferred to reserves. The reserves now amount to £18,562,512, which is made up of free reserves of £11,458,527 and gross claim reserves of £7,103,985. The comparative figure for 2013 is £18,591,828 which is made up of free reserves of £11,921,297 and gross claim reserves of £6,670,531.

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.

#### Financial Results

The figures in the table below are taken from the Directors' Report and Financial Statements for the year ending 31 May 2014, which will be submitted to the membership for approval at the Annual General Meeting which will be held on 11 March 2015.

The Income and Expenditure Account (on page 14) and the Balance Sheet (on page 15), 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.

	2014 £'000	2013 £'000
Premium Written	3,018	3,131
Reinsurance Premium	(1,138)	(1,108)
Net claims	(1,775)	(1,332)
Operating expenses	(638)	(561)
(Deficit)/surplus on technical account	(533)	130
Investment Income	58	1,410
(Deficit)/surplus on ordinary activities before tax	(475)	1,540
Tax	12	(241)
(Deficit)/surplus for the financial year	(463)	1,299
Free reserves at year end	11,459	11,922

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 0.53% (2013: 8.26%).

## PAMIA LIMITED

### STRATEGIC REPORT (CONTINUED)

The Company has 57% its holdings in UK, US and European bonds, 23% is in equities, 10% in Alternative investments (Fund of Hedge Funds) and 10% in UCITS.

Capital resources for regulatory purposes at £11.4m, exceeds its required regulatory capital of £3.4m by £8.0m.

#### **Risk Management**

The Company is exposed to financial risk through its assets and liabilities. The Company's appetite for, and management of, risk is set by the Board of Directors who have put policies and procedures in place in order to manage these risks.

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.

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	30	743	3,189	6,432
Coupon	2.375%	4.875%	0.5 - 4.0%	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 2014 by £104k.

## PAMIA LIMITED

### STRATEGIC REPORT (CONTINUED)

A 1% fall/increase in the market value of the Company's holdings in Equities and Alternative ( Fund of Hedge Funds ) would decrease/increase the Company's results by £79k.

#### **Currency Risk**

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

	2014	2013
	£	£
Fixed interest	966,335	661,979
Absolute Return Fund	1,861,009	1,945,404
Unit Trusts	962,263	1,346,463
	<u>3,789,607</u>	<u>3,953,846</u>

A 1% decrease/increase in the rate of exchange between US dollar and sterling would decrease/increase the Company's result by £38k.

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

	2014	2013
	£	£
Fixed interest	1,435,803	1,778,418
Unit Trusts	1,580,955	719,697
	<u>3,016,758</u>	<u>2,498,115</u>

A 1% decrease/increase in the rate of exchange between Euro and sterling would decrease/increase the Company's result by £30k.

To mitigate the impact of fluctuating exchange rates the Company acquires forward currency contracts, the balance of which is disclosed in note 11 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				Total
	2014	2013	2012	2011 prior	
Bfwd reserve	-	2,413	1,367	2,891	6,671
Payments	(445)	(167)	(1,495)	(634)	(2,741)
Reinsurance recoveries	-	-	-	1,075	1,075
Reserve movement	3,381	(628)	1,294	(2,272)	1,775
Balance cfwd	<u>2,936</u>	<u>1,618</u>	<u>1,166</u>	<u>1,060</u>	<u>6,780</u>

## **PAMIA LIMITED**

### **STRATEGIC REPORT (CONTINUED)**

A 1% increase/decrease in the booked insurance technical provisions would increase/decrease reported surplus by £68k.

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 £265,418 (2013: £363,724).

#### **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 Prudential Regulation Authority and is subject to its regulatory requirements.



## **PAMIA LIMITED**

### **DIRECTORS' REPORT**

The Directors have pleasure in presenting their report and financial statements for the year ended 31 May 2014.

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 7 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, R. Gardner, D. A. Gill, A. C. Hayes, P. Howard, S. Storer and C. H. Watkins retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment.

K. Széll resigned during the year. The Board wish to thank her for her 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

### DIRECTORS' REPORT (CONTINUED)

#### **Directors' Responsibilities**

The Directors are responsible for preparing the Directors' Report, the Strategic 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.

