PAMIA LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE THIRTEEN MONTHS ENDED 30 JUNE 2018

Company No. 2418817

PAMIA LIMITED

CONTENTS

PAMIA LIMITED

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of the Members will be held at the offices of Thomas Miller, 90 Fenchurch Street, London, EC3M 4ST on 13 March 2019 at 4.30pm for the following purposes:

- To receive the Directors' Report and Financial Statements for the period ended 30 June 2018 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: 10 October 2018

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	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	Forresters IP LLP
* J. Jappy	Gill Jennings & Every LLP
G. Lambert (Appointed 14 March 2018)	Haseltine Lake LLP
B.R. Lucas	Lucas & Co.
M. Lunt	HGF Limited
D. A. McCarthy	MacLachlan & Donaldson (Ireland) Limited
J.B. Pennant	D. Young & Co. LLP
S. Storer	Resigned 14 March 2018
*C. H. Watkins	Secerna LLP
G. Williams	Marks & Clerks LLP
*J. Wills	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 eighth Chairman's Report.

In the thirteen months to 30 June 2018 PAMIA recorded a deficit of £0.155m, compared to a surplus of £1.870m for the twelve months in the previous year.

The deficit reduced PAMIA's free reserves (the capital PAMIA holds in excess of its liabilities) to £15.711m. Free reserves for regulatory capital purposes, which discount the value of PAMIA's assets to take account of factors such as market risk, were £15.101m, and £9.828m in excess of PAMIA's regulatory capital requirement of £5.273m. 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 £2.078m above the top end of the target range. At the 2017 renewal, PAMIA took action to seek to bring the free reserves back into the target range by reducing premium rates and increasing the deferral, with the aim of incurring a deficit in the financial period to 30 June 2018. That aim has been achieved, but free reserves remain above the top end of the target range. Therefore, further action was taken at the 2018 renewal to deliver a reduction in premium income, in the expectation that this would help to generate a further deficit which would in due course bring the free reserves back into the target range.

In the thirteen months to 30 June 2018 PAMIA recorded a gain of 1.68% (2017: 11.68%) on its investments, which in money terms amounted to £0.368m (2017: gain of £2.229m). Investment returns were lower than in the previous financial year, because there was no repeat of the significant reduction in the value of sterling against the US dollar and euro and equity returns were lower. PAMIA's Investment Policy targets medium term returns in excess of CPI inflation and such returns are being achieved.

The amount PAMIA paid out in claims increased from £155k to £346k. The net reserves set aside for claims increased from £4.62m to £4.92m. 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.

Reinsurance is an important tool used by PAMIA to reduce its risk exposure. For the 2017 Policy Year PAMIA was able to negotiate improved reinsurance cover, limiting the aggregate net cost of all claims to PAMIA on the 2017 Policy Year to £2.3m, down from £2.5m in 2016. The premium remained the same for this improved protection, which was effectively a reduction in view of the fact that the 2017 Policy Year was thirteen months, instead of the normal twelve.

In the financial period to 30 June 2018 premium income decreased by 0.5%. This reflected the action taken by the Board to reduce premium income to seek to achieve a deficit in the financial year.

In my last two reports 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. 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.

CHAIRMANS REPORT (continued)

Graham Lambert of Haseltine Lake was elected to the Board at the AGM in 2018 and has joined the Investment Committee. The Board will be nominating Daniel Wise of Carpmaels & Ransford to be elected as a Director at the AGM in 2019.

Being a Director of PAMIA is a demanding, unpaid 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.

I would also like to thank Thomas Miller and Willis for the consistently excellent service they provide to PAMIA.

Alice Findlay

Alice Findlay
Chairman
10 October 2018

STRATEGIC REPORT

The Directors have pleasure in presenting the Strategic report for the period ended 30 June 2018.

Review of the year

The Company continued to provide professional indemnity insurance for patent and trademark practices. The deficit arising out of the period's operations after tax was £0.155m (2017-surplus £1.870m) and this charged to reserves. The reserves now amount to £20.635m which is made up of free reserves of £15.711m and net claim reserves of £4.924m. The comparative figure for 2017 was £20.488m which was made up of free reserves of £15.866m and gross claim reserves of £4.622m.

