

PAMIA LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2017

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 Principal York Hotel, Station Road, York, YO24, 1AA on 14 March 2018 at 6.00pm for the following purposes:

- To receive the Directors' Report and Financial Statements for the year ended 31 May 2017 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: 4 October 2017

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 Company. 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 OF PAMIA LIMITED

| | |
|---|--|
| * A.R. Findlay (Chairman) | Reddie & Grose LLP |
| * D.A. Gill (Deputy Chairman) | W. P. Thompson limited |
| J.G. Leeming (Deputy Chairman) | J A Kemp |
| R.P. Cunningham (Chief Executive Officer) | Thomas Miller Professional Indemnity Limited |
| R.A.A.Harnal (Chief Financial Officer) | Thomas Miller Professional Indemnity Limited |
| A.Argyle (Appointed 30 November 2016) | Potter Clarkson LLP |
| T. Copsey | Kilburn & Strode LLP |
| R. Gardner | Dehns |
| I. Gill | A.A.Thornton & Co |
| A. C. Hayes | Boult Wade Tennant |
| L. Hoarton (Appointed 30 November 2016) | Forresters IP LLP |
| K. Hodgkinson (retired 30 November 2016) | Marks & Clerk LLP |
| P. Howard (retired 30 June 2016) | Carpmaels & Ransford LLP |
| * J. Jappy | Gill Jennings & Every LLP |
| B.R. Lucas | Lucas & Co. |
| M. Lunt | HGF Limited |
| D. A. McCarthy | MacLachlan & Donaldson (Ireland) Limited |
| C. Murphy (retired 30 June 2016) | Venner Shipley LLP |
| J.B. Pennant | D. Young & Co. LLP |
| S. Storer | |
| *C. H. Watkins | Secerna LLP |
| G.Williams (Appointed 30 November 2016) | Marks & Clerks LLP |
| J.Wills (Appointed 30 November 2016) | Mewburn Ellis LLP |
| *K.G.Young | Murgitroyd Group plc |

* Members of the Audit and Risk Committee

PAMIA LIMITED

CHAIRMANS REPORT

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

In the year to 31 May 2017 PAMIA recorded a surplus of £1.870m, which was higher than the surplus of £0.977m reported in the previous year.

The surplus increased PAMIA's free reserves (the capital PAMIA holds in excess of its liabilities) to £15.866m. Free reserves for regulatory capital purposes, which discount the value of PAMIA's assets to take account of factors such as market risk, were £15.226m, £9.360m in excess of PAMIA's regulatory capital requirement of £5.866m. PAMIA's Business Plan requires it to aim to hold free reserves for regulatory capital purposes between of £5m and £7.75m in excess of its regulatory capital requirement. At the year end the excess was £1.610m above the top end of the target range. PAMIA had taken action to seek to bring the free reserves back into the target range by reducing premium rates and increasing the deferral. However, mainly because of exceptionally high investment returns and lower than expected claims liabilities, free reserves remained above the top end of the target range. For the 2017 renewal rates were reduced further and the deferral was increased again, in the expectation that this would help to generate a deficit which would in due course bring the free reserves back into the target range.

In the year to 31 May 2017 PAMIA recorded a gain of 11.68% (2016: loss of 0.72%) on its investments, which in money terms amounted to £2.229m (2016: loss of £0.159m). This was higher than budgeted, reflecting (1) the fall in the value of Sterling against the US Dollar and Euro, which increased the sterling value of US Dollar and Euro denominated investments held in PAMIA's Capital Fund and Growth Fund and (2) the strong performance of the equity market.

The amount PAMIA paid out in claims reduced from £1m to £155k. The reserves set aside for claims increased slightly, from £4.60m to £4.62m. This provision reflects PAMIA's assessment of the likely future cost of claims on notifications made to PAMIA, and has been reviewed by the Managers' actuaries and PAMIA's auditors.

PAMIA was able to negotiate improved reinsurance cover, reducing the retained risk for any one claim from £0.5m to £0.4m and securing stop loss protection limiting the aggregate net cost of all claims to PAMIA on the 2016 Policy Year to £2.5m. PAMIA agreed to increase the premium paid for reinsurance from £0.985m to £1.1m to secure the benefit of this improved reinsurance cover.

In the year to 31 May 2017 premium income fell by 2.3%. This was largely the result of the PAMIA's decision to reduce rates by 5% and to increase the premium deferral given to members by 2.5%; these reductions were offset by an average increase of 6% in members' fee income.

PAMIA is now subject to a new regulatory regime, Solvency II. The introduction of the new regime has resulted in additional regulatory reports, particularly the Solvency Financial Condition Report (SFCR) which will now be a public document and be available to view on PAMIA's website. Bearing in mind the new regulatory reporting time lines, Board meeting dates have been moved to facilitate adherence to these new deadlines, and PAMIA's year-end will be moved from 31 May to 30 June. As a result, the accounting period for the next financial year will be 13 months. Policies were therefore renewed for 13 months on 1 June, with members being charged the same premium they would have been charged if they had purchased 12 months' cover.

PAMIA LIMITED

CHAIRMANS REPORT (continued)

In my last report I mentioned that, following an approach from the Intellectual Property Institute of Canada, PAMIA was considering extending membership eligibility to patent and trade mark attorneys in Canada. The Canada Committee, which was established by the Board to consider this approach, has met on two occasions since my last report. Work is ongoing into considering the feasibility of expanding into Canada and the Board is open to considering the possibility of offering insurance to patent attorneys and trade mark attorneys in other compatible jurisdictions. The final decision on international expansion, if considered appropriate by the Board, would rest with the Members.

At the forthcoming AGM, Sarah Storer, who served as Chairman of the Investment Committee and Nomination Committee for a number of years, will be standing down as a Director. I wish to thank her personally for all her efforts and hard work which has led to PAMIA being in the strong position it is in today. Being a Director of PAMIA is a demanding, voluntary role and I wish to thank all my fellow Directors for their hard work and dedication to ensuring that PAMIA continues to provide strong protection for our profession.



