

BAR MUTUAL INDEMNITY FUND LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

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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 Tuesday 3 October 2017 at 5.00pm for the following purposes:

To receive the Directors' Report and Financial Statements for the year ended 31 March 2017 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, sweeping horizontal stroke extending to the right.

K. Halpenny
Secretary

Date: 24 July 2017

- 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)
David Railton QC	(Deputy Chairman)
Charles Flint QC	(Deputy Chairman)
Christopher Symons QC	(Deputy Chairman) Retired 14 December 2016
Stephen Arthur	
Gregory Denton-Cox	
Jasbir Dhillon QC	
Nina Goolamali QC	
Rajiv A A Harnal	(Chief Financial Officer) Appointed 1 June 2016
Alexandra Healy QC	
Michael Horne QC	
Leigh-Ann Mulcahy QC	
Christopher Pocock QC	
Ahmed Salim	(Chief Executive Officer) Appointed 1 June 2016
Rebecca Sabben-Clare QC	
David Scorey QC	Appointed 6 March 2017
Sharif Shivji	
Joanna Smith QC	
David Wolfson QC	

CHAIRMAN'S REPORT

Financial Results

I am very pleased to report on another good year for Bar Mutual with an operating surplus of £4.182m for the financial year ended 31 March 2017, a shade below the surplus of £4.497m reported last year.

This result was achieved despite the Board targeting a £1m reduction in Bar Mutual's premium on the previous year and in the face of an increase (by £0.8m) in Bar Mutual's claims experience.

The surplus this year is attributable to the performance of Bar Mutual's investment holdings and to the underwriting outcome for the year. The funds invested generated an investment return of 3.46% resulting in a contribution of £2.459m to the results, a marked improvement on the investment return of 0.27% generated last year, whilst the underwriting activities contributed £2.145m to the results.

By far the largest risk Bar Mutual faces as an insurance company is a severe reversal in what has in recent years been a relatively benign claims experience. Our history demonstrates that, quite unexpectedly, Bar Mutual's claims experience can climb to levels that could have an impact on its financial strength were it not adequately reserved.

Accordingly, Bar Mutual has always adopted a conservative approach to its operations. This is in order to ensure that it has strong reserves that are capable of absorbing any exaggerated developments in its claims experience without future Members having to pay for the claims of their predecessors. It also helps in ensuring that Bar Mutual has time to react to any unexpected increases in its costs base (the cost of reinsurance for example), or its regulatory capital requirement, without having to take drastic unplanned measures.

At the same time, however, the Board is highly conscious of not accumulating reserves in excess of what a sensible degree of prudence requires. To this end, and as part of its Risk Appetite Statement, the Board formulated and has for some years applied a consistent policy on the amount of capital it should hold above its regulatory capital requirement to ensure that it has enough to absorb any unexpected shocks but not too much. The policy provides for a target range in excess of Bar Mutual's regulatory capital requirement, with upper and lower limits, within which Bar Mutual's free reserves should sit.

In my interim Chairman's Statement of January this year I identified several factors that were responsible for Bar Mutual's free reserves exceeding the top level of the target range. These were the relatively benign claims experience, the higher than projected investment income for the financial year and the reduction in Bar Mutual's regulatory capital requirement.

As part of its Risk Appetite Statement, where Bar Mutual's free reserves exceed the upper end of the target range set in its capital resources policy, Bar Mutual is required to manage its free reserves into the target range over a period of time. To achieve this, Bar Mutual can reduce the rates it sets for areas of practice or increase the level of premium deferral granted to Members, or it can do both. Thus, for the 2017 renewal, and without departing from its underwriting criteria for the premium rate calculation, the rates charged for several areas of practice were reduced and the premium deferral increased from 20% to 27.5%. Members will doubtless have noticed a reduction in their premiums at the 2017 renewal as a result.

CHAIRMAN'S REPORT (continued)

Entities

One of the major projects undertaken by the Bar Council in recent years is to innovate the way in which self-employed members of the Bar can offer legal services. In 2015 the Bar Standards Board ("BSB") secured authorisation from the Legal Services Board to approve and regulate single person and multi-person entities; and in 2016 it secured authorisation to approve and regulate alternative business structures.