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 Annual Report and Financial Statements for the thirteen months ending 30 June 2018, which will be submitted to the membership for approval at the Annual General Meeting which will be held on 13 March 2019.

The Income and Expenditure Account (on page 16) and the Statement of Financial Position (on page 17), 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.

Amounts in £'000	13 months to 30 June 2018	12 months to 31 May 2017
Premium Written	2,328	2,338
Reinsurance Premium	(1,100)	(1,100)
Net claims	(873)	(530)
Operating expenses	(832)	(664)
Surplus /(deficit) on technical account	(477)	44
Investment Income	254	2,166
Surplus /(deficit) on ordinary activities before tax	(223)	2,210
Tax (charged)/credited	68	(340)
Surplus/(deficit) for the period	(155)	1,870
Free reserves at period end	15,711	15,866

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 period under review was 1.68% (2017: return of 11.68%).

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:

Amounts in £'000	30 June 2018	31 May 2017
Short Term Fund	2,806	2,005
Capital fund	9,718	8,493
Growth Fund	9,675	10,746
Market value (including accrued interest)	22,199	21,244

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.

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 37% of its holdings in UK, US and European bonds, 26% is in equities, 16% in alternative investments and 21% in cash equivalents.

DIRECTORS' REPORT

The Directors have pleasure in presenting their report and financial statements for the thirteen months to 30 June 2018.

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 has 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 2.

In accordance with Clause 54 of the Articles of Association, R. Cunningham, R. Harnal, J. Jappy, J. Leeming, B. Lucas, D. McCarthy and J. Pennant retire by rotation at the forthcoming Annual General Meeting to be held on Wednesday 13 March 2019 and, being eligible, offer themselves for re-appointment.

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

(a) so far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and

(b) they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

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

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.
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Meetings of the Directors

During the 2017 Policy Year the Directors held three formal meetings on 18 July 2017, 4 October 2017 and 14 March 2018.

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 Association's 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 2017 were approved by the Board at the October 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

Underwriting: 2017 renewal report, underwriting report, closure of 2009 Policy Year, reinsurance arrangements for the 2017 Policy Year and rates and terms of cover for the 2017 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 three 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 did not meet 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.

DIRECTORS' REPORT (CONTINUED)

Board Committees (continued)

The Investment Committee comprising Rebecca Gardner (Chairman), David Gill, Lloyd Hoarton Mark Lunt and Graham Lambert, 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 (CITMA,). 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; however the members had informal communications 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 two occasions 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 Findlay

A. R. Findlay
Chairman

10 October 2018

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PAMIA LIMITED

Opinion

We have audited the financial statements of PAMIA Limited (the 'company') for the period ended 30 June 2018 which comprise the Income and Expenditure Account, the Statement of Financial Position, the Cash Flow Statements and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2018 and of its deficit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

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

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, either individually or in aggregate, could reasonably be expected to influence the economic decisions of users that are taken on the basis of the financial statements. Importantly, misstatements below this level will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements. The application of these key considerations gives rise to the following level of materiality, the quantum and purpose of which is tabulated below.

Materiality measure	How we determined it	Key considerations and benchmarks	Quantum £
Financial statement materiality	Being approximately 1% of members' funds at 30 June 2018.	As the company is a mutual insurance company we have referred to members' funds as a measure of the available solvency capital resources of the company.	156,000

We agreed with the Directors that we would report to them all audit differences in excess of £7,800 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We reassessed materiality at the end of the audit and did not find it necessary to revise our planning materiality.

An overview of the scope of our audit

Our audit approach was developed by obtaining an understanding of the company's activities, the key subjective judgements made by the directors, for example in respect of significant accounting estimates regarding the claims outstanding provisions that involved making assumptions and considering future events that are inherently uncertain, and the overall control environment. Based on this understanding we assessed those aspects of the company's transactions and balances which were most likely to give rise to a material misstatement and were most susceptible to irregularities including fraud or error. Specifically, we identified what we considered to be key audit matters and planned our audit approach accordingly.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Key audit matters (continued)