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

During the 2013 Policy Year the Directors held three formal meetings in July 2013, November 2013 and March 2014.

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

**Audit:** The auditors' report on the 2013 financial statements and the annual return to the Prudential Regulatory Authority (PRA) for the year ending 31 May 2013 were approved by the Board at the Annual General Meeting held on 21 February 2014.

**Claims:** Approval of year-end claims reserves. Review of claims and notifications received in the year

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

**Finances:** Financial forecasts and financial reports for the year. Review of internal audit and Business Plans.

**Underwriting:** 2013 renewal report, underwriting report, closure of 2004 and 2006 Policy Year, reinsurance arrangements for the 2014 Policy Year and rates and terms of cover for the 2014 Policy Year.

## PAMIA LIMITED

### DIRECTORS' REPORT (CONTINUED)

**Regulatory:** The following policies were reviewed and updated as part of the Company's Solvency II implementation plan: Outsourcing Policy, Fit & Proper Policy, Regulatory Compliance Policy, Conflicts of Interest Policy, Nominations Policy, Operational Risk Policy and Underwriting Policy.

**Other Matters:** Terms of reference for Audit & Risk Committee, Nomination Committee, adoption of Risk Management Framework, Board effectiveness questionnaire and Management Fee.

#### **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, and John Jappy assist the Board in recommending the approval of the Financial Statements, and year end claims reserves. The Committee ensures that the Company complies and meets all legal and regulatory requirements. It is also responsible for assessing the Business Risk of the Company. It is also responsible for the appointment of internal and external audit appointments and to provide a clear channel of communication between the Board and the auditors. The Committee met on four 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, Brian Lucas, Colm Murphy, Jeremy Pennant and Chris Rees (Consultant) assist the Board in reviewing in detail PAMIA's claim reserves and claims reserves policy. Kate Széll resigned from the committee on 26 March 2014. 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 Hodkinson, John Leeming, Denis McCarthy and Chris Rees (Consultant) assist 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 two occasions in the course of the year.

**The Nominations Committee** comprising Sarah Storer (Chairman), Alice Findlay, David Gill and Chris Rees (Consultant) 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), David Gill, John Leeming and Chris Reece (consultant) 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 four occasions in the course of the year.

**PAMIA LIMITED**

**DIRECTORS' REPORT (CONTINUED)**

**Auditors**

PKF 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". The signature is written in a cursive, flowing style.

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

**23.July 2014**

**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 11 March 2015 at 5.00pm for the following purposes:

- To receive the Directors' Report and Financial Statements for the year ended 31 May 2014 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: 23 July 2014

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**

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

We have audited the Financial Statements of PAMIA Limited for the year ended 31 May 2014 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 Auditor**

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 Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on Financial Statements**

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 May 2014 and of its loss 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 Strategic Report and Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

