

BAR MUTUAL INDEMNITY FUND LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

Company Number 218 2018

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NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of the Members will be held at Devereux Chambers, Devereux Court, London, WC2R 3JH on Monday 25 July 2016 at 5.30pm for the following purposes:

To receive the Directors' Report and Financial Statements for the year ended 31 March 2016 and, if they are approved, to adopt them;

To appoint Directors; and

To re-appoint the auditors and authorise the Directors to fix their remuneration.

By Order of the Board

A handwritten signature in black ink, appearing to read 'K. Halpenny', with a long horizontal flourish extending to the right.

K. Halpenny
Secretary

Date: 9 June 2016

- Notes:
- 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 must be deposited with the Secretary not less than forty-eight hours before the meeting.
 - 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 Members prior to the meeting.

DIRECTORS

DIRECTORS OF BAR MUTUAL INDEMNITY FUND LIMITED

Colin Edelman QC	(Chairman)
Michael Brindle QC	(Deputy Chairman)
Charles Flint QC	(Deputy Chairman)
Christopher Symons QC	(Deputy Chairman)
Stephen Arthur	
Gregory Denton-Cox	
Jasbir Dhillon QC	
Nina Goolamali	
Alexandra Healy QC	
Michael Horne QC	
Leigh-Ann Mulcahy QC	
Christopher Pocock QC	
David Railton QC	
Rebecca Sabben-Clare QC	
Sharif Shivji	
Joanna Smith QC	Appointed 15 April 2015
David Wolfson QC	

CHAIRMAN'S REPORT

A recurrent theme in my recent reports to Members is that the Board has had to have particular regard to two continuing features of the environment in which Bar Mutual now operates: first, the introduction of Solvency II, the new regulatory regime for insurance companies designed to ensure that they are both adequately capitalised and managed according to sound corporate governance principles; and second, the introduction by the Bar Standards Board ("BSB") of new business structures through which barrister-like services can be provided to consumers of legal services – namely, entities. Both of these issues are covered below, but I start with the financial performance of Bar Mutual for the 2015-2016 financial year.

Financial Results

The result for the financial year ending 31 March 2016 is a surplus of £4.497 million (2015: £1.671 million). Given the very unfavourable consequences of Bar Mutual falling below its Solvency II regulatory capital requirement, it is necessary for Bar Mutual to carry reserves in excess of its Solvency II regulatory capital requirement so as to provide a "cushion" in the event of a bad year. In order to ensure that Bar Mutual exceeded its Solvency II regulatory capital requirement by a prudent amount, the Board targeted an increase in premium income for the 2015-2016 financial year. Accordingly, at the 2015 renewal the limit on the fee income Bar Mutual takes into account for the purposes of calculating Members' premium (the income cap) was increased from £1 million to £1.2 million; and the premium deferral was reduced from 20% to 17.5%. The increased premium income generated by these changes happens to have coincided with an unexpectedly benign claims experience. It is the combination of these two factors that has created a surplus of £4.497 million.

Of course, one of the advantages of Bar Mutual is that it operates for the benefit of its Members. It has no outside shareholders (so it does not have to pay dividends) and therefore any surplus that is not required to support its reserves can be returned to its Members. Accordingly, assuming a continuing relatively benign claims experience and barring other developments that may adversely affect Bar Mutual's financial position over the next six months, the Board will be considering in the autumn whether it will be possible to return a portion of Bar Mutual's surplus capital to Members and, if so, what would be a fair and equitable method in order to achieve this.

Investments

Last year Bar Mutual's investment portfolio produced a net return of £2.954 million (a return of approximately 5%). This year the return was approximately 0.3%. This reduced return is explained by the exceedingly challenging investment climate for both bonds and equities. In addition, Bar Mutual's status as a mutual insurance company with limited access to additional capital means that its investment policy is designed to preserve its capital. Against that background, the Board believes the result is acceptable.

Insurance of Entities

The regulatory arrangements for the delivery of the services traditionally offered by the self-employed Bar are plainly in the midst of a process of development and change. In 2015 the BSB was authorised by the Legal Services Board to approve and regulate entities that intend to provide barrister-like services to the public.

CHAIRMAN'S REPORT (CONTINUED)

The compulsory mutual arrangement, by which Bar Mutual is obliged to insure every self-employed barrister in England and Wales authorised to practice by the BSB and all self-employed barristers are in turn obliged to purchase their primary layer of insurance from Bar Mutual, has benefitted the self-employed Bar (and their clients) enormously by ensuring the availability of comprehensive, affordable and stable professional indemnity insurance for almost three decades.

As Bar Mutual operates in the interest of the Bar, it has willingly cooperated with the BSB to ensure that the availability of insurance would not be an obstacle to the introduction of entities, both single and multi-person. Thus, for the last two policy years Bar Mutual has undertaken that it would treat all single person entities identically to all self-employed barristers and offer insurance to them as of right, while reserving the right to consider insuring multi-person entities on a case by case basis because of the possibility of an incompatibility between the insurance risk presented by multi-person entities and those of the self-employed Bar.

Without Bar Mutual's support, there was (and, indeed, remains) a material risk that many entities would not have been (and would not be) able to obtain cover that complies with the minimum terms required by the BSB at an affordable price. As at May 2016, Bar Mutual was insuring a total of 48 entities (49 have been authorised by the BSB). 40 of the authorised entities are single person entities (that is, entities with a single fee-earner who is also the owner of the entity) and eight are multi-person entities.