Area	Reason	Audit response
Valuation of insurance contract provisions	Net insurance contract provisions for the period end 30 June 2018 are £4,924,192. The methodologies and assumptions utilised to develop insurance contract provisions involve a significant degree of judgement. Their determination has a significant impact on the financial result and there is a degree of complexity and judgement involved in determining the estimate. We have undertaken sufficient work to ensure reserving has been updated for any claims activity, to confirm that the reserving philosophy remains appropriate and to identify areas of uncertainty within the reserving process.	We evaluated whether the company's actuarial methodologies were consistent with those used generally in the industry and with prior periods. We also evaluated the governance around the overall reserving process, including the scrutiny applied by the audit and claims committees, as well as company actuarial reviews. We performed the following procedures: • We tested on a sample basis the underlying data to source documentation to assess the completeness; • We reviewed any significant prior year reserve movements by reference to any significant adverse loss development; • We performed independent re-projections and sensitivity analyses and compared our re-projected claims reserves to those booked by management, and challenged management to understand any significant differences. • We also tested the calculations used in identifying reinsurers' share of any claims. Based on the procedures we performed, we found that the value of the insurance contract provisions was supported by the evidence we obtained.

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

The company is an insurance company and its principal activity is the transaction of general insurance and reinsurance business in the UK. We therefore tailored the scope of our audit to ensure that we performed enough work, following an assessment of those aspects of the company's transactions and balances which were most likely to give rise to a material misstatement and were most susceptible to irregularities including fraud or error, to be able to give an opinion on the financial statements. Our scope focused on where management made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events particularly relating to the insurance contract provisions. Additionally, we also scoped in the material balances in the financial statements which were above our materiality threshold.

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

Other matters which we are required to address

We were appointed by the Board of Directors to audit the financial statements for the year ending 31 May 1998 and subsequent financial periods. This is the twenty-first financial period we have audited and the current engagement partner has a further two years as statutory auditor of this company before our resignation from the audit is required.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting our audit. We have not provided any other professional services to the company that have not already been disclosed in the financial statements in note 9.

Our audit opinion is consistent with the additional report to the Board of Directors.

Use of our report

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.

Ian Cowan

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

1 Westferry Circus
Canary Wharf
London E14 4HD

Date: 15 October 2018

PAMIA LIMITED

INCOME AND EXPENDITURE ACCOUNT
For the period ended 30 June 2018

TECHNICAL ACCOUNT	Note	£ 30 Jun 2018	£ 31 May 2017
Earned premiums, net of reinsurance			
Advance Call		3,059,827	2,989,426
Premium deferral	5	(731,487)	(651,558)
Gross premium written		2,328,340	2,337,868
Outward reinsurance premiums	6	(1,100,000)	(1,100,000)
		1,228,340	1,237,868
Change in gross provision for unearned premiums		700	646
Change in provision for unearned premiums, reinsurers' share		(171)	(158)
Change in net provision for unearned premiums		529	488
Earned premium net of reinsurance		1,228,869	1,238,356
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	7	(570,494)	(508,802)
Reinsurers' share		-	-
Net claims paid		(570,494)	(508,802)
Change in provision for claims –net amount	7	(302,269)	(21,120)
Claims incurred, net of reinsurance		(872,763)	(529,922)
Net operating expenses	9	(832,351)	(663,782)
Balance on technical account	A	(476,245)	44,652
NON-TECHNICAL ACCOUNT			
Investment income	10	1,214,778	1,165,564
Unrealised gains/(losses) on investments	10	(847,255)	1,062,887
Investment expenses and charges	10	(113,950)	(62,786)
	B	253,573	2,165,665
Surplus /(deficit) on ordinary activities before tax	A+B	(222,672)	2,210,317
Tax on ordinary activities	11	68,075	(339,873)
Surplus /(deficit) on ordinary activities after tax		(154,597)	1,870,444
Surplus at 1 June		15,865,817	13,995,373
Surplus at 30 June		15,711,220	15,865,817

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 19 to 41 form an integral part of these financial statements.