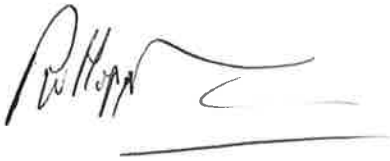
**PAMIA LIMITED**

**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

23 July 2014

**PAMIA LIMITED**  
**INCOME AND EXPENDITURE ACCOUNT**  
**For the year ended 31 May 2014**

	Note	2014 £	2013 £
<b>TECHNICAL ACCOUNT</b>			
<b>Earned premiums, net of reinsurance</b>			
Advance Call		3,633,370	3,768,475
Premium deferral	3	(614,979)	(637,964)
Gross premium written		<u>3,018,391</u>	<u>3,130,511</u>
Outward reinsurance premiums		<u>(1,138,146)</u>	<u>(1,108,317)</u>
		1,880,245	2,022,194
Change in gross provision for unearned premiums		242	242
Change in provision for unearned premiums, reinsurers' share		(64)	(64)
Change in net provision for unearned premiums		<u>178</u>	<u>178</u>
Earned premium net of reinsurance		1,880,423	2,022,372
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross amount		(2,740,821)	(3,341,349)
Reinsurers' share		1,075,408	2,476,218
Net claims paid	5	<u>(1,665,413)</u>	<u>(865,131)</u>
Change in provision for claims –net amount	6	(109,387)	(466,768)
Claims incurred, net of reinsurance		(1,774,800)	(1,331,899)
Net operating expenses	7	<u>(638,466)</u>	<u>(560,718)</u>
Balance on technical account	A	<u>(532,843)</u>	129,755
<b>NON-TECHNICAL ACCOUNT</b>			
Investment income	8	299,259	461,155
Unrealised gains on investments		(194,039)	1,028,857
Investment expenses and charges	9	(47,149)	(80,144)
	B	<u>58,071</u>	<u>1,409,868</u>
(Deficit)/surplus on ordinary activities before tax	A+B	(474,772)	1,539,623
Tax on ordinary activities	10	12,002	(240,811)
(Deficit)/surplus on ordinary activities after tax		<u>(462,770)</u>	<u>1,298,812</u>
Surplus at 1 June 2013		<u>11,921,297</u>	<u>10,622,485</u>
Surplus at 31 May 2014		<u>11,458,527</u>	<u>11,921,297</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 17 to 26 form an integral part of these financial statements.



**PAMIA LIMITED**

Company number 2418817

**BALANCE SHEET  
As at 31 May 2014**

	Note	2014	2013
<b>ASSETS</b>			
<b>Investments</b>			
Other financial investments	11	18,357,026	18,247,076
<b>Reinsurers' share of technical provision</b>			
Claims outstanding	6	324,067	-
<b>Other assets</b>			
Cash at bank		899,811	1,362,728
Debtors arising out of direct insurance operation		4,926	2,459
Debtors arising out of reinsurance operations		265,418	363,724
<b>Prepayments and accrued income</b>			
Accrued interest		66,292	78,287
Other prepayments and accrued income		654	654
		<u>19,918,194</u>	<u>20,054,928</u>
 <b>LIABILITIES AND RESERVES</b>			
<b>Reserves</b>			
Income and expenditure account		11,458,527	11,921,297
<b>Technical provision</b>			
Provision for unearned premiums			
Gross amount		285	527
Reinsurance amount		(75)	(139)
		210	388
Claims outstanding			
Gross amount	6	<u>7,103,985</u>	<u>6,670,531</u>
		<u>7,104,195</u>	<u>6,670,919</u>
 <b>Creditors</b>			
Creditors arising out of reinsurance operations		-	6,872
Other creditors including tax	12	<u>259,757</u>	<u>312,585</u>
		259,757	319,457
 <b>Accruals and deferred income</b>			
	13	<u>1,095,715</u>	<u>1,143,255</u>
		<u>19,918,194</u>	<u>20,054,928</u>

These financial statements were approved by the Board of Directors and were signed on its behalf on 23 July 2014 by:

Chairman:  
A. Findlay



Signed on behalf of the Managers:

R A A Harnal  
Thomas Miller Professional Indemnity



Director:  
D.A. Gill



The notes on pages 17 to 26 form an integral part of these financial statements.

**PAMIA LIMITED**

**CASH FLOW STATEMENT**  
For the year ended 31 May 2014

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

	Note	2014 £	2013 £
Surplus on operating activities before tax		(474,772)	1,539,623
Investment return		(105,220)	(1,490,012)
Investment expenses		47,149	80,144
Decrease/(increase) in debtors		95,839	(363,765)
(Decrease) in creditors		(48,422)	(291,571)
Increase in provision for claims		109,387	466,768
(Decrease) in net provision for unearned premiums		(178)	(178)
Net cash (outflow) from operating activities	14	(376,217)	(58,991)

**CASHFLOW STATEMENT**

Net cash (outflow) from operating activities	14	(376,217)	(58,991)
<b>Returns on investments and servicing finance</b>			
Investment return		310,077	472,316
Investment expenses	9	(47,149)	(80,144)
		262,928	392,172
<b>Taxation</b>			
Corporation tax paid		(46,816)	(127,866)
Net inflow into cash, deposits and investments in the year	15,16	(160,105)	205,315