As Bar Mutual endeavours to support the Bar, and because the legal services offered by BSB approved single person entities is invariably very similar to if not identical to that offered by self-employed members of the Bar, Bar Mutual agreed to treat single person entities as self-employed Barristers and so provide them with professional indemnity insurance as of right.

However, from the outset, Bar Mutual attached one condition to this arrangement, which was that the BSB should effect a change in its Handbook so as to require all single person entities to purchase their first £2.5m of professional indemnity insurance with Bar Mutual. The condition for this rule change was primarily informed by the need to ensure fairness between the self-employed Bar and single person entities.

It is unfortunately taking the BSB much longer than even it anticipated to secure the rule change. Bar Mutual has therefore had to reserve its position on whether it will continue to provide automatic insurance to single person entities at future renewals. Bar Mutual currently insures multi-person entities and alternative business structures on a discretionary basis; and in the absence of a change to the Handbook requiring all single person entities to insure with Bar Mutual, Bar Mutual will consider ceasing to insure single person entities as a matter of right and instead adopt the same approach it applies to providing insurance to multi-person entities and alternative business structures, namely doing so on a discretionary basis.

One unavoidable result of this will be an inevitable increase in the premium charged to all entities as a result of (a) the increased administrative costs in underwriting individual risks and (b) the application of a different rating schedule to entities.

Pro Bono

Bar Mutual's Terms of Cover currently provide insurance to members of the self-employed Bar who provide pro bono legal services within the Terms of Cover.

This year Bar Mutual was approached by the current Chairman of the Bar Council, Andrew Langdon QC, for Bar Mutual to provide insurance to members of the employed Bar who provide pro bono legal services.

Given the current difficulties in obtaining access to legal advice and assistance, the Board is of the view that Bar Mutual should support this request and so a recommendation will be made to the Members at the Annual General Meeting in October for Bar Mutual to provide insurance to employed barristers providing pro bono legal services through the Bar Pro Bono Unit or the Free Representation Unit. Bar Mutual's experience of claims arising from the provision of pro bono legal services is exceedingly benign and so it is anticipated that there will be no appreciable claims risk in extending Bar Mutual's cover in this way.

CHAIRMAN'S REPORT (continued)

Data Security

Whilst it is not an area that generates many claims for Bar Mutual, the safeguarding of personal data held by self-employed barristers nonetheless merits mention in my Chairman's Statement.

The relevant statute is the Data Protection Act 1998, which sets out the legal obligations that have to be met in relation to data security. The Bar Council has also issued guidance on data security which can be found on its website.

In light of the impending introduction of the EU General Data Protection Regulation ("GDPR") in May 2018, Members are encouraged to ensure that they understand how to minimise the risk of suffering data loss, their regulatory and legal obligations in the event of a data loss and the measures they can take to limit their exposure.

The Board

This year's Annual General Meeting scheduled for October will coincide with the retirement of David Wolfson QC, Leigh-Ann Mulcahy QC and Charles Flint QC. Each has made an immeasurable contribution to the work of Bar Mutual.

David is the retiring Chairman of Bar Mutual's Investment Committee. Together with the members of that Committee, which includes Charles, David led the task of developing and then implementing an investment policy that has protected and nourished Bar Mutual's funds through very difficult and unprecedented investment conditions. I wish to record my thanks - personal and on behalf of the Board - to both David and Charles for their contribution to the work of the Investment Committee and the Board. David is succeeded in the role of Chairman of the Investment Committee by Jasbir Dhillon QC.

I am particularly grateful to Leigh-Ann for her contribution to the Legal Services Act Committee. This Committee spent many hours examining and liaising with the BSB on its proposals for approving and regulating entities, and in formulating Bar Mutual's approach to the insurance of entities.

Bar Mutual has been fortunate in attracting the ablest of practitioners to its Board over many years and I am therefore very pleased to report that, continuing in this tradition, David Scorey QC joined the Board in the course of the year. We welcome him to the Board.