Company number 2418817

STATEMENT OF FINANCIAL POSITION
As at 30 June 2018

	Note	30 Jun 2018	31 May 2017 restated *
ASSETS		£	£
Investments			
Other financial investments	12	22,144,810	21,214,566
Reinsurers' share of technical provision			
Claims outstanding		4,875,000	3,600,000
Debtors			
Debtors arising out of direct insurance operation	13	12,774	11,086
Other assets			
Cash at bank	14	957,940	1,944,882
Prepayments and accrued income			
Accrued interest		53,902	29,771
Other prepayments and accrued income		327	630
		28,044,753	26,800,935
LIABILITIES AND RESERVES			
Reserves			
Income and expenditure account		15,711,220	15,865,817
Technical provision			
Provision for unearned premiums			
Gross amount		1,404	2,104
Reinsurance amount		(344)	(515)
		1,060	1,589
Claims outstanding			
Gross amount	7	9,799,192	8,221,923
		9,799,192	8,221,923
Creditors			
Creditors arising out of reinsurance operations	15	4,565	1,775
Other creditors including tax	16	241,882	521,593
		246,447	523,368
Accruals and deferred income	17	2,286,834	2,188,238
		28,044,753	26,800,935

* Certain amounts shown here do not correspond to the 2017 financial statements and reflect adjustments made this year in respect of prior year comparatives, refer to Note 19.

These financial statements were approved by the Board of Directors and were signed on its behalf on 10 October 2018 by:

Chairman: A.R. Findlay

Director: D.A. Gill

Signed on behalf of the Managers:

R A.A Harnal
Thomas Miller Professional Indemnity

The notes on pages 19 to 41 form an integral part of these financial statements.

CASH FLOW STATEMENT
For the period ended 30 June 2018

Operating activities

	Note	30 Jun 2018	31 May 2017
		£	£
Premiums received		2,373,002	2,908,776
Reinsurance premium paid		(1,097,210)	(1,099,130)
Claims paid		(570,494)	(508,802)
Reinsurance recoveries received		-	-
Operating expenses paid		(776,231)	(607,451)
Taxation paid		(215,207)	(82,536)
Net cash provided/(used) by operating activities		(286,140)	610,857

Cash flows from investment activities

	Note	30 Jun 2018	31 May 2017
Purchase of investments		(23,429,980)	(14,048,204)
Sale of investments		22,203,461	13,653,938
Interest received		123,480	131,294
Dividends received		402,237	205,327
Net cash flow from investment activities		(700,802)	(57,645)
Net increase in cash and cash equivalents		(986,942)	553,212
Cash and cash equivalents at the beginning of the year		1,944,882	1,391,670
Cash and cash equivalents at the end of the year	14	957,940	1,944,882

The notes on pages 19 to 41 form an integral part of these financial statements.

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.

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 30 June 2018, 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 30 June 2018; 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.

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 years 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.

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.

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 period 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Critical accounting estimates and judgements (continued)

3.2 Fair value estimations

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 30 June 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Fixed interest - Government	1,476	6,847	-	8,323
Fixed interest - Corporate	-	-	-	-
Equities & Alternatives	9,191	-	-	9,191
UCITS	4,685	-	-	4,685
	15,352	6,847	-	22,199

As at 31 May 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Fixed interest - Government	-	6,181	-	6,181
Fixed interest - Corporate	-	659	-	659
Equities & Alternatives	7,106	2,898	-	10,004
UCITS	185	4,215	-	4,400
	7,291	13,953	-	21,244

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 period ended 30 June 2018, 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.

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 the 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 or deficit 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.

	2018	2017
	£'000	£'000
Increase in loss ratio by 5 percentage points		
Gross	(116)	(117)
Net	(61)	(62)

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.

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 30 June 2018	Sterling	US Dollar	Euro	Total
	£'000	£'000	£'000	£'000
Fixed interest -Governments	5,789	1,628	906	8,323
Equity & Alternatives	8,360	831	-	9,191
UCITS	3,952	733	-	4,685
Reinsurers share of claims outstanding	4,875			4,875
Cash at bank	958	-	-	958
Debtors arising from direct insurance	13	-	-	13
	23,947	3,192	906	28,045

As at 31 May 2017	Sterling	US Dollar	Euro	Total
	£'000	£'000	£'000	£'000
Fixed interest -Governments	3,947	1,330	904	6,181
Fixed interest-Corporate	503	155	-	658
Equity & Alternatives	7,666	2,339	-	10,005
UCITS	3,332	1,067	1	4,400
Reinsurers share of claims outstanding	3,600			3,600
Cash at bank	1,945	-	-	1,945
Debtors arising from direct insurance	11	-	-	11
Other	1	-	-	1
	21,005	4,891	905	26,801

Foreign currency sensitivity analysis

As at 30 June 2018 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 £0.205m.