One of the conditions Bar Mutual has from the outset specified in exchange for its agreement to insure all single person entities and to insure multi-person entities on a discretionary basis is that the BSB would move quickly to extend the mutual obligation referred to above to single person entities by amending its Handbook. This process has proved to be protracted. Bar Mutual is working on the assumption that the BSB Handbook will have been amended to require all single person entities to insure with Bar Mutual by the time the Board makes its underwriting decisions for the 2017 policy year in six months' time.

Bar Mutual has informed the BSB that, in the event that very real and substantial progress towards actually obtaining the necessary amendment to the Handbook has not been achieved by the time the Board makes its underwriting decisions for the 2017 policy year, it is likely that Bar Mutual will withdraw the current undertaking to insure all single person entities automatically and instead will offer insurance on a discretionary basis, having regard to the underwriting risk posed by each entity. It will be appreciated that this will result in increased administration costs for Bar Mutual – and, thus, higher premiums for entities (since it would be inappropriate to recoup the additional costs from self-employed barrister Members). The expectation, however, is that the BSB will have achieved an amendment of its Handbook or at the very least will have made very real and substantial progress towards obtaining the necessary amendment to the Handbook by the time the Board makes its underwriting decisions for the 2017 policy year, such that the current arrangement by which Bar Mutual approaches the insurance of the self-employed Bar and single person entities in the same way can be continued.

The Board

In their corporate capacity our Managers have for many years discharged the role of Chief Executive Officer and Chief Financial Officer to Bar Mutual, given their day to day proximity

CHAIRMAN'S REPORT (CONTINUED)

to Bar Mutual's operations. However, the Small Business, Enterprise and Employment Act 2015 abolished corporate directorships and all directors are now required to be natural persons. In preparation for the change Bar Mutual's Articles of Association were amended in 2015. The Articles now allow representatives of our Managers to be appointed to the positions of Chief Executive Officer and Chief Financial Officer, and the Board has agreed the appointment of Ahmed Salim as our Chief Executive Officer and Rajiv Harnal as Chief Financial Officer. I would like to thank the Managers for their continued support and excellent work.

Finally, I wish to take this opportunity to record my deep appreciation for the contribution of all my fellow non-executive Directors to the continued success of Bar Mutual. We now have a total of eight standing committees and one ad hoc committee. The changed regulatory environment and the introduction of entities has increased the demand on the Directors' time manifold and, in the best traditions of the Bar, the Directors give up a considerable amount of their time on a purely voluntary basis for the benefit of the membership as a whole. I am therefore sure that the membership would also wish me to thank the Directors on their behalf for their unrelenting commitment to Bar Mutual.



Colin Edelman QC
Chairman

Date: 9 June 2016

STRATEGIC REPORT

Review of the Year

The Company continued to provide professional indemnity insurance to self-employed barristers and Entities authorised by the Bar Standards Board in England and Wales. The surplus arising out of the year's operations after tax was £4.497m (2015 – £1.671m) and this was transferred to reserves. The reserves now amount to £37.400m (2015 - £32.903m) and 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.

Risk Transfer

The Company operates a risk transfer strategy to provide protection against claims and so safeguard its reserves by purchasing reinsurance. During the year ended 31 March 2016, about 36% of the reinsurance contract was placed at Lloyd's, with the balance being placed with insurance companies in the UK. This is consistent with the placement last year. The Notes to the Financial Statements include details of the Company's reinsurance programme.

Financial results

The Income and Expenditure Account (on page 13) and the Balance Sheet (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-ended 31 March 2016 and 31 March 2015.

	2016	2015
	£'000	£'000
Premium Written	16,634	15,081
Reinsurance Premium	(2,224)	(2,630)
Net claims incurred	(8,824)	(11,908)
Operating expenses	(1,255)	(1,349)
Surplus/(deficit) on technical account	4,331	(806)
Investment Income	10	2,954
Surplus on ordinary activities before tax	4,341	2,148
Tax	156	(477)
Surplus/(deficit) for the financial year	4,497	1,671
Free Reserves at 31 March	37,400	32,903

Investments

The Directors have set in place formal investment policies and objectives. The objectives of the Policy are the following:

- To maintain sufficient funds to cover its known claims liabilities and its required regulatory capital;
- To preserve capital in real terms (CPI rate of inflation) over the medium term, the medium term being defined as a period of 3 to 5 years.

The investment return for the year under review was 0.3% (2015: 5%).

Colin Edelman QC
Chairman
Date: 9 June 2016



DIRECTORS REPORT

The Directors have pleasure in presenting their Report and the Financial Statements for the year ended 31 March 2016.

The Company has appointed Bar Mutual Management Company as sole managers to manage its business affairs and operations and has appointed Thomas Miller Investment Limited to manage the Company's investment portfolio. Both Bar Mutual Management Company and Thomas Miller Investment Limited are owned by Thomas Miller Holdings Limited.

The duties of the Managers and details of their remuneration are detailed in note 8 to the Financial Statements.

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.

Risk Management

The Company's risk management is overseen by the Audit & Risk Committee. The Committee 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.