**CASHFLOWS WERE INVESTED AS FOLLOWS:**

		£	£
(Decrease)/increase in cash	16	(462,917)	159,868
<b>Net portfolio investment</b>			
Purchase of fixed income securities	16	17,408	2,591,963
Purchase/(disposal) of units in unit trusts	16	285,404	(2,546,516)
	15,16	(160,105)	205,315

The notes on pages 17 to 26 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 2014.
- (ii) An additional amount to provide against adverse development on estimated claims and reported circumstances as at 31 May 2014; 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 2013/14 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:

	2014	2013
	£	£
Acquisition costs (note 7)	333,391	312,185
Claims handling costs (note 5)	315,025	295,553
Administrative expenses (note 7)	170,284	159,759
Investment management costs (note 9)	51,085	47,928
	<u>869,785</u>	<u>815,425</u>

#### 5. Claims incurred net of reinsurance

	2014	2013
	£	£
Claims	1,726,115	1,567,972
Third party recovery	(57,487)	-
Legal costs and expenses	757,168	1,477,824
Management fee (note 4)	315,025	295,553
Reinsurance recoveries	(1,075,408)	(2,476,218)
	<u>1,665,413</u>	<u>865,131</u>

**PAMIA LIMITED**

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

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

	As at 31 May 2014	As at 1 June 2013 £	Movement £
Gross claims outstanding	7,103,985	6,670,531	433,454
Reinsurers' share of claims outstanding	(324,067)	-	(324,067)
Movement in net provision for claims	<u>6,779,918</u>	<u>6,670,531</u>	<u>109,387</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 2013/2014 policy year.

**7. Net operating expenses**

	2014 £	2013 £
<b>Acquisition costs</b>		
Management fee (note 4)	333,391	312,185
Brokerage	41,887	46,277
	<u>375,278</u>	<u>358,462</u>
<b>Administration expenses</b>		
Directors' and Officers' liability insurance	3,911	3,901
PRA Insurance fee	7,545	5,933
Auditors' remuneration – audit of financial statements	21,000	22,438
Auditors' remuneration for other services	5,520	3,496
Meeting expenses	11,301	6,729
Professional fees	43,627	-
Management fee (note 4)	170,284	159,759
	<u>263,188</u>	<u>202,256</u>
	<u>638,466</u>	<u>560,718</u>

There were no Directors' emoluments paid or payable during the year (2013-£Nil).

**PAMIA LIMITED**

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

**8. (i) Investment income**

	2014	2013
	£	£
Interest on listed investments	229,590	228,038
(Loss)/gain on foreign exchange	(64,235)	123,960
Bank deposit interest	45,303	68,165
	210,658	420,163
Gains on realisation of investments	88,601	40,992
	299,259	461,155

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

	2014	2013
	£	£
Interest on listed investments	229,590	228,038
Gains on realisation of investments	88,601	40,992
Unrealised gains/(losses) on investments	(194,039)	1,028,857
Investment expenses	(47,149)	(80,144)
	77,003	1,217,743

**9. Investment expenses and charges**

	2014	2013
	£	£
Investment management costs (note 4)	51,085	47,928
Bank, custodial and other charges	(3,936)	32,216
	47,149	80,144

**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>	2014	2013
	£	£
UK corporation tax at 20% (2013-20%)	-	46,835
Adjustments in respect of prior years	(19)	(2,433)
Total current tax (note 10(ii))	(19)	44,402
Deferred tax movement	(11,983)	196,409
Total tax charge	(12,002)	240,811



**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 2014 (2013: 20%). The differences are explained below:

	2014	2013
	£	£
Surplus on ordinary activities before tax	<u>(474,772)</u>	<u>1,539,623</u>
Surplus on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2013: 20 %)	(94,954)	307,925
Effects of:		
Non-taxable mutual insurance operations	106,569	(22,951)
Non-taxable unrealised losses/(gains) and income on investments	(51,387)	(249,464)
Disallowable expenses	4,715	8,015
Capital gains net of losses and indexation allowance	26,795	6,310
Unrelieved tax losses arising in the period	8,262	-
Prior year adjustments	(19)	(2,433)
Current tax charge (note 10(i))	<u>(19)</u>	<u>44,402</u>