Alice Findlay
Chairman
4 October 2017

PAMIA LIMITED

STRATEGIC REPORT

The Directors have pleasure in presenting the Strategic report for the year ended 31 May 2017.

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 £1.870m (2016-£0.977m) and this was transferred to reserves. The reserves now amount to £20.488m which is made up of free reserves of £15.866m and gross claim reserves of £4.622m. The comparative figure for 2016 was £18.596m which was made up of free reserves of £13.995m and gross claim reserves of £4.601m.

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 2017, which will be submitted to the membership for approval at the Annual General Meeting which will be held on 14 March 2018.

The Income and Expenditure Account (on page 13) and the Statement of Financial Position (on page 14), 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.

| | 2017 £'m | 2016 £'m |
|---|-------------|-------------|
| Premium Written | 2.338 | 2.391 |
| Reinsurance Premium | (1.100) | (0.985) |
| Net claims | (0.530) | 0.473 |
| Operating expenses | (0.664) | (0.645) |
| Surplus on technical account | 0.044 | 1.234 |
| Investment Income | 2.166 | (0.219) |
| Surplus on ordinary activities before tax | 2.210 | 1.015 |
| Tax | (0.340) | (0.038) |
| Surplus for the financial year | 1.870 | 0.977 |
| Free reserves at year end | 15.866 | 13.995 |

Investments

PAMIA requires its investment portfolio to be invested in a manner which assists it in maintaining its financial strength by preserving capital to meet its liabilities and delivering positive investment returns over the medium term to subsidise premiums.

The investment return for the year under review was 11.68% (2016: negative return of 0.72%).

PAMIA LIMITED

STRATEGIC REPORT (CONTINUED)

Investments (continued)

PAMIA's assets are divided between a Short Term Fund, a Capital Fund and a Growth Fund. The breakdown is shown below:

| | 31 May 2017 | 31 May 2016 |
|---|---------------|---------------|
| | £'m | £'m |
| Short Term Fund | 2.005 | 0.456 |
| Capital fund | 8.493 | 10.310 |
| Growth Fund | 10.746 | 8.255 |
| Market value (including accrued interest) | <u>21.244</u> | <u>19.021</u> |

The purpose of the Short Term Fund is to provide liquidity to meet PAMIA's projected operating cash flow requirements over the period of 12 months from 1 August each year.

The purpose of the Capital Fund is to cover PAMIA's claims liabilities and regulatory capital requirements. In this context, "claims liabilities" does not include the run-off claims handling reserve.

The purpose of the Growth Fund is to hold free reserves for investment in riskier assets to generate positive returns over the medium term.

The amount to be held in each of the Short Term Fund and the Capital Fund is decided annually effective from 1 October in accordance with the requirements of the Investment Policy and Investment Mandate. The balance of PAMIA's assets shall be invested in the Growth Fund. The currency allocation for the Capital Fund is reviewed annually.

The Company has 32% of its holdings in UK, US and European bonds, 33% is in equities, 14% in alternative investments and 21% in cash equivalents.

PAMIA LIMITED

DIRECTORS' REPORT

The Directors have pleasure in presenting their report and financial statements for the year ended 31 May 2017.

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 9 to the Financial Statements.

Directors

The Directors of the Company are shown on page 1.

In accordance with Clause 54 of the Articles of Association, R. Gardiner, I. Gill, A.C.Hayes, C.H.Watkins, and K.G.Young retire by rotation at the forthcoming Annual General Meeting to be held on Wednesday 14 March 2018 and, being eligible, offer themselves for re-appointment.

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

- (a) so far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and
- (b) they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Some of the Directors are nominated by members. From time to time the Company will enter into settlements of claims 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 2016 Policy Year the Directors held three formal meetings on 27 July 2016, 30 November 2016 and 28 March 2017.

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 financial statements and the annual return to the Prudential Regulatory Authority (PRA) for the year ending 31 May 2016 were approved by the Board at the July 2017 meeting.

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.

Investments: Approving limits for the Short Term Fund, Capital Fund and Growth Fund, approving investment benchmarks and classes of assets that can be held. Approval of new Investment Management Agreement

PAMIA LIMITED

DIRECTORS' REPORT (CONTINUED)

Underwriting: 2016 renewal report, underwriting report, closure of 2008 Policy Year, reinsurance arrangements for the 2016 Policy Year and rates and terms of cover for the 2016 Policy Year.

Regulatory: The following policies have been adopted and are reviewed.

1. Conflicts of interest Policy
2. Investment Policy
3. investment Mandate
4. Nominations Policy
5. Fit & Proper Policy
6. Regulatory Compliance Policy
7. ORSA Policy
8. Outsourcing Policy
9. Reserving Policy
10. Underwriting Policy
11. Data Policy
12. Regulatory Reporting Policy

Approved PAMIA Own Risk and Solvency Assessment (ORSA).

Other Matters: Approval of Business Risk Assessment, Risk Appetite statements, approval of new Management Agreement 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 and the Chairman of each Committee makes a report at the Board meeting immediately following a Committee meeting.

The Audit & Risk Committee comprising David Gill (Chairman), Alice Findlay, John Jappy, Charlotte Watkins, Jonathan Wills and Keith Young, assists 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 responsible for assessing the Business Risk of the Company. It is also responsible for 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 Canada Committee comprising Alice Findlay (Chairman), David Gill, John Leeming and Jonathan Wills assist the Board in considering the feasibility of Insuring Canadian patent and trademark attorneys. The Committee met on two occasions in the course of the year.

The Claims Committee comprising Brian Lucas (Chairman) Tim Copsey, Ian Gill, , John Jappy, John Leeming, Jeremy Pennant, and Gareth Williams assists the Board in reviewing in detail PAMIA's notifications and claims on an anonymised basis and making recommendations to the Managers as to steps that might be taken to resolve them satisfactorily. The Committee assists the Board in identifying specific or general risks emerging from claims against members. The Committee met on three occasions in the course of the year.