Colin Edelman QC
Chairman

Date: 24 July 2017

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 £4.183m (2016 – £4.497m) and this was transferred to reserves. The reserves now amount to £41.583m (2016 - £37.4m) 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 2017, about 47% 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. Note 6 in the Financial Statements explain the Company's reinsurance programme.

Financial results

The Statement of Income and Movement in Reserves (on page 13) and the Statement of Financial Position (on page 14) together with the notes to the Financial Statements set out the Company's financial position in detail. The following table compares key financial information for the year-ended 31 March 2017 and 31 March 2016.

	2017	2016
	£'000	£'000
Premium Written	15,580	16,634
Reinsurance Premium	(2,545)	(2,224)
Net claims incurred	(9,577)	(8,824)
Operating expenses	(1,312)	(1,255)
Surplus on technical account	2,146	4,331
Investment Income	2,459	10
Surplus on ordinary activities before tax	4,605	4,341
Tax	(422)	156
Surplus for the financial year	4,183	4,497
Free Reserves at 31 March	41,583	37,400

Investments

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

- To maintain sufficient funds to cover Bar Mutual's claims liabilities and Bar Mutual's 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 3.46% (2016: 0.3%).

Colin Edelman QC
Chairman
Date: 24 July 2017



DIRECTORS REPORT

The Directors have pleasure in presenting their Report and the Financial Statements for the year ended 31 March 2017.

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 and approved the Company's risk management policies and procedures in the context 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, Michael Brindle QC, Gregory Denton-Cox and Jasbir Dhillon QC retire by rotation and, being eligible, will seek reappointment at the Annual General Meeting on 3 October 2017.

David Scorey QC, having been appointed during the year, must retire and, being eligible, will seek reappointment at the Annual General Meeting on 3 October 2017.

Charles Flint QC, Leigh-Ann Mulcahy QC and David Wolfson QC will also retire by rotation but will not be seeking reappointment.

DIRECTORS REPORT (CONTINUED)

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 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 2016, December 2016 and March 2017.

They also maintained contact with the Managers between meetings, in order to fulfil the general and specific responsibilities entrusted to them by the Members under the Company's Articles of Association 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 2016 were approved by the Board in June 2016 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 David Railton QC (Chairman), Stephen Arthur, Gregory Denton-Cox, Charles Flint QC, Nina Goolamali QC, Christopher Pocock QC and David Scorey QC assists the Board in reviewing the effectiveness of the Company's internal control processes, the Internal Audit reports, approving the year-end Statutory audits, monitoring the Managers responses to findings and recommendations of Internal audit and statutory audit and assessing the business risks of the Company. The Committee met on three occasions in the course of the year. Christopher Symons QC retired from the Committee and as Chairman during the year.

The Claims Committee comprising Colin Edelman QC (Chairman), Michael Brindle QC, Charles Flint QC, David Railton QC and Christopher Symons QC assists the Board in reviewing issues of principle arising in claims-related matters. The Committee met twice during the year and liaised frequently throughout the year on claims-related issues. Christopher Symons QC retired as a member during the year.

DIRECTORS REPORT (CONTINUED)

Board Committees (continued)

The Investment Committee comprising David Wolfson QC (Chairman), Gregory Denton-Cox, Jasbir Dhillon QC, Charles Flint QC, Nina Goolamali QC, 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 and held one telephone meeting.

The Management Fee and Oversight Committee comprising David Railton QC (Chairman), Colin Edelman QC and Alexandra Healy QC assists the Board in reviewing the effectiveness of the Managers and to report to the board on the manager's management fee proposals. The Committee met once during the year. Christopher Symons QC retired from the Committee and as Chairman during the year.

The Nominations Committee comprising Colin Edelman QC (Chairman), Michael Brindle QC, Rebecca Sabben-Clare QC and David Wolfson QC assists the Board in complying with the Company's and its Committees' Fit and Proper Policy. It also assists the Board on the policy it should adopt for the appointment of Directors and in identifying suitable potential candidates for appointment as Director's for the Board to consider. 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 claims 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 on three occasions during the year. Christopher Symons QC retired as a member 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. The committee met on three occasions during the year. David Railton QC retired as a member during the year.