Information on how these risks are managed is disclosed in Note 4 to the Financial Statements.

During the year, the Committee reviewed the Company's risk management policies and procedures in the context of preparing for the introduction of Solvency II.

Directors and Officers

The names of the Directors of the Company who served during the year are shown on page 2.

In accordance with the Articles of Association, Stephen Arthur, Colin Edelman QC, Alexandra Healy QC, Michael Horne QC, Christopher Pocock QC and David Railton QC retire by rotation and being eligible will seek reappointment at the Annual General Meeting on 25 July 2016.

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

DIRECTORS REPORT (CONTINUED)

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

Meetings of the Directors

The Board of the Company held three formal meetings in June 2015, December 2015 and March 2016.

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 Company's Articles and Rules.

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

The Annual Reports and Financial Statements for the year ended 31 March 2015 were approved by the Board for submission to the members of the Company at the Annual General Meeting.

Board Committees

The Board has delegated specific authority to a number of committees. The Board is informed of the main issues discussed as all minutes of the meetings of the committees are distributed to the Board.

The Audit and Risk Committee comprising Christopher Symons QC (Chairman), Stephen Arthur, Gregory Denton-Cox, Charles Flint QC, Nina Goolamali, Christopher Pocock QC and David Railton QC assists the Board in discharging its responsibilities for the integrity of the Financial Statements, compliance with the regulatory requirements, and assessing the business risks of the Company. The Committee met on three occasions in the course of the year.

The Claims Committee comprising Colin Edelman QC (Chairman), Michael Brindle QC, Charles Flint QC and Christopher Symons QC assists the Board in reviewing issues of principle arising in claims-related matters. The Committee met once in the year and liaised frequently throughout the year about claims-related issues.

The Investment Committee comprising David Wolfson QC (Chairman), Gregory Denton-Cox, Jasbir Dhillon QC, Charles Flint QC, Nina Goolamali, Michael Horne QC and Sharif Shivji assists the Board in reviewing in detail the performance of the Company's investments and making recommendations to the Board in respect of the Investment Policy and other investment related issues. The Committee met on three occasions in the course of the year.

The Management Fee Committee comprising Christopher Symons QC (Chairman), Colin Edelman QC, Alexandra Healy QC and David Railton QC assists the Board in finalising fee agreements with the Managers and Investment Managers. The Committee did not meet during the year but liaised as required.

DIRECTORS REPORT (CONTINUED)

The Nominations Committee comprising Colin Edelman QC (Chairman), Michael Brindle QC, Rebecca Sabben-Clare QC and David Wolfson QC assists the Board in reviewing the membership of the Board and its committees and makes recommendations to the Board to fill vacancies. The Committee met once during the year.

The Reserves Committee comprising Michael Brindle QC (Chairman), Stephen Arthur, Jasbir Dhillon QC, Alexandra Healy QC, Sharif Shivji and Joanna Smith QC assists the Board in reviewing in detail the Company's claim reserves and claims reserves policy. It also provides a clear channel of communication between the Managers' actuaries and the Board. The Committee met twice during the year.

The Rating and Reinsurance Committee comprising Colin Edelman QC (Chairman), Stephen Arthur, Leigh-Ann Mulcahy QC, Christopher Pocock QC, David Railton QC, Rebecca Sabben-Clare QC, Joanna Smith QC and Christopher Symons QC assists the Board in reviewing in detail the rating system of the Company and making annual recommendations to the Board in respect of the ratings to be applied to the next policy year. The Committee also reviews Bar Mutual's reinsurance programme. The Committee met twice during the year.

The Rules and Cover Committee comprising Colin Edelman QC (Chairman), Michael Brindle QC, Michael Horne QC, Leigh-Ann Mulcahy QC, David Railton QC and Rebecca Sabben-Clare QC reviews the terms on which insurance cover is provided by the Company. This Committee did not meet during the year but liaised as required.

The Legal Services Act Committee comprises Colin Edelman QC (Chairman), Michael Brindle QC, Alexandra Healy QC, Leigh-Ann Mulcahy QC and Christopher Symons QC. The Committee assists the Board in its response to the effect of the introduction of the Legal Services Act on the members of Bar Mutual Indemnity Fund. The committee did not meet during the year but liaised as required.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Strategic Report and Directors' Report and the Financial Statements in accordance with applicable law and regulations. Company law requires the Directors to prepare Financial Statements for each financial year. 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). 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 judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- 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

DIRECTORS REPORT (CONTINUED)

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.

AUDITORS

The Company's auditors, Moore Stephens LLP, have expressed their willingness to continue to serve as the Company's auditors. A resolution for their re-appointment and to authorise the Directors to fix their remuneration will be submitted to the forthcoming Annual General Meeting.

A handwritten signature in black ink, appearing to read 'Colin Edelman', with a long horizontal flourish extending to the right.

Colin Edelman QC
Chairman

Date: 9 June 2016

Independent Auditors' Report to the Members of Bar Mutual Indemnity Fund

We have audited the Financial Statements of Bar Mutual Indemnity Fund Limited for the year ended 31 March 2016, which are set out on pages 13 to 34. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective Responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 9, 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

A description of the scope of an audit of Financial Statements is provided on the Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

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 March 2016 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion 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.