PAMIA LIMITED

DIRECTORS' REPORT (CONTINUED)

Board Committees (continued)

The Investment Committee comprising Rebecca Gardner (Chairman), David Gill, Lloyd Hoarton Mark Lunt and Sarah Storer, assists the Board in reviewing in detail the performance of PAMIA's investments and making recommendations to the Board in respect of the Investment Policy, Investment Mandate and other investment related issues. The Committee met on three occasions in the course of the year.

The Management Committee comprising Alice Findlay (Chairman), David Gill and John Leeming are responsible for monitoring the performance and effectiveness of PAMIA, including general oversight of the Managers and the effectiveness of the Board. The Committee is also the focal point for PAMIA's external relationships, including Members and organisations such as Intellectual Property Regulation Board (IPREG), Chartered Institute of Patent Attorneys (CIPA) and Chartered Institute of Trade Mark Attorneys (ITMA,). The Committee met on three occasions in the course of the year.

The Management Fee Committee comprising Jeremy Pennant (Chairman), John Leeming and Keith Young assist the Board to determine the Management Fee to be paid to the Managers. The Committee did not meet formally during the year.

The Nominations Committee comprising Brian Lucas (Chairman), Alice Findlay, David Gill, John Leeming, and Charlotte Watkins advises 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 two occasions in the course of the year.

The Rating & Reinsurance Committee comprising John Leeming (Chairman) Andrew Argyle, Alice Findlay, Rebecca Gardner, and Denis McCarthy, assists the Board in reviewing the rating structure and reinsurance programme and make annual recommendations to the Board in respect of the same. The Committee met on two occasions in the course of the year.

The Rules and Cover Committee comprising Mark Lunt (Chairman) Alice Findlay, Adrian Hayes and John Leeming, helps determine the entry requirements for PAMIA membership, reviews PAMIA's Memorandum and Articles of Association, and the terms of cover offered to Members, determines the terms of engagement of the Managers, Investment Managers and Insurance Consultants, ensures consistency between the reinsurance cover and terms of cover provided to Members and ensure that the cover provided to Members is consistent with the minimum terms set by IPREG. . The Committee met on one occasion in the course of the year.

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. R. Findlay
Chairman



4 October 2017

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 2017 which comprise the Income and Expenditure Account, the Statement of Financial Position, 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 2017 and of its surplus 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.

PAMIA LIMITED

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

Opinion on other matter prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

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

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



Ian Cowan (Senior Statutory Auditor)
For and on behalf of PKF Littlejohn LLP
Statutory auditor

1 Westferry Circus
Canary Wharf
London E14 4HD

4 October 2017

PAMIA LIMITED
INCOME AND EXPENDITURE ACCOUNT
For the year ended 31 May 2017

| | Note | 2017 £ | 2016 £ |
|--|------|-------------|-------------|
| TECHNICAL ACCOUNT | | | |
| Earned premiums, net of reinsurance | | | |
| Advance Call | | 2,989,426 | 2,963,177 |
| Premium deferral | 5 | (651,558) | (570,045) |
| Gross premium written | | 2,337,868 | 2,393,132 |
| Outward reinsurance premiums | 6 | (1,100,000) | (985,000) |
| | | 1,237,868 | 1,408,132 |
| Change in gross provision for unearned premiums | | 646 | (2,707) |
| Change in provision for unearned premiums, reinsurers' share | | (158) | 662 |
| Change in net provision for unearned premiums | | 488 | (2,045) |
| Earned premium net of reinsurance | | 1,238,356 | 1,406,087 |
| Claims incurred, net of reinsurance | | | |
| Claims paid | | | |
| Gross amount | 7 | (508,802) | (1,301,883) |
| Reinsurers' share | | - | - |
| Net claims paid | | (508,802) | (1,301,883) |
| Change in provision for claims –net amount | 7 | (21,120) | 1,774,764 |
| Claims incurred, net of reinsurance | | (529,922) | 472,881 |
| Net operating expenses | 9 | (663,782) | (645,325) |
| Balance on technical account | A | 44,652 | 1,233,643 |
| NON-TECHNICAL ACCOUNT | | | |
| Investment income | 10 | 1,165,564 | 604,719 |
| Unrealised gains/(losses) on investments | 10 | 1,062,887 | (763,325) |
| Investment expenses and charges | 10 | (62,786) | (59,875) |
| | B | 2,165,665 | (218,481) |
| Surplus on ordinary activities before tax | A+B | 2,210,317 | 1,015,162 |
| Tax on ordinary activities | 11 | (339,873) | (37,835) |
| Surplus on ordinary activities after tax | | 1,870,444 | 977,327 |
| Surplus at 1 June | | 13,995,373 | 13,018,046 |
| Surplus at 31 May | | 15,865,817 | 13,995,373 |

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 16 to 36 form an integral part of these financial statements.

PAMIA LIMITED

Company number 2418817

**STATEMENT OF FINANCIAL POSITION
As at 31 May 2017**

| | Note | 2017 £ | 2016 £ |
|---|------|-------------------|-------------------|
| ASSETS | | | |
| Investments | | | |
| Other financial investments | 12 | 21,214,566 | 18,962,432 |
| Reinsurers' share of technical provision | | | |
| Claims outstanding | | - | - |
| Debtors | | | |
| Debtors arising out of direct insurance operation | 13 | 11,086 | 6,232 |
| Other assets | | | |
| Cash at bank | 14 | 1,944,882 | 1,391,670 |
| Prepayments and accrued income | | | |
| Accrued interest | | 29,771 | 58,593 |
| Other prepayments and accrued income | | 630 | 707 |
| | | <u>23,200,935</u> | <u>20,419,634</u> |
| LIABILITIES AND RESERVES | | | |
| Reserves | | | |
| Income and expenditure account | | 15,865,817 | 13,995,373 |
| Technical provision | | | |
| Provision for unearned premiums | | | |
| Gross amount | | 2,104 | 2,750 |
| Reinsurance amount | | (515) | (673) |
| | | 1,589 | 2,077 |
| Claims outstanding | | | |
| Gross amount | 7 | 4,621,923 | 4,600,803 |
| | | <u>4,621,923</u> | <u>4,600,803</u> |
| Creditors | | | |
| Creditors arising out of reinsurance operations | 15 | 1,775 | 905 |
| Other creditors including tax | 16 | 521,593 | 258,928 |
| | | 523,368 | 259,833 |
| Accruals and deferred income | 17 | 2,188,238 | 1,561,548 |
| | | <u>23,200,935</u> | <u>20,419,634</u> |

These financial statements were approved by the Board of Directors and were signed on its behalf on 4 October 2017 by:

Chairman:

A.R. Findlay



Director:

D.A. Gill



Signed on behalf of the Managers:

R AA Harnal

Thomas Miller Professional Indemnity



The notes on pages 16 to 36 form an integral part of these financial statements.