(iii). **Balance sheet**

	2014	2013
	£	£
<b>Taxation creditor</b>		
Taxation creditor brought forward	46,835	130,299
Prior year adjustment	(19)	(2,433)
Payment of corporation tax	<u>(46,816)</u>	<u>(127,866)</u>
	-	-
UK corporation tax	-	46,835
Taxation creditor (note 12)	<u>-</u>	<u>46,835</u>

	2014	2013
	£	£
<b>Deferred Tax</b>		
Deferred tax liability brought forward	207,411	11,002
Effect of change to tax rate of opening balances	-	(1,834)
Charge/credit for the year	(11,983)	198,243
Deferred tax movement	(11,983)	196,409
Deferred tax liability carried forward	<u>195,428</u>	<u>207,411</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 2014 £	Market Value 2013 £	Cost 2014 £	Cost 2013 £
Other financial investments comprise:				
Equities	6,100,715	5,680,995	4,650,908	4,365,504
Alternative (Fund of Hedge Funds)	1,861,009	1,945,405	1,710,576	1,710,576
Fixed interest securities	10,394,095	10,620,646	10,607,639	10,590,231
Forward FX contracts	1,207	30	1,207	30
	<u>18,357,026</u>	<u>18,247,076</u>	<u>16,970,330</u>	<u>16,666,341</u>

	Market Value 2014 £	Market Value 2013 £	Cost 2014 £	Cost 2013 £
Equities	4,279,539	4,237,027	2,829,732	2,921,536
UCITS - cash	1,821,176	1,443,968	1,821,176	1,443,968
	<u>6,100,715</u>	<u>5,680,995</u>	<u>4,650,908</u>	<u>4,365,504</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**

	2014 £	2013 £
Insurance premium tax	64,329	58,339
Corporation tax (note 10(iii))	-	46,835
Deferred tax provision	195,428	207,411
	<u>259,757</u>	<u>312,585</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**

	2014	2013
	£	£
Management fee	201,104	187,948
Accrued expenses	26,281	52,094
Premiums received in advance	868,330	903,213
	<u>1,095,715</u>	<u>1,143,255</u>

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

	2014	2013
	£	£
<b>Operating activities</b>		
Premiums received from members	2,981,041	2,853,909
Reinsurance paid	(1,145,018)	(1,108,317)
Claims paid	(2,740,821)	(3,341,349)
Reinsurance recoveries	1,173,714	2,112,494
Other operating cash payments	(645,133)	(575,728)
Net cash flow from operating activities	<u>(376,217)</u>	<u>(58,991)</u>

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

	2014	2013
	£	£
Net cash flow for period (note 16)	(462,917)	159,868
Portfolio investments	302,812	45,447
Movement arising from cash flows (note 16)	(160,105)	205,315
Movement in investment valuations (note 16)	(192,862)	1,025,725
Movement for the year	(352,967)	1,231,044
Portfolio investments at 1 June	19,609,804	18,378,760
Portfolio investments at 31 May	<u>19,256,837</u>	<u>19,609,804</u>

**PAMIA LIMITED**

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

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

	At 1 June 2013	Cash flow	Changes to market value	At 31 May 2014
	£	£	£	£
Cash at bank	1,362,728	(462,917)	-	899,811
Fixed interest securities	10,620,646	61,570	(288,121)	10,394,095
Absolute Return Funds	1,945,405	(44,162)	(40,234)	1,861,009
Unit trusts	5,680,995	285,404	134,316	6,100,715
Forward exchange contracts	30	-	1,177	1,207
	<u>19,609,804</u>	<u>(160,105)</u>	<u>(192,862)</u>	<u>19,256,837</u>

The comparative figures for last year were:

	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 Fund	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>

**17. 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  
EC3M 4ST

Registered in England and Wales No. 2418817

Telephone: 020 7283 4646  
Fax: 020 7283 5988