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 period-end date, with all other factors unchanged will result in a £0.083m 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 period end the holding in equity instruments and alternatives amounted to 41% of the investment portfolio (2017:47%).

A 1% increase in equity values would be estimated to have reduced the deficit before tax at the period-end by £0.092m. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Management of Risk (continued)

4.3 Credit Risk (continued)

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

As at 30 June 2018	AAA/AA/A	BBB or less or not rated	Total
	£'000	£'000	£'000
Fixed interest-Government	8,323	-	8,323
Equities & Alternatives	-	9,191	9,191
UCITS	-	4,685	4,685
Reinsurers share of claims outstanding	4,875		4,875
Cash at bank	-	958	958
Debtors arising from direct insurance	-	13	13
Other	-	-	-
	13,198	14,847	28,045

As at 31 May 2017	AAA/AA/A	BBB or less or not rated	Total
	£'000	£'000	£'000
Fixed interest-Government	6,181	-	6,181
Fixed interest-Corporate	658	-	658
Equities & Alternatives	-	10,005	10,005
Reinsurers share of claims outstanding	3,600		3,600
UCITS	-	4,400	4,400
Cash at bank	-	1,945	1,945
Debtors arising from direct insurance	-	11	11
Other	-	1	1
	10,439	16,362	26,801

There were no past due or impaired assets at 30 June 2018 (2017: 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 30 June 2018, the Company's short term deposits (including cash and UCITS) amounted to £5.643m (2017: £6.345m). The Company has sufficient liquid assets to meet its liabilities as they fall due.

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 30 June 2018	Short term assets £'000	Within 1year £'000	2-5year £'000	Total £'000
Fixed interest-Government	-	533	7,790	8,323
Fixed interest-Corporate	-	-	-	-
Equities & Alternatives	9,191	-	-	9,191
UCITS	4,685	-	-	4,685
Reinsurers share of claims outstanding		4,875		4,875
Cash at bank	958	-	-	958
Debtors arising from direct insurance	-	13	-	13
Other	-	-	-	-
	14,834	5,421	7,790	28,045

As at 31 May 2017	Short term assets £'000	Within 1year £'000	2-5year £'000	Total £'000
Fixed interest-Government	-	1,302	4,879	6,181
Fixed interest-Corporate	-	503	155	658
Equities & Alternatives	10,005	-	-	10,005
UCITS	4,400	-	-	4,400
Reinsurers share of claims outstanding	-	3,600	-	3,600
Cash at bank	1,945	-	-	1,945
Debtors arising from direct insurance	-	11	-	11
Other	-	1	-	1
	16,350	5,417	5,034	26,801

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 Thomas Miller 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 period-end stood at £15.711m: free reserves for capital regulatory purposes were £15.101m; this exceeds PAMIA's Solvency Regulatory Capital (SCR) £5.273m by £9.828m.

PAMIA's Business Plan is to hold reserves of between £5m to £7.75m over its regulatory capital. At the period end the surplus was £2.078m 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 2018 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 20% (2017: 17.5%) deferral of the advance call (net of brokerage) for the 2017 policy year (1. June 2017 to 30 June 2018) increasing to 25% (2017: 22.5%) 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 period ended 30 June 2018, 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 £2.3m ultimate net loss in the aggregate including costs and expenses.

Reinsurance premium payable was £1. 100m (2017: £1. 100m)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Claims and technical provisions

	2018	2017
	£'000	£'000
Claims	346	155
Third party recovery	-	-
Management fee (note 8)	224	354
	570	509

Change in the provision for claims – gross and net amount

	As at 30 June 2018	As at 1 June 2017	Movement
	£'000	£'000	£'000
Gross claims outstanding	9,799	8,222	1,577
Reinsurers' share of claims outstanding	(4,875)	(3,600)	(1,275)
Movement in net provision for claims	4,924	4,622	302

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 period, after deduction of all claims paid during the financial year and addition of the allowance for new claims notified in the 2017Policy Year.

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.