**Independent Auditors' Report to the Members of Bar Mutual Indemnity Fund
(Continued)**

Matters on which we are required to report by exception

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

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



Alexander Barnes (Senior Statutory Auditor)
For and on behalf of Moore Stephens LLP, Statutory Auditor
150 Aldersgate Street
London
EC1A 4AB

Date: 14th June 2016

The maintenance and integrity of Bar Mutual Indemnity Fund Limited's website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that have occurred to the Financial Statements presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

STATEMENT OF INCOME AND MOVEMENT IN RESERVES
For the year ended 31 March 2016

	Note	2016 £	2015 £
TECHNICAL ACCOUNT GENERAL BUSINESS			
Earned premiums, net of reinsurance			
Gross Premiums written	5	16,633,870	15,080,582
Reinsurance premiums	6	<u>(2,223,713)</u>	<u>(2,630,270)</u>
Earned premiums, net of reinsurance		<u>14,410,157</u>	<u>12,450,312</u>
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	7	(10,280,690)	(10,789,478)
Reinsurers' share		<u>1,313,753</u>	<u>625,016</u>
Net claims paid	A	<u>(8,966,937)</u>	<u>(10,164,462)</u>
Change in the provision for claims			
Gross amount	7	634,742	(1,951,064)
Reinsurers' share	7	<u>(492,025)</u>	<u>208,064</u>
Change in the net provision for claims	B	<u>142,717</u>	<u>(1,743,000)</u>
Claims incurred, net of reinsurance	A+B	<u>(8,824,220)</u>	<u>(11,907,462)</u>
Net operating expenses	9	(1,255,081)	(1,348,950)
Balance on the technical account	A	<u>4,330,856</u>	<u>(806,100)</u>
NON-TECHNICAL ACCOUNT			
Investment income	10	1,958,789	1,624,592
Unrealised gains/(losses) on investments	10	(1,775,827)	1,497,882
Investment expenses and charges	10	<u>(172,757)</u>	<u>(168,124)</u>
	B	<u>10,205</u>	<u>2,954,350</u>
Surplus on ordinary activities before tax	A+B	4,341,061	2,148,250
Tax on ordinary activities	11	156,315	(476,787)
Surplus/(deficit) for the financial year		<u>4,497,376</u>	<u>1,671,463</u>
Reserves at 31 March, 2015		<u>32,902,926</u>	<u>31,231,463</u>
Reserves at 31 March, 2016		<u>37,400,302</u>	<u>32,902,926</u>

All income and expenses relate to continuing operations.

The notes on pages 16 to 34 form an integral part of these Financial Statements.

Company number 218 2018


STATEMENT OF FINANCIAL POSITION

		As at 31 March 2016	
	Note	2016	2015
		£	£
ASSETS			
Investments			
Other financial investments	12	70,386,667	68,136,819
Reinsurers' share of technical provisions			
Claims outstanding	7	994,660	1,486,685
Debtors			
Debtors arising out of direct insurance operations	13	25,717	-
Debtors arising out of reinsurance operations	14	415,015	745,223
Other debtors	15	484,056	166,609
		<u>924,788</u>	<u>911,832</u>
Other assets			
Cash at bank	16	11,900,214	11,809,833
Prepayments and accrued income			
Accrued interest-interest earned but not yet received on fixed interest securities		345,021	332,150
Other prepayments and accrued income		10,464	16,088
		<u>84,561,814</u>	<u>82,693,407</u>
TOTAL ASSETS			
LIABILITIES			
Reserves			
Free reserves		37,400,302	32,902,926
Technical provisions			
Claims outstanding - gross amount	7	35,526,556	36,161,298
Creditors			
Creditor arising out of direct insurance operations		34,552	23,069
Creditors arising out of reinsurance operations	17	546,954	1,053,621
Other creditors including taxation	18	2,117	477,668
		<u>583,623</u>	<u>1,554,358</u>
Accruals and deferred income	19	11,051,333	12,074,825
		<u>84,561,814</u>	<u>82,693,407</u>
TOTAL LIABILITIES			

The notes on pages 16 to 34 form an integral part of these Financial Statements.

These Financial Statements were approved by the Board of Directors and were signed on its behalf on Date: 9 June 2016 by:

Director:



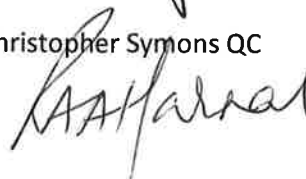
Colin Edelman QC

Director:



Christopher Symons QC

Signed on behalf of the Managers: R. A. A. Harnal
Bar Mutual Management Company



CASH FLOW STATEMENT
For the year ended 31 March 2016

Operating activities

	Note	2016 £	2015 £
Premiums received		15,563,105	16,841,422
Reinsurance premium paid		(2,730,380)	(2,635,626)
Claims paid		(10,413,521)	(10,826,745)
Reinsurance recoveries received		1,643,961	351,868
Operating expenses paid		(1,243,334)	(1,312,290)
Taxation paid		(477,477)	(102,737)
Net cash provided / (used) by operating activities		<u>2,342,354</u>	<u>2,315,892</u>

Cash flows from investment activities

Purchase of investments		(60,388,928)	(44,657,736)
Sale of investments		56,452,383	42,171,301
Interest received		926,722	951,435
Dividends received		757,850	683,937
Net cash flow from investment activities		<u>(2,251,973)</u>	<u>(851,063)</u>
Net increase / (decrease) in cash and cash equivalents		<u>90,381</u>	<u>1,464,829</u>
Cash and cash equivalents at the beginning of the year		<u>11,809,833</u>	<u>10,345,004</u>
Cash and cash equivalents at the end of the year	16	<u>11,900,214</u>	<u>11,809,833</u>

NOTES TO THE FINANCIAL STATEMENTS

1. Constitution and ownership

The Company is incorporated in England as a company limited by guarantee and not having a share capital.