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 met on one occasion during the year and liaised on issues relating to the insurance of entities throughout the year. Christopher Symons QC retired as a member during the year.

DIRECTORS REPORT (CONTINUED)

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 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

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.



Colin Edelman QC
Chairman

Date: 24 July 2017

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 2017, which are set out on pages 13 to 36. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective Responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 10, 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 2017 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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.

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

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 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: 28th July 2017

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 2017

	Note	2017 £	2016 £
TECHNICAL ACCOUNT GENERAL BUSINESS			
Earned premiums, net of reinsurance			
Gross Premiums written	5	15,580,233	16,633,870
Reinsurance premiums	6	<u>(2,545,378)</u>	<u>(2,223,713)</u>
Earned premiums, net of reinsurance		<u>13,034,855</u>	<u>14,410,157</u>
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	7	(9,592,398)	(10,280,690)
Reinsurers' share		<u>567,695</u>	<u>1,313,753</u>
Net claims paid	A	(9,024,703)	(8,966,937)
Change in the provision for claims			
Gross amount	7	(327,245)	634,742
Reinsurers' share	7	<u>(225,113)</u>	<u>(492,025)</u>
Change in the net provision for claims	B	(552,358)	142,717
Claims incurred, net of reinsurance	A+B	<u>(9,577,061)</u>	<u>(8,824,220)</u>
Net operating expenses	9	(1,312,411)	(1,255,081)
Balance on the technical account	C	<u>2,145,383</u>	<u>4,330,856</u>
NON-TECHNICAL ACCOUNT			
Investment income	10	1,885,408	1,958,789
Unrealised gains/(losses) on investments	10	732,160	(1,775,827)
Investment expenses and charges	10	<u>(158,381)</u>	<u>(172,757)</u>
	D	<u>2,459,187</u>	<u>10,205</u>
Surplus on ordinary activities before tax	C+D	4,604,570	4,341,061
Tax on ordinary activities	11	<u>(422,156)</u>	<u>156,315</u>
Surplus/(deficit) for the financial year		<u>4,182,414</u>	<u>4,497,376</u>
Reserves at 31 March, 2016		<u>37,400,302</u>	<u>32,902,926</u>
Reserves at 31 March, 2017		<u>41,582,716</u>	<u>37,400,302</u>

All income and expenses relate to continuing operations.

The notes on pages 16 to 36 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

	Note	As at 31 March 2017	
		2017	2016
		£	£
ASSETS			
Investments			
Other financial investments	12	79,496,379	70,386,667
Reinsurers' share of technical provisions			
Claims outstanding	7	769,547	994,660
Debtors			
Debtors arising out of direct insurance operations	13	11,855	25,717
Debtors arising out of reinsurance operations	14	982,710	415,015
Other debtors	15	253,031	484,056
		<u>1,247,596</u>	<u>924,788</u>
Other assets			
Cash at bank	16	7,131,254	11,900,214
Prepayments and accrued income			
Accrued interest-interest earned but not yet received on fixed interest securities		284,444	345,021
Other prepayments and accrued income		16,214	10,464
TOTAL ASSETS		<u>88,945,434</u>	<u>84,561,814</u>
LIABILITIES AND RESERVES			
Reserves			
Free reserves		41,582,716	37,400,302
Technical provisions			
Claims outstanding - gross amount	7	35,853,801	35,526,556
Creditors			
Creditor arising out of direct insurance operations		22,736	34,552
Creditors arising out of reinsurance operations	17	443,632	546,954
Other creditors including taxation	18	424,448	2,117
		<u>890,816</u>	<u>583,623</u>
Accruals and deferred income	19	10,618,101	11,051,333
TOTAL LIABILITIES AND RESERVES		<u>88,945,434</u>	<u>84,561,814</u>

The notes on pages 16 to 36 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: 24 July 2017 by:

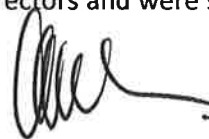
Director:



Colin Edelman QC

Chief Financial Officer

Director:



Christopher Pocock QC

R. A. A. Harnal



CASH FLOW STATEMENT
For the year ended 31 March 2017

Operating activities

	Note	2017 £	2016 £
Premiums received		15,139,469	15,563,105
Reinsurance premium paid		(2,648,700)	(2,730,380)
Claims paid		(9,581,567)	(10,413,521)
Reinsurance recoveries received		-	1,643,961
Operating expenses paid		(1,248,883)	(1,243,334)
Taxation paid		157,363	(477,477)
Net cash provided / (used) by operating activities		<u>1,817,682</u>	<u>2,342,354</u>

Cash flows from investment activities

Purchase of investments		(74,526,889)	(60,388,928)
Sale of investments		66,555,617	56,452,383
Interest received		1,038,010	926,722
Dividends received		346,619	757,850
Net cash flow from investment activities		<u>(6,586,642)</u>	<u>(2,251,973)</u>
Net increase/(decrease) in cash and cash equivalents		<u>(4,768,960)</u>	<u>90,381</u>
Cash and cash equivalents at the beginning of the year		<u>11,900,214</u>	<u>11,809,833</u>
Cash and cash equivalents at the end of the year	16	<u>7,131,254</u>	<u>11,900,214</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

The Company insures members for claims that are made against them during the period of insurance. As such the financial statements recognise the expected cost of claims that are expected to have been notified to the insured members by the year end.

The claims provision recognised in the Balance Sheet is made up of:

- (i) Estimated claims and settlement costs as at 31 March 2017, on notified claims outstanding in all policy years;
- (ii) An additional amount to provide against the costs of adverse development on estimated claims and circumstances notified to members as at 31 March 2017;

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 Technical 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 balance 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 13).

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. The main source of the uncertainty comes from the outcome of the claims presented to the Company. Estimates are made for the expected ultimate cost of claims, at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS (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 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 2017</u>	£'000	£'000	£'000	£'000
<u>Assets</u>				
Fixed interest - Government	-	20,386	-	20,386
Fixed interest – Corporate	-	16,513	-	16,513
Equities & Alternatives	11,305	4,691	-	15,996
UCITS	-	26,601	-	26,601
	<u>11,305</u>	<u>68,191</u>	<u>-</u>	<u>79,496</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 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>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 Management of Risk

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

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

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

4.1 Insurance Risk

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

Underwriting process

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

The Company operates a 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 2017, about 47% of the reinsurance contract was placed at Lloyd's and the remaining 53% 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 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.

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

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

	2017	2016
	£	£
Increase in loss ratio by 5 percentage points		
Gross	(779,012)	(831,694)
Net	(651,743)	(720,508)

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.

4 Management of Risk

4.2 Market Risk (continued)

Interest rate risk management

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

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

Interest rate sensitivity analysis

An increase of 100 basis points in interest rates at the year-end date, with all other factors unchanged will result in a £369k 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 17.58 % of the investment portfolio (2016: 14.58%).

A 1% increase in equity values would be estimated to have increased the surplus before tax at the year-end by £140k. 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 counter party 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 Moody's. UCITS within which cash shall be held shall have a minimum rating of AAA from S&P or Moody's 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 investments with external credit ratings.

As at 31 March 2017	AAA/AA	A	BBB or less or not rated	Total
	£'000	£'000	£'000	£'000
Fixed interest-Government	20,386	-	-	20,386
Fixed interest-Corporate	3,439	13,074	-	16,513
Equities & Alternatives	-	-	15,996	15,996
UCITS	26,601	-	-	26,601
Assets arising from reinsurance contracts	-	770	-	770
Debtors arising out of direct insurance	-	983	-	983
Cash at bank	-	-	7,131	7,131
Other	284	-	281	565
	<u>50,710</u>	<u>14,827</u>	<u>23,408</u>	<u>88,945</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Management of Risk (continued)

4.3 Credit Risk (continued)

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	14,654	-	-	14,654
Assets arising from reinsurance contracts	-	995	-	995
Debtors arising out of direct insurance	-	415	-	415
Cash at bank	-	-	11,900	11,900
Other	345	-	520	865
	<u>45,161</u>	<u>16,662</u>	<u>22,738</u>	<u>84,561</u>