Gross estimate of ultimate claims cost attributable to policy year

Policy Year	2010	2011	2012	2013	2014	2015	2016	2017
	£'m	£'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	2.457	1.704
1 year later	1.341	1.314	1.731	1.901	1.240	0.982	0.833	
2 years later	1.174	1.214	1.515	1.405	1.725	0.571		
3 years later	0.345	0.488	0.927	1.011	0.836			
4 year later	0.265	0.431	2.619	0.634				
5 years later	0.259	0.416	4.744					
6 years later	0.259	0.416						
7 years later	0.273							
Estimate of ultimate claims	0.273	0.416	4.744	0.634	0.836	0.571	0.833	1.704
Cumulative payments to date	(0.271)	(0.416)	(0.710)	(0.631)	(0.063)	(0.187)	(0.066)	(0.069)
Liability recognised in statement of financial position	0.002	-	4.034	0.003	0.772	0.384	0.767	1.635

Total liability relating to last eight policy years	7.598
Other claims liabilities	2.202
Total gross technical provisions included in the statement of financial position	9.799

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Claims and technical provisions (continued)

Claims development tables (continued)

Net estimate of ultimate claims costs attributable to policy year

Policy Year	2010 £'m	2011 £'m	2012 £'m	2013 £'m	2014 £'m	2015 £m	2016 £'m	2017 £'m
At the end of the reporting year	1.661	1.494	2.272	2.793	2.281	1.525	1.457	0.954
1 year later	1.341	1.314	1.731	1.901	1.240	0.982	0.833	
2 years later	1.174	1.214	1.515	1.405	0.725	0.571		
3 years later	0.345	0.488	0.927	1.011	0.086			
4 year later	0.265	0.431	1.019	0.634				
5 years later	0.259	0.416	1.369					
6 years later	0.259	0.416						
7 years later	0.273							
Estimate of ultimate claims	0.273	0.416	1.369	0.634	0.086	0.571	0.833	0.954
Cumulative payments to date	(0.271)	(0.416)	(0.710)	(0.631)	(0.063)	(0.187)	(0.066)	(0.069)
Liability recognised in statement of financial position	0.002	-	0.659	0.003	0.022	0.384	0.767	0.885

Total liability relating to last eight policy years	2.723
Other claims liabilities	2.202
Total net technical provisions included in the statement of financial position	4.924

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Management fee

The Companies Act 2006 requires the management fee paid to Thomas Miller Professional Indemnity to be apportioned between the different management functions. This fee has been allocated as follows:

- Acquisition costs, which include the cost of underwriting, actuarial opinions on underwriting, cost of processing renewals, premium adjustments, credit control and IT costs for operating the underwriting system.
- Claims handling costs; which includes the cost of claim handlers, actuarial costs for claims reserving, claims processing costs and IT costs for operating the claims system.
- Administrative costs which includes the cost of general management, regulatory costs, internal assurance costs, finance cost of preparing financial and regulatory reports and related IT costs.
- Investment costs which are charged based on Funds Under Management.

For the period ended 30 June 2018 the Managers undertook a review of the apportionments as the basis used for allocating the costs had remained unchanged for several years and had not reflected the changing nature of the business. The main changes has been the increase in allocation of administrative expenses which are due to the increased regulatory and compliance regime in force.

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

	2018	2017
	£'000	£'000
Acquisition costs (note 9)	301	364
Claims handling costs (note 7)	224	354
Administrative expenses (note 9)	448	191
Investment management costs (note 10)	107	58
	1,080	967

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Net operating expenses

	2018	2017
Acquisition costs	£'000	£'000
Management fee (note 8)	301	364
Brokerage	14	18
	315	382
Administration expenses		
Directors' and Officers' liability insurance	4	4
FCA regulatory fee	4	9
Auditors' remuneration – audit of financial statements	36	35
Auditors' remuneration for taxation services	-	3
Meeting expenses	11	25
Subscription	12	12
Professional fees	3	3
Management fee (note 8)	448	191
	518	282
	833	664

There were no Directors' emoluments paid or payable during the period (2017-£Nil).