PAMIA LIMITED

CASH FLOW STATEMENT
For the year ended 31 May 2017

Operating activities

| | Note | 2017 £ | 2016 £ |
|--|------|----------------|------------------|
| Premiums received | | 2,908,776 | 2,551,065 |
| Reinsurance premium paid | | (1,099,130) | (986,040) |
| Claims paid | | (508,802) | (1,301,883) |
| Reinsurance recoveries received | | - | - |
| Operating expenses paid | | (607,451) | (597,565) |
| Taxation paid | | (82,536) | (208,816) |
| Net cash provided/(used) by operating activities | | <u>610,857</u> | <u>(543,239)</u> |

Cash flows from investment activities

| | | |
|--|-----------------|------------------|
| Purchase of investments | (14,048,204) | (11,631,230) |
| Sale of investments | 13,653,938 | 12,990,550 |
| Interest received | 131,294 | 170,890 |
| Dividends received | 205,327 | 164,205 |
| Net cash flow from investment activities | <u>(57,645)</u> | <u>1,694,415</u> |

Net increase in cash and cash equivalents

| | | |
|--|---------------------|------------------|
| | <u>553,212</u> | <u>1,151,176</u> |
| Cash and cash equivalents at the beginning of the year | <u>1,391,670</u> | <u>240,494</u> |
| Cash and cash equivalents at the end of the year | 14 <u>1,944,882</u> | <u>1,391,670</u> |

The notes on pages 16 to 36 form an integral part of these financial statements.

PAMIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Constitution and ownership

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 The Company and its Rules, the Company 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

2.1 Statement of compliance and basis of preparation

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

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

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

2.2 Policy Year Accounting

Premiums claims paid, reinsurance recoveries, reinsurance and the management fees are allocated to the Policy Years to which they relate.

Investment income and interest, profit/losses on sale of investments, exchange gains/losses and general expenses are allocated to the current Policy Year.

2.3 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)

2.4 Claims

Claims are accounted for on a notifications basis.

The claims provision in the Balance Sheet represents:

- (i) Estimated claims and settlement costs as at 31 May 2017, on notified claims outstanding in all policy years;
- (ii) An additional amount to provide against adverse development on estimated claims and reported circumstances as at 31 May 2017; 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 year;
- (ii) The claims handling costs of the Managers; and
- (iii) The movement in the claims provision.

And are stated net of applicable reinsurance recoveries.

2.5 Reinsurance recoveries

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

2.6 Reinsurance premiums

Reinsurance premiums payable are charged to the Technical Account on an accruals basis and to the Policy Year to which they apply.

2.7 Financial instruments

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

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

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

PAMIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

2.8 Other financial investments

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

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

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

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

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

2.9 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.

2.10 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and balances with banks, and investments in money market instruments which are readily convertible, being those with original maturities of three months or less. Cash and cash equivalents in foreign currency are translated based on the relevant exchange rates at the reporting date.

PAMIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

2.11 Foreign currencies

Items included in the Financial Statements are measured in UK sterling which is the Company's functional and presentational currency. Transactions in foreign currencies have been translated into UK sterling at the rate applicable for the month in which the transaction took place. At each reporting date monetary assets and liabilities that are denominated in foreign currencies are translated into UK sterling at the rates of exchange ruling at the end of the reporting period.

All exchange gains and losses, whether realised or unrealised, are included in foreign exchange gains and losses in the income and expenditure account.

2.12 Taxation

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

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date. The rates used in these calculations are those which are expected to apply when the timing differences crystallise, based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the Financial Statements.

Deferred tax assets are recognised to the extent that it is regarded as probable that they will be recovered.

3. Critical accounting estimates and judgements

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

3.1 The ultimate liability arising from claims made under insurance contracts

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

PAMIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Critical accounting estimates and judgements (continued)

3.2 Fair value estimations

The Company early adopted as of 1 March 2016 the amendments of FRS 102 made in March 2016. In accordance with section 11 of FRS 102, as a financial institution, the Company applies the requirements of paragraph 11.27 of FRS 102. This requires, for financial instruments held at fair value in the balance sheet, disclosure of fair value measurements by level of the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, price) or indirectly (that is, derived from prices).

Level 3 – Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs).

The table below presents the Company's other financial investments (including accrued interest) measured at fair value by level of the fair value hierarchy:

| As at 31 May 2017 | Level 1 £'m | Level 2 £'m | Level 3 £'m | Total £'m |
|-----------------------------|----------------|----------------|----------------|---------------|
| Assets | | | | |
| Fixed interest - Government | - | 6.181 | - | 6.181 |
| Fixed interest - Corporate | - | 0.659 | - | 0.659 |
| Equities & Alternatives | 7.106 | 2.898 | - | 10.004 |
| UCITS | 0.185 | 4.215 | - | 4.400 |
| | <u>7.291</u> | <u>13.953</u> | <u>-</u> | <u>21.244</u> |

The table below presents the Company's other financial investments measured at fair value by level of the fair value hierarchy:

| As at 31 May 2016 | Level 1 £'m | Level 2 £'m | Level 3 £'m | Total £'m |
|-----------------------------|----------------|----------------|----------------|---------------|
| Assets | | | | |
| Fixed interest - Government | - | 7.413 | - | 7.413 |
| Fixed interest - Corporate | - | 2.775 | - | 2.775 |
| Equities & Alternatives | 5.018 | 2.833 | - | 7.851 |
| UCITS | 0.026 | 0.956 | - | 0.982 |
| | <u>5.044</u> | <u>13.977</u> | <u>-</u> | <u>19.021</u> |

PAMIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Management of Risk

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

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

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

4.1 Insurance Risk

The Company's exposure to insurance risk is initiated by the underwriting process and incorporates the possibility that an insured event occurs, leading to a claim on the Company from a member. The risk is managed by the underwriting process, acquisition of reinsurance cover, and the management of claims costs.