In pursuance of its business and in accordance with its Memorandum, Articles of Association and its Rules, the Company has the right to make calls on its Members to meet its liabilities. No specific provision is made in the accounts 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.

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 United Kingdom 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 Gross premiums written

The gross premiums written are the total receivable for contracts with Members coming into force during the accounting period together with any premium adjustments relating to prior periods. The gross premiums written include provisions for doubtful debts and premiums returned to Members leaving the profession.

2.3 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 March 2016, 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 March 2016;

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

2.3 Claims (continued)

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

Claims incurred in the Income and Expenditure Account includes:

- (i) Claims and costs paid during the year;
- (ii) The claims handling costs of the Managers (see note 8); and
- (iii) The movement in the claims provision (see note 7).

2.4 Reinsurance recoveries

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

2.5 Reinsurance premiums

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

2.6 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.

2.7 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

2.7 Other financial Investments (continued)

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.

2.8 Investment returns

Investment return comprises dividend income from equities, income on fixed interest securities, interest on deposits and cash.

Dividends are recognised as income on the date the relevant securities are marked ex-dividend. Other investment income is recognised on an accruals basis.

2.9 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.

2.10 Foreign currencies

Items included in the Financial Statements are measured in UK sterling. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

2.11 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 more likely than not that they will be recovered. Deferred tax balances are not discounted.

2.12 Provision for doubtful debts

A provision is made for doubtful debts arising out of direct insurance for amounts due from Members that have been outstanding for one year or more (see note 14).

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3.2 Fair value estimations (continued)

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 assets and liabilities measured at fair value by level of the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
<u>As at 31 March 2016</u>	£'000	£'000	£'000	£'000
<u>Assets</u>				
Fixed interest - Government	-	24,671	-	24,671
Fixed interest – Corporate	-	20,743	-	20,743
Equities & Alternatives	8,948	1,370	-	10,318
UCITS	41	14,613	-	14,654
	<u>8,989</u>	<u>61,397</u>	<u>-</u>	<u>70,386</u>

The table below presents the Company's assets and liabilities measured at fair value by level of the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
<u>As at 31 March 2015</u>	£'000	£'000	£'000	£'000
<u>Assets</u>				
Fixed interest - Government	-	24,550	-	24,550
Fixed interest – Corporate	-	15,313	-	15,313
Equities & Alternatives	18,204	2,044	-	20,248
UCITS	4,063	3,961	-	8,024
	<u>22,267</u>	<u>45,868</u>	<u>-</u>	<u>68,135</u>

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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Management of Risk (continued)

- 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 tariff rating system and so 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 March 2016, about 36% of the reinsurance contract was placed at Lloyd's and the remaining 64% 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.

Reserving process

The Company establishes provisions for unpaid claims, both reported and unreported, and related expenses to cover its expected ultimate liability. These provisions are established through the application of actuarial techniques 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 Bar Mutual Management Company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Management of Risk (continued)

4.1 Insurance Risk (continued)

Reserving process (continued)

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.

	2016	2015
	£	£
Increase in loss ratio by 5 percentage points		
Gross	(831,694)	(754,029)
Net	(720,508)	(622,516)

A 5 per cent 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 is formally reviewed every three years (but more frequently if required). The policy reflects the risk appetite of the Company and is designed to hold the risk to a level deemed acceptable while maximising return.

The Investment Strategy is formally reviewed annually and 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Management of Risk (continued)

4.2 Market Risk (continued)

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 £454k 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 amounted to 14.58 per cent of the investment portfolio (2015: 32.8%).

A 1% increase in equity values would be estimated to have increased the surplus before tax at the year-end by £103k. 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 a 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Management of Risk (continued)

4.3 Credit Risk (continued)

Amounts due from Members

Amounts due from Members represent premium owing to the Company in respect of insurance business written. The risk of Member default is managed by the option of reporting Members to the Bar Standards Board for non-payment which may lead to disciplinary action against the Member.

Counterparty risk with respect to cash and investments

The Investment Strategy sets out the investment limits to which the investment manager has to adhere. All fixed interest and floating rate investments to have minimum long term debt rating of A- from S&P or A3 from Moodys. UCITS within which cash shall be held shall have a minimum rating of AAA from S&P or Moodys and no more than 20% of the total fund size shall be held within any one UCITS or with Bar Mutual's custodian bank. No rating is required for Equity and alternative holdings.