10. Investment income

	2018	2017
	£'000	£'000
Interest on listed investments	519	307
Gains /(losses) on foreign exchange	(143)	659
Bank deposit interest	6	30
	382	996
Gains/(losses) on realisation of investments	833	170
	1,215	1,166

Unrealised gains/ (losses) on investments

	2018	2017
	£'000	£'000
Cost (see note 12)	21,842	19,626
Market value (see note 12)	22,145	21,214
Unrealised gains/(losses) at year end	303	1,588
Unrealised gains/(losses) movement for the year	(847)	1,063

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Investment expenses and charges

	2018	2017
	£'000	£'000
Investment management costs (note 8)	107	58
Bank, custodial and other charges	7	5
	114	63

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	2018	2017
	£'000	£'000
UK Corporation Tax at 19% (2017:19.83%)	137	209
Foreign taxation	1	-
Total current tax (note 11(ii))	138	209
Deferred tax movement	(206)	131
Total tax charge/(credit)	(68)	340

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% for 2018 (in 2017 the rate applied was the main rate at 19.83%) The differences are explained below:

	2018	2017
	£'000	£'000
Surplus /(deficit) on ordinary activities before tax	(223)	2,210
Surplus / (deficit) on ordinary activities multiplied by standard rate of Corporation Tax in the UK of 19% (2017: 19.83%)	(42)	438
Effects of:		
Non-taxable mutual insurance operations	91	(9)
Non-taxable unrealised(gains)/losses and income on investments	(90)	(39)
Disallowable expenses	11	6
Capital gains net of losses and indexation allowance	(38)	(46)
Rate change adjustments	-	(10)
Total tax charge /(credit) (note 11(i))	(68)	340

(iii). **Balance sheet**

	2018	2017
Taxation creditor	£'000	£'000
Taxation creditor brought forward	209	83
Prior year adjustment		-
Payment of corporation and foreign tax	(215)	(83)
	(6)	-
UK Corporation Tax	137	209
Taxation creditor (note 16)	131	209

	2018	2017
Deferred Tax	£'000	£'000
Deferred tax liability brought forward	235	104
Effect of change to tax rate of opening balances	(25)	(5)
Charge/(release) for the year	(181)	136
Deferred tax movement	(206)	131
Deferred tax liability carried forward	29	235

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Other financial investments

	Market Value 2018 £'000	Market Value 2017 £'000	Cost 2018 £'000	Cost 2017 £'000
Other financial investments comprise:				
Equities	10,349	13,236	9,838	12,131
Alternative	3,527	1,169	3,642	840
Fixed interest securities	8,269	6,810	8,362	6,655
	22,145	21,215	21,842	19,626

Equities comprises the following:

	Market Value 2018 £'000	Market Value 2017 £'000	Cost 2018 £'000	Cost 2017 £'000
Equities	5,664	8,836	5,087	7,740
UCITS - cash	4,685	4,400	4,751	4,391
	10,349	13,236	9,838	12,131

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

	2018 £'000	2017 £'000
Debts due from members (Premiums)	13	11
Provision for doubtful debts	-	-
Debtors arising out of direct insurance	13	11

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. Cash and cash equivalents

	2018	2017
	£'000	£'000
Cash at hand and in bank	958	1,945

15. Creditors arising out of reinsurance operations

	2018	2017
	£'000	£'000
Reinsurance creditor	5	2

16. Other creditors including tax

	2018	2017
	£'000	£'000
Insurance premium tax	82	78
Corporation tax (note 11(iii))	131	209
Deferred tax provision	29	235
	242	522

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

The deferred tax provision of £29,000 is expected to reverse within 1 year (2017: £235,000).

17. Accruals and deferred income

	2018	2017
	£'000	£'000
Management fee	267	239
Accrued expenses	129	105
Premiums received in advance	1,891	1,844
	2,287	2,188

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 £1,080,048 (2017: £966,678) from the Company in respect of management fees for the year.

19. 2017 Restated figures

The Company has decided to disclose its IBNER gross of reinsurance rather than net of reinsurance as shown originally in the 2017 and prior financial statements. The reason for this change is to improve the transparency of claims information provided to the users of the financial statements. This change has no effect on the surplus for that year or the net assets at the year-end. The table below shows the effect of the reinstatement.

	2017 restated Gross £'000	2017 Net £'000
Reinsurers share of technical provisions –claims outstanding	(3,600)	-
Technical provisions claims outstanding	8,222	4,622
Total	4,622	4,622

20. 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.

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

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(A COMPANY LIMITED BY GUARANTEE)

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