Underwriting process

The Company has an Underwriting Policy which is approved by the Board annually which manages the underwriting risk. The policy sets out the processes by which the risk is managed.

The Company operates a fee tariff rating system with flexible deductible: otherwise the underwriting parameters are fixed with no discretion.

Reinsurance

The Company's reinsurance programme is designed to manage risk to an acceptable level and to optimise the Company's capital position. The programme comprises excess of loss reinsurance cover to protect against individual large losses, and additional fees break out cover.

During the year ended 31 May 2017, 19.5% of the reinsurance contract was placed at Lloyd's and the remaining 80.5% with insurance companies in the UK.

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

PAMIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Management of Risk (continued)

4.1 Insurance Risk (continued)

Reserving process

The Company establishes provisions for unpaid claims, both reported and unreported, and related expenses to cover its expected ultimate liability. These provisions and assumptions as set out in Note 2 of the Financial Statements as directed and reviewed by the Audit and Risk Committee. In order to minimise the risk of understating these provisions the assumptions made and actuarial techniques employed are reviewed in detail by senior members of PAMIA Management Company.

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

The results of sensitivity testing are set out below, showing the impact on the surplus before tax and equity, gross and net of reinsurance. The impact of a change in a single factor is shown, with other assumptions unchanged. The sensitivity analysis assumes that a change in loss ratio is driven by a change in claims incurred.

| | 2017 | 2016 |
|---|---------|---------|
| | £'m | £'m |
| Increase in loss ratio by 5 percentage points | | |
| Gross | (0.117) | (0.120) |
| Net | (0.062) | (0.070) |

A 5 % decrease in loss ratios would have an equal and opposite effect.

4.2 Market Risk

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

The Investment Policy and Investment Mandate are formally reviewed every three years (but more frequently if required). The policy and mandate reflects the risk appetite of the Company and are designed to hold the risk to a level deemed acceptable while maximising returns.

The investment strategy is reviewed at every Investment Committee meeting. The Investment Mandate sets the parameters within which the Investment Manager must operate in investing the portfolio in order to meet the investment objectives set by the Board.

PAMIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.2 Market Risk (continued)

Foreign currency risk management

The Company is exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than UK Sterling. The most significant currencies to which the Company is exposed are the US Dollar and the Euro

The majority of the Company's administration costs are in sterling and it uses forward currency contracts to protect its currency exposures. The Company does not enter into trade financial instruments, including derivative financial instruments, for speculative purposes.

The profile of the Company's assets categorised by settlement currency, at their translated carrying amount, is set out below.

| As at 31 May 2017 | Sterling | US Dollar | Euro | Total |
|---------------------------------------|---------------|--------------|--------------|---------------|
| | £'m | £'m | £'m | £'m |
| Fixed interest -Governments | 3.947 | 1.330 | 0.904 | 6.181 |
| Fixed interest-Corporate | 0.503 | 0.155 | - | 0.658 |
| Equity & Alternatives | 7.666 | 2.339 | - | 10.005 |
| UCITS | 3.332 | 1.067 | 0.001 | 4.400 |
| Cash at bank | 1.945 | - | - | 1.945 |
| Debtors arising from direct insurance | 0.011 | - | - | 0.011 |
| Other | 0.001 | - | - | 0.001 |
| | <u>17.405</u> | <u>4.891</u> | <u>0.905</u> | <u>23.201</u> |

| As at 31 May 2016 | Sterling | US Dollar | Euro | Total |
|---------------------------------------|---------------|--------------|--------------|---------------|
| | £'m | £'m | £'m | £'m |
| Fixed interest -Governments | 4.305 | 0.999 | 2.109 | 7.413 |
| Fixed interest-Corporate | 2.435 | 0.340 | - | 2.775 |
| Equity & Alternatives | 5.363 | - | 2.488 | 7.851 |
| UCITS | 0.962 | 0.014 | 0.006 | 0.982 |
| Cash at bank | 1.392 | - | - | 1.392 |
| Debtors arising from direct insurance | 0.006 | - | - | 0.006 |
| Other | 0.001 | - | - | 0.001 |
| | <u>14.464</u> | <u>1.353</u> | <u>4.603</u> | <u>20.420</u> |

Foreign currency sensitivity analysis

As at 31 May 2017 if sterling weakened/strengthened by 5% against the Euro and US Dollar, with all other factors remaining unchanged free reserves for the year would have increased /decreased by £0.299m. A 5% weakening of these currencies against sterling would have an equal and opposite effect.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Management of Risk (continued)

4.2 Market Risk (continued)

Interest rate risk management

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

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

Interest rate sensitivity analysis

An increase of 100 basis points in interest rates at the year-end date, with all other factors unchanged will result in a £0.068m fall in the value of the Company's investments.

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

Equity price risk

The Company is exposed to price risk through its holding of equities and alternatives as financial investments at fair value through profit and loss. At the year end the holding in equity instruments and alternatives amounted to 47% of the investment portfolio (2016:41%).

A 1% increase in equity values would be estimated to have increased the surplus before tax at the year-end by £0.100m. A 1% fall in equity values would have an equal and opposite effect. This analysis assumes that all other variables remain constant.

4.3 Credit Risk

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

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

Amounts recoverable from reinsurance contracts;
Amounts due from members; and
Counterparty risk with respect to cash and investments.

PAMIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Management of Risk (continued)

4.3 Credit Risk (continued)

Amounts recoverable on reinsurance contracts

The Company is exposed to credit risk from a counterparty failing to comply with their obligations under a contract of reinsurance. In order to manage this risk the Board considers the financial position of significant counterparties. The Company has set selection criteria whereby each reinsurer is required to hold a credit rating greater than or equal to "A" at the time the contract is made and no single reinsurer carries more than a 25% line. The terms of the reinsurance contract give the Company the right to remove any reinsurer whose rating falls below A- at any time during the year. The Board reviews reinsurance annually before renewal.

Amounts due from members

Amounts due from members represents premium owing to the Company in respect of insurance business written. The Company manages the risk of member default through a screening process to ensure the quality of new entrants to the Company and the ability to cancel cover and outstanding claims to members that fail to settle amounts payable. In addition, the Directors reserve the right to offset outstanding claims payments with outstanding debt unless there is a contractual arrangement that prevents such offsetting. No Amounts have been written off as bad debt in recent years.

Counterparty risk with respect to cash and investments

The Investment Mandate sets out the investment limits to which the Investment Manager has to adhere. The Investment manager may only invest the Capital in UK, US and German government bonds, AAA rated government bonds, and AAA rated corporate bonds with a total duration of no more than three years, UCITS and bank deposits. The amount invested in corporate bonds is not permitted to exceed 50% of the size of the fund. No rating is required for equity and alternative holdings.

PAMIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Management of Risk (continued)

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

| As at 31 May 2017 | AAA/AA/A £'m | BBB or less or not rated £'m | Total £'m |
|---------------------------------------|-----------------|------------------------------------|--------------|
| Fixed interest-Government | 6.181 | - | 6.181 |
| Fixed interest-Corporate | 0.658 | - | 0.658 |
| Equities & Alternatives | - | 10.005 | 10.005 |
| UCITS | - | 4.400 | 4.400 |
| Cash at bank | - | 1.945 | 1.945 |
| Debtors arising from direct insurance | - | 0.011 | 0.011 |
| Other | - | 0.001 | 0.001 |
| | 6.839 | 16.362 | 23.201 |

| As at 31 May 2016 | AAA/AA/A £'m | BBB or less or not rated £'m | Total £'m |
|---------------------------------------|-----------------|------------------------------------|--------------|
| Fixed interest-Government | 7.413 | - | 7.413 |
| Fixed interest-Corporate | 2.775 | - | 2.775 |
| Equities & Alternatives | - | 7.851 | 7.851 |
| UCITS | - | 0.982 | 0.982 |
| Cash at bank | - | 1.392 | 1.392 |
| Debtors arising from direct insurance | - | 0.006 | 0.006 |
| Other | - | 0.001 | 0.001 |
| | 10.188 | 10.232 | 20.420 |

There were no past due or impaired assets at 31 May 2017 (2016: Nil).

4.4 Liquidity Risk

Liquidity and cash flow risk is the risk that cash may not be available to pay obligations as they fall due at a reasonable cost. The Company maintains holdings in short term deposits to ensure there are sufficient funds available to cover anticipated liabilities and unexpected levels of demand. As at 31 May 2017, the Company's short term deposits (including cash and UCITS) amounted to £6.345m (2016: £2.376m). The Company has sufficient liquid assets to meet its liabilities as they fall due.

PAMIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Management of Risk (continued)

4.4. Liquidity Risk (continued)

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

| As at 31 May 2017 | Short term assets £'m | Within 1year £'m | 2-5year £'m | Total £'m |
|---------------------------------------|--------------------------------|------------------------|----------------|--------------|
| Fixed interest-Government | - | 1.302 | 4.879 | 6.181 |
| Fixed interest-Corporate | - | 0.503 | 0.155 | 0.658 |
| Equities & Alternatives | 10.005 | - | - | 10.005 |
| UCITS | 4.400 | - | - | 4.400 |
| Cash at bank | 1.945 | - | - | 1.945 |
| Debtors arising from direct insurance | - | 0.011 | - | 0.011 |
| Other | - | 0.001 | - | 0.001 |
| | 16.350 | 1.817 | 5.034 | 23.201 |

| As at 31 May 2016 | Short term assets £'m | Within 1year £'m | 2-5year £'m | Total £'m |
|---------------------------------------|--------------------------------|------------------------|----------------|--------------|
| Fixed interest-Government | - | - | 7.413 | 7.413 |
| Fixed interest-Corporate | - | 1.932 | 0.843 | 2.775 |
| Equities & Alternatives | 7.851 | - | - | 7.851 |
| UCITS | 0.982 | - | - | 0.982 |
| Cash at bank | 1.392 | - | - | 1.392 |
| Debtors arising from direct insurance | - | 0.006 | - | 0.006 |
| Other | - | 0.001 | - | 0.001 |
| | 10.225 | 1.939 | 8.256 | 20.420 |

4.5 Operational Risk

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 Management of Risk (continued)

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

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

The Company's objective is to hold free reserves at a safe margin in excess of the solvency capital requirement and to ensure it is able to continue as a going concern.

Free reserves at the year-end stood at £15.866m: free reserves for capital regulatory purposes were £15.226m; this exceeds PAMIA's Solvency Regulatory Capital (SCR) £5.866m by £9.360m.

PAMIA's Business Plan is to hold reserves between of £5m to £7.75m over its regulatory capital. At the yearend the surplus was £1.610m over its target range.

To bring the reserves back to its Business Plan target range, the Board has reduced rates and increased the deferral given to members at the 2017 renewal.

5. Premium deferral

The Directors decided that all members should continue to be entitled to deferral of premium. Those members purchasing cover of less than £2m, who were already committed, would be entitled to a 17.5% (2016: 15%) deferral of the advance call (net of brokerage) for the 2016 policy year (1.June2016 to 31 May 2017) increasing to 22.5% (2016: 20%) for those members purchasing cover of £2m 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 was to be levied.