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

As at 31 March 2016	AAA/AA	A	BBB or less or not rated	Total
	£'000	£'000	£'000	£'000
Fixed interest-Government	24,671	-	-	24,671
Fixed interest-Corporate	5,491	15,252	-	20,743
Equities & Alternatives	-	-	10,318	10,318
UCITS	14,634	-	-	14,634
Other	-	-	20	20
	<u>44,796</u>	<u>15,252</u>	<u>10,338</u>	<u>70,386</u>

As at 31 March 2015	AAA/AA	A	BBB or less or not rated	Total
	£'000	£'000	£'000	£'000
Fixed interest-Government	24,550	-	-	24,550
Fixed interest-Corporate	5,563	9,750	-	15,313
Equities & Alternatives	-	-	21,158	21,158
UCITS	<u>7,116</u>	-	-	<u>7,116</u>
	<u>37,229</u>	<u>9,750</u>	<u>21,158</u>	<u>68,137</u>

There were no past due or impaired assets at 31 March 2016 (2015: Nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Management of Risk (continued)

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 March 2016, the Company's short term deposits (including cash and UCITs) amounted to £26.554m (2015: £19.833m). The Company has sufficient liquid assets to meet its liabilities as they fall due.

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

As at 31 March 2016	Short term assets £'000	Within 1year £'000	2-5year £'000	Total £'000
Fixed interest-Government	-	-	24,671	24,671
Fixed interest-Corporate		3,837	16,906	20,743
Equities & Alternatives	10,318	-	-	,10,318
UCITS	14,634	-	-	14,634
Other	20	-	-	20
	<u>24,972</u>	<u>3,837</u>	<u>41,577</u>	<u>70,386</u>

As at 31 March 2015	Short term assets £'000	Within 1 year £'000	2-5 years £'000	Total £'000
Fixed interest-Government	-	-	24,550	24,550
Fixed interest-Corporate	-	-	15,313	15,313
Equities & Alternatives	21,158	-	-	21,158
UCITS	7,116	-	-	7,116
	<u>28,274</u>	<u>-</u>	<u>39,863</u>	<u>68,137</u>

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 Bar Mutual Management Company 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 documented.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Management of Risk (continued)

4.5 Operational 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.

The Company's policy is to hold a minimum buffer of capital in excess of its regulatory capital requirement (its SCR) that is the monetary equivalent of a 1 in 20 year event while the maximum buffer in excess of that minimum buffer should not exceed the monetary equivalent of a 1 in 20 year event.

At year end capital resources under the current Solvency I regime of £38.573m exceed the Company's regulatory capital requirement of £22.796m by £15.777m.

From 1 January 2016 the Company was expected to comply with capital requirements set out in Solvency II, the new regulatory regime. For Solvency II purposes the Company's year end capital resources were £43.982m, exceeding the Company's regulatory capital requirement of £17.784m by £26.198m.

5. Gross premiums written

In accordance with the practice that the Company introduced in 1999 of providing a premium deferral, where appropriate, the Company provided a general deferral of 17.5% on premiums for the year ended 31 March 2016 (2015: 20%). Gross premiums written are reported net of this deferral. The Company reserves the right to call the deferred premium from members unless it has waived its right to do so.

6. Reinsurance premiums

In respect of the year ended 31 March 2016, the Company had reinsurance cover relating to claims and settlement costs of £250,000 in excess of £500,000 subject to a £500,000 aggregate deductible, £750,000 in excess of £750,000 subject to a £750,000 aggregate deductible and £1,000,000 in excess of £1,500,000.

	2016	2015
	£	£
Treaty reinsurance	2,361,592	2,255,174
Reinstatement premium	(157,879)	365,096
Stop loss reinsurance premium	213,039	179,226
Stop loss profit commission	(193,039)	(169,226)
	<u>2,223,713</u>	<u>2,630,270</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Reinsurance premiums (continued)

The Company purchased two three year Stop Loss Reinsurance policies covering the 2008 to 2010 and 2011 to 2013 policy years. The covers are subject to mandatory commutations. The first occurred on 1 April 2016 and the next one is due on 1 April 2019. The Company may commute the remaining policy at an earlier date with the agreement of Hannover Re. The policies provide additional reinsurance protection to the Company in the event that the net claims costs in any or all the policy years covered by the policy exceed a specified amount. This amount will vary at the end of each financial year.

The Company did not purchase a Stop Loss Policy for policy years 2014 and 2015.

The Stop Loss reinsurance premium of £0.213m shown in the note above is made up of annual interest payable and broker maintenance fees on the stop loss account. The Stop Loss profit commission shown in the note above of £0.193m (2015: £0.169m) relates to the interest earned on the Trust Fund Withheld Account (held for the Stop Loss Policy) and has been released as profit commission.

The treatment of the profit commission is in accordance with FRS103 Insurance Contracts.

In arranging reinsurance contracts the Managers obtain and monitor credit ratings for each of the prospective reinsurers in order to ensure as far as practicable that recoveries will be settled if and when they fall due.

7. Claims and technical provisions

	2016	2015
	£	£
Gross claims paid	8,885,728	9,448,206
Claims handling (note 8)	1,394,962	1,341,272
	<u>10,280,690</u>	<u>10,789,478</u>

Change in gross provision for claims

	2016	2015
	£	£
Gross claims outstanding at end of year	35,526,556	36,161,298
Gross claims outstanding at beginning of year	36,161,298	34,210,234
(Decrease)/increase in gross provision for claims	<u>(634,742)</u>	<u>1,951,064</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 notified claims. The estimates for known outstanding claims are based on the best estimates and judgment of the Managers of the final cost of individual cases. These estimates are as reliable as possible given the details of the cases and taking into account all the current information. However, the final outcome of individual cases may prove to be significantly different to the estimates made at the balance sheet date. The estimates are reviewed as required, and at least annually. The gross provision for claims includes allowances for adverse development and the Managers' future claims handling costs (see note 2.3).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Claims and technical provisions (continued)

A reasonable allowance has been made for adverse claims development in the future. The allowance is assessed by an actuary employed by the Managers using standard actuarial techniques. This methodology projects the claims statistics forward based on the historical pattern of claims experience of Bar Mutual in the past and other factors.

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 2015/2016 policy year.

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

Reporting Year	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000
At the end of the reporting year	10,759	11,200	11,139	10,900	11,425	12,382
1 year later	10,237	11,868	11,550	11,087	10,364	
2 years later	9,259	12,149	12,398	9,809		
3 years later	8,385	10,814	11,616			
4 year later	8,654	10,448				
5 years later	7,850					
Estimate of ultimate claims	7,850	10,448	11,616	9,809	10,364	12,382

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Claims and technical provisions (continued)

Net estimate of ultimate claims costs attributable to policy year

Reporting Year	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000
At the end of the reporting year	10,759	11,200	11,139	10,900	11,425	12,382
1 year later	10,237	11,308	11,148	10,900	10,364	
2 years later	9,259	11,308	11,148	9,809		
3 years later	8,385	10,764	10,847			
4 year later	8,654	10,222				
5 years later	7,850					
Estimate of ultimate claims	7,850	10,222	10,847	9,809	10,364	12,382
Cumulative payments to date	6,231	9,336	8,097	4,033	2,763	998
Liability recognised in statement of financial position	1,619	886	2,750	5,776	7,601	11,384
Total liability relating to last six policy years						30,016
Other claims liabilities						4,516
Total net technical provisions included in the balance sheet						34,532

Change in reinsurers' share of technical provisions

	2016 £	2015 £
Reinsurers' share of claims outstanding at end of year	994,660	1,486,685
Reinsurers' share of claims outstanding at beginning of year	1,486,685	1,278,621
Increase in reinsurers' share of claims outstanding	(492,025)	208,064

The reinsurers' share represents the provision for that part of the gross claims provision, which is recoverable from reinsurers. It is based on estimated recoveries against actual claims and costs payments made and estimated claims and costs provisions.

The movement in the reinsurers' share of outstanding claims is the difference between the provision at the start and at the end of the financial year.

Please refer to note 6 on page 26 for the details of the reinsurance cover purchased by the Company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Management costs

The Companies Act 2006 requires the management fee paid to Bar Mutual Management Company to be apportioned between the different management functions. This fee has to be allocated to acquisition costs, which in the case of Bar Mutual Indemnity Fund Limited has been interpreted by the Directors and Managers as the cost of underwriting, processing renewals, premium adjustments and credit control; to claims handling costs; and to 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.

	2016	2015
	£	£
Acquisition costs (note 9)	656,586	631,316
Claims handling (note 7)	1,394,962	1,341,272
Administration expenses (note 9)	334,947	322,055
	<u>2,386,495</u>	<u>2,294,643</u>
A separate fee is paid to the Investment Managers and included in investment expenses and charges (note 10)		
Investment management expenses	55,824	53,676
Management fees	<u>2,442,319</u>	<u>2,348,319</u>

9. Net operating expenses

	2016	2015
	£	£
a) Acquisition costs	656,586	631,316
b) <u>Administration expenses</u>		
Legal and professional fees	40,330	154,621
Directors' & Officers' Liability insurance	68,406	64,353
AGM & printing costs	39,614	46,051
Charitable donations – LawCare	10,000	10,000
FCA statutory fees for authorisation	41,572	46,199
Auditors' remuneration - Audit of Financial Statements	46,910	53,195
- Taxation services	16,715	21,180
Management administration expenses	334,947	322,055
Other expenses and data information requests	-	(20)
	<u>1,255,081</u>	<u>1,348,950</u>

With the exception of 2005, in every year since 2001, at the original suggestion of the Bar Council, the Company has made a donation of £10,000 to Law Care, which was formerly known as SolCare. Law Care provides help to solicitors and barristers suffering from work-related problems including stress, depression and addictive illnesses. There were no Directors' emoluments during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Investment income

	2016	2015
	£	£
Interest on listed investments	906,478	934,944
Gain on foreign exchange	82,675	(96,002)
Bank deposit interest	20,244	16,491
Dividends on equities	757,850	683,937
	<u>1,767,247</u>	<u>1,539,370</u>
Gains on realisation of investments	191,542	85,222
	<u>1,958,789</u>	<u>1,624,592</u>

Investment expenses and charges

	2016	2015
	£	£
Bank, custodial and other charges	116,933	114,448
Investment management expenses (see note 8)	55,824	53,676
	<u>172,757</u>	<u>168,124</u>

Unrealised gains on investments

	2016	2015
	£	£
Cost (see note 12)	69,699,583	65,665,030
Market value (see note 12)	<u>70,386,667</u>	<u>68,136,819</u>
Unrealised gains at year end	<u>687,084</u>	<u>2,471,789</u>
Unrealised gains/(losses) movement for the year	<u>(1,775,827)</u>	<u>1,497,882</u>