6. Reinsurance premiums

In respect of the year ended 31 May 2017, the Company had reinsurance cover relating to claims and settlement costs of £5m in excess of £0.4m each and every claim but limited to £2.5m ultimate net loss in the aggregate including costs and expenses.

Reinsurance premium payable was £1.100m (2016: £0.985m)

PAMIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Claims and technical provisions

| | 2017 | 2016 |
|-------------------------|--------------|--------------|
| | £'m | £'m |
| Claims | 0.155 | 0.998 |
| Third party recovery | - | (0.040) |
| Management fee (note 8) | 0.354 | 0.344 |
| | <u>0.509</u> | <u>1.302</u> |

Change in the provision for claims – gross and net amount

| | As at 31 May 2017 £'m | As at 1 June 2016 £'m | Movement £'m |
|---|-----------------------------|-----------------------------|-----------------|
| Gross claims outstanding | 4.622 | 4.601 | 0.021 |
| Reinsurers' share of claims outstanding | - | - | - |
| Movement in net provision for claims | <u>4.622</u> | <u>4.601</u> | <u>0.021</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 reliable 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 2.4).

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 2016/2017 Policy Year.

PAMIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Claims and technical provisions (continued)

Claims development tables

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. The top half of the table below illustrates how the Company's estimate of total claims outstanding for each Policy Year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount shown in the statement of financial position.

No reinsurance recoveries have been made under the last six Policy Years therefore Gross and Net estimate of ultimate claims cost attributable to each Policy Year are the same.

| Policy Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|---------|---------|---------|---------|---------|---------|---------|
| | £'m | £'m | £'m | £'m | £'m | £m | £'m |
| At the end of the reporting year | 1.661 | 1.494 | 2.272 | 2.793 | 2.281 | 1.525 | 1.457 |
| 1 year later | 1.341 | 1.314 | 1.731 | 1.901 | 1.240 | 0.982 | |
| 2 years later | 1.174 | 1.214 | 1.515 | 1.405 | 0.725 | | |
| 3 years later | 0.345 | 0.488 | 0.927 | 1.011 | | | |
| 4 year later | 0.265 | 0.431 | 1.019 | | | | |
| 5 years later | 0.259 | 0.416 | | | | | |
| 6 years later | 0.259 | | | | | | |
| Estimate of ultimate claims | 0.259 | 0.416 | 1.019 | 1.011 | 0.725 | 0.982 | 1.457 |
| Cumulative payments to date | (0.259) | (0.416) | (0.603) | (0.631) | (0.028) | (0.047) | (0.019) |
| Liability recognised in statement of financial position | - | - | 0.416 | 0.380 | 0.697 | 0.935 | 1.438 |
| Total liability relating to last six policy years | | | | | | | 3.866 |
| Other claims liabilities | | | | | | | 0.756 |
| Total net technical provisions included in the balance sheet | | | | | | | 4.622 |

PAMIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Management fee

The management fee paid to Thomas Miller Professional Indemnity is 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:

| | 2017 | 2016 |
|---------------------------------------|--------------|--------------|
| | £'m | £'m |
| Acquisition costs (note 9) | 0.364 | 0.357 |
| Claims handling costs (note 7) | 0.354 | 0.343 |
| Administrative expenses (note 9) | 0.191 | 0.186 |
| Investment management costs (note 10) | 0.058 | 0.056 |
| | <u>0.967</u> | <u>0.942</u> |

9. Net operating expenses

| | 2017 | 2016 |
|--|--------------|--------------|
| | £'m | £'m |
| Acquisition costs | | |
| Management fee (note 8) | 0.364 | 0.357 |
| Brokerage | 0.018 | 0.016 |
| | <u>0.382</u> | <u>0.373</u> |
| Administration expenses | | |
| Directors' and Officers' liability insurance | 0.004 | 0.004 |
| PRA Insurance fee | 0.009 | 0.006 |
| Auditors' remuneration – audit of financial statements | 0.035 | 0.029 |
| Auditors' remuneration for taxation services | 0.003 | 0.004 |
| Meeting expenses | 0.025 | 0.022 |
| Subscription | 0.012 | - |
| Printing and Board Packs | - | 0.001 |
| Professional fees | 0.003 | 0.021 |
| Management fee (note 8) | 0.191 | 0.186 |
| | <u>0.282</u> | <u>0.273</u> |
| | <u>0.664</u> | <u>0.646</u> |

There were no Directors' emoluments paid or payable during the year (2016-£Nil).

PAMIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Investment income

| | 2017 | 2016 |
|--|--------------|--------------|
| | £'m | £'m |
| Interest on listed investments | 0.307 | 0.167 |
| Gains on foreign exchange | 0.659 | 0.320 |
| Bank deposit interest | 0.030 | 0.168 |
| | <u>0.996</u> | <u>0.655</u> |
| Gains/(losses) on realisation of investments | 0.170 | (0.050) |
| | <u>1.166</u> | <u>0.605</u> |

Unrealised gains/(losses) on investments

| | 2017 | 2016 |
|---|--------------|--------------|
| | £'m | £'m |
| Cost (see note 12) | 19.626 | 18.566 |
| Market value (see note 12) | 21.214 | 18.962 |
| Unrealised gains at year end | <u>1.588</u> | <u>0.396</u> |
| Unrealised gains/(losses) movement for the year | 1.063 | (0.763) |

Investment expenses and charges

| | 2017 | 2016 |
|--------------------------------------|--------------|--------------|
| | £'m | £'m |
| Investment management costs (note 8) | 0.058 | 0.056 |
| Bank, custodial and other charges | 0.005 | 0.004 |
| | <u>0.063</u> | <u>0.060</u> |

11. Taxation

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

| Income and expenditure account | 2017 | 2016 |
|---|--------------|--------------|
| | £'m | £'m |
| UK Corporation Tax at 19.83% (2016:20%) | 0.209 | 0.083 |
| Adjustments in respect of prior years | - | 0.001 |
| Total current tax (note 11(ii)) | <u>0.209</u> | <u>0.084</u> |
| Deferred tax movement | 0.131 | (0.046) |
| Total tax charge | <u>0.340</u> | <u>0.038</u> |

PAMIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Taxation (continued)

- (ii). The Corporation Tax assessed for the period is the main companies standard rate in the UK of 19.83% for 2017 (in 2016 the rate applied was the main rate at 20%) The differences are explained below:

| | 2017 £'m | 2016 £'m |
|---|-------------|-------------|
| Surplus on ordinary activities before tax | 2.210 | 1.015 |
| Surplus on ordinary activities multiplied by standard rate of Corporation Tax in the UK of 19.83% (2016: 20%) | 0.438 | 0.203 |
| Effects of: | | |
| Non-taxable mutual insurance operations | (0.009) | (0.247) |
| Non-taxable unrealized(gains)/losses and income on investments | (0.039) | 0.075 |
| Disallowable expenses | 0.006 | 0.006 |
| Capital gains net of losses and indexation allowance | (0.046) | - |
| Rate change adjustments | (0.010) | - |
| Prior year adjustments | - | 0.001 |
| Total tax charge (note 11(i)) | 0.340 | 0.038 |

(iii). **Balance sheet**

| | 2017 £'m | 2016 £'m |
|--|-------------|-------------|
| Taxation creditor | | |
| Taxation creditor brought forward | 0.083 | 0.208 |
| Prior year adjustment | - | 0.001 |
| Payment of corporation tax | (0.083) | (0.209) |
| | - | - |
| UK Corporation Tax | 0.209 | 0.083 |
| Taxation creditor (note 16) | 0.209 | 0.083 |
| | 2017 £'m | 2016 £'m |
| Deferred Tax | | |
| Deferred tax liability brought forward | 0.104 | 0.150 |
| Effect of change to tax rate of opening balances | (0.005) | - |
| Charge for the year | 0.136 | (0.046) |
| Deferred tax movement | 0.131 | (0.046) |
| Deferred tax liability carried forward | 0.235 | 0.104 |

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)

12. Other financial investments

| | Market Value 2017 £'m | Market Value 2016 £'m | Cost 2017 £'m | Cost 2016 £'m |
|--|-----------------------------|-----------------------------|------------------|------------------|
| Other financial investments comprise: | | | | |
| Equities | 13.236 | 6.763 | 12.131 | 6.803 |
| Alternative | 1.169 | 2.071 | 0.840 | 1.711 |
| Fixed interest securities | 6.810 | 10.128 | 6.655 | 10.052 |
| | <u>21.215</u> | <u>18.962</u> | <u>19.626</u> | <u>18.566</u> |

| | Market Value 2017 £'m | Market Value 2016 £'m | Cost 2017 £'m | Cost 2016 £'m |
|--------------|-----------------------------|-----------------------------|------------------|------------------|
| Equities | 8.836 | 5.780 | 7.740 | 5.845 |
| UCITS - cash | 4.400 | 0.983 | 4.391 | 0.958 |
| | <u>13.236</u> | <u>6.763</u> | <u>12.131</u> | <u>6.803</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 Companies Act 2006 states the categories of investment to be disclosed in the Financial Statements. The Company's investment holdings do not fall into any specific category and as a result they are disclosed as "other financial investments".

13. Debtors arising out of direct insurance

| | 2017 £'m | 2016 £'m |
|---|--------------|--------------|
| Debts due from members (Premiums) | 0.011 | 0.006 |
| Provision for doubtful debts | - | - |
| Debtors arising out of direct insurance | <u>0.011</u> | <u>0.006</u> |

Debtors arising out of direct insurance are due from members for outstanding premiums. The Company actively pursues recovery of all outstanding debts .

PAMIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. Cash and cash equivalents

| | 2017 £'m | 2016 £'m |
|--------------------------|--------------|--------------|
| Cash at hand and in bank | <u>1.945</u> | <u>1.392</u> |

15. Creditors arising out of reinsurance operations

| | 2017 £'m | 2016 £'m |
|----------------------|--------------|--------------|
| Reinsurance creditor | <u>0.002</u> | <u>0.001</u> |

16. Other creditors including tax

| | 2017 £'m | 2016 £'m |
|--------------------------------|--------------|--------------|
| Insurance premium tax | 0.078 | 0.072 |
| Corporation tax (note 11(iii)) | 0.209 | 0.083 |
| Deferred tax provision | <u>0.235</u> | <u>0.104</u> |
| | <u>0.522</u> | <u>0.259</u> |

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

The deferred tax provision of £0.235m is expected to reverse within 1 year (2016: £0.104m).

17. Accruals and deferred income

| | 2017 £'m | 2016 £'m |
|------------------------------|--------------|--------------|
| Management fee | 0.239 | 0.232 |
| Accrued expenses | 0.105 | 0.061 |
| Premiums received in advance | <u>1.844</u> | <u>1.269</u> |
| | <u>2.188</u> | <u>1.562</u> |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. Related party disclosures

The Company has no share capital and is controlled by the Members who are also the insureds. There have been no related party transactions between the Company and its members outside the normal course of business.

All the Directors are members of the Company other than the Chief Executive Officer and Chief Financial officer who are employed by Thomas Miller, Managers of Thomas Miller Professional Indemnity. Other than their own insurance the Directors have no financial interests in the Company. The Member Directors received no remuneration for their services to the Company.

Thomas Miller Professional Indemnity received £966,678 (2016: £941,749) from the Company in respect of management fees for the year.

19. 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

MANAGERS AND OFFICERS

MANAGERS

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

Directors of Thomas Miller Professional Indemnity Limited:

R.P. Cunningham

R. A. A. Harnal

A. Mee

A. Salim

SECRETARY

K. Halpenny

INVESTMENT MANAGERS

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

INSURANCE CONSULTANTS

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

COMPANY INFORMATION

PAMIA LIMITED

(A COMPANY LIMITED BY GUARANTEE)

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