11. Taxation

- (a) By virtue of its mutual status, the Company is not liable to tax on its insurance operations. However, 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	2016	2015
	£	£
UK corporation tax (Note 11c)	(157,005)	476,787
(Over)/under provision prior year & interest on tax	690	-
	<u>(156,315)</u>	<u>476,787</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Taxation (continued)

- (b) The tax assessed for the period differs from the standard rate of corporation tax in the UK (20 %) and is computed as follows:

	2016 £	2015 £
Surplus/(deficit) on ordinary activities before tax	4,341,060	2,148,250
Surplus/(deficit) on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015: 21%)	868,212	451,133
<i>Effects of :</i>		
Non-taxable mutual insurance operations	(866,171)	169,281
Non-taxable dividend distribution	(151,570)	(143,627)
Utilisation of losses, differences due to tax rates	(7,476)	-
Current year tax charge	(157,005)	476,787

- (c) Balance sheet

	2016 £	2015 £
<u>Taxation debtor</u>		
Taxation creditor brought forward	476,787	102,737
Payment of corporation tax	476,787	102,737
	-	-
UK corporation tax for the current year	(157,005)	476,787
Debtor as at 31 March	(157,005)	476,787

12. Other financial investments

	Market Value 2016 £	Market Value 2015 £	Cost 2016 £	Cost 2015 £
Other financial				
Investments comprise:				
Equities	10,318,198	21,157,559	9,664,526	19,008,040
UCITS	14,654,180	7,115,630	14,654,180	7,115,630
Fixed interest securities	45,414,289	39,863,630	45,380,877	39,541,360
	70,386,667	68,136,819	69,699,583	65,665,030

All holdings in fixed income securities are in securities traded on recognised exchanges. "Undertakings for Collective Investment in Transferable Securities" ("UCITS") are funds held for the short term.

The Companies Act 2006 states the categories of investment income 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".

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. Debtors arising out of direct insurance

	2016	2015
	£	£
Debts due from Members (Premiums)	47,143	-
Provision for doubtful debts	(21,426)	-
Debtors arising out of direct insurance	<u>25,717</u>	<u>-</u>

Debtors arising out of direct insurance due from Members comprises both outstanding premiums and short-term financing to Members in respect of recoverable input VAT on defence costs.

The Company actively pursues recovery of all outstanding debts and has a policy of reporting to the Bar Standards Board Members who have not paid their premiums so it may take appropriate action against them in accordance with the Code of Conduct.

14. Debtors arising out of reinsurance operations

Debtors arising out of reinsurance operations of £415,015 (2015: £745,223) are reinsurance recoveries which are due from reinsurers.

15. Other Debtors

Other debtors of £484,056 (2015: £166,609) includes recoveries expected from claims against third parties.

16. Cash and cash equivalents

	2016	2015
	£	£
Cash at hand and in bank	<u>11,900,214</u>	<u>11,809,833</u>

17. Creditors arising out of reinsurance operations

	2016	2015
	£	£
Reinsurance creditor	<u>546,954</u>	<u>1,053,621</u>

18. Other creditors including taxation

	2016	2015
	£	£
Insurance Premium tax	2,117	881
Taxation (note 11(c))	-	476,787
	<u>2,117</u>	<u>477,668</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Accruals and deferred income

	2016	2015
	£	£
Accrued expenses	99,656	78,100
Deferred income –premiums received in advance	10,951,677	11,996,725
	<u>11,051,333</u>	<u>12,074,825</u>

20. Explanation of transition to FRS102 and FRS103

This is the first year that the Company has presented its Financial Statements under Financial Reporting Standards 102 and 103 as issued by the Financial Reporting Council. The last Financial Statements under previous UK GAAP were for the year ended 31 March 2015 and the date of transition to FRS 102 and 103 was therefore 1 April 2014. There have been no changes to recognition and measurement of items in the Financial Statements as a consequence of adopting FRS 102 and FRS 103 but there have been changes to disclosures.

21. Related party disclosures

The Company has no share capital and is controlled by the Members who are also the insureds. The resulting insurance transactions and transactions relating thereto are consequently deemed to be between related parties but these are the only transactions between the Company and the Members.

All the Directors are Members of the Company and, other than their own insurance the Directors have no financial interests in the Company, other than where Directors may have been instructed to act for a barrister in a case funded by the Company. No related party transactions have occurred during the year.

21. Related party disclosures (continued)

Bar Mutual Management Company received £2,442,319 (2015: £2,348,319) from the Company in respect of management fees for the year.

22. Location and nature of business

The business consists of direct professional indemnity insurance in respect of third party liability, written within the United Kingdom.

MANAGERS AND OFFICERS

Managers:

Bar Mutual Management Company, 90 Fenchurch Street, London, EC3M 4ST.

Directors of Bar Mutual Management Company:

R. Cunningham
R. A. A. Harnal
S. Jacobs
M. Levey
A. Salim
D. Simpson

SECRETARY

K. Halpenny

BAR MUTUAL INDEMNITY FUND LIMITED (A COMPANY LIMITED BY GUARANTEE)

Registered in England No. 2182018

REGISTERED OFFICE

90 Fenchurch Street
London, EC3M 4ST

Auditors:

Moore Stephens LLP
150 Aldersgate Street
London
EC1A 4AB