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

4.4 Liquidity Risk

Liquidity and cash flow risk is the risk that cash may not be available to pay obligations as they fall due at a reasonable cost. The Company maintains holdings in short term deposits to ensure there are sufficient funds available to cover anticipated liabilities and unexpected levels of demand. As at 31 March 2017, the Company's short term deposits (including cash and UCITs) amounted to £33.732m (2016: £26.554m). 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 show the maturity analysis of financial liabilities of the remaining contractual liabilities at undiscounted amounts:

As at 31 March 2017	Short term liabilities £'000	More than 1 year £'000	2-5year £'000	Total £'000
Technical provisions- claims	12,977	8,753	14,124	35,854
Creditor arising out of direct insurance operations	23	-	-	23
Creditors arising out of reinsurance operations	444	-	-	444
Other creditors including taxation	424	-	-	424
Accruals and deferred income	10,617	-	-	10,617
	<u>24,485</u>	<u>8,753</u>	<u>14,124</u>	<u>47,362</u>

As at 31 March 2016	Short term liabilities £'000	More than 1 year £'000	2-5year £'000	Total £'000
Technical provisions- claims	10,657	8,526	16,344	35,527
Creditor arising out of direct insurance operations	35	-	-	35
Creditors arising out of reinsurance operations	547	-	-	547
Other creditors including taxation	2	-	-	2
Accruals and deferred income	11,051	-	-	11,051
	<u>22,292</u>	<u>8,526</u>	<u>16,344</u>	<u>47,162</u>

4. Management of Risk (continued)

4.4 Liquidity Risk (continued)

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

As at 31 March 2017	Short term assets £'000	After 1 year £'000	2-5 year £'000	Total £'000
Fixed interest-Government	-	2,001	18,385	20,386
Fixed interest-Corporate	-	7,399	9,114	16,513
Equities & Alternatives	15,996	-	-	15,996
UCITS	26,601	-	-	26,601
Assets arising from reinsurance contracts	100	300	370	770
Debtors arising out of direct insurance	983			983
Cash at bank	7,131			7,131
Other	565	-	-	565
	<u>51,376</u>	<u>9,700</u>	<u>27,861</u>	<u>88,945</u>

As at 31 March 2016	Short term assets £'000	After 1 year £'000	2-5 years £'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	14,654	-	-	14,654
Assets arising from reinsurance contracts	130	390	475	995
Debtors arising out of direct insurance	415			415
Cash at bank	11,900			11,900
Other	865			865
	<u>38,282</u>	<u>4,227</u>	<u>42,052</u>	<u>84,561</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)

4.6 Limitation of the sensitivity analysis

The sensitivity analyses in section 4.2 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 effect noted above.

4.7 Capital management

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

The Company's current capital resources policy is to maintain capital resources to meet its regulatory capital requirement plus a minimum buffer. The value of the minimum buffer has been set as a 1 in 20 year capital loss. This is projected to be £11.0m as at 31 March 2017. In addition, the policy sets a maximum buffer (on top of the minimum buffer) to give a maximum level of capital resources to be held. The value of the maximum buffer has also been set as a 1 in 20 year capital loss. This gives a projected minimum target level of capital resources of £30.0m and maximum target level of capital resources of £41.0m as at 31 March 2017.

At year-end capital resources eligible for regulatory purposes is £45.6m which exceed the Company's maximum target limit by £4.6m. In response to this, the Board has decided to increase the premium deferral rate to gradually reduce excessive capital holdings.

At year-end capital resources exceed the Company's Solvency Capital Requirement (SCR) capital of £19.0m by £26.6m.

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 20% on premiums for the year ended 31 March 2017 (2016: 17.5%). 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Reinsurance premiums

In respect of the year ended 31 March 2017, 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.

	2017	2016
	£	£
Treaty reinsurance	2,535,378	2,361,592
Reinstatement premium	-	(157,879)
Stop loss reinsurance premium	64,558	213,039
Stop loss profit commission	(54,558)	(193,039)
	<u>2,545,378</u>	<u>2,223,713</u>

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, 2015 and 2016.

The Stop Loss reinsurance premium of £0.064m 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 £0.054m (2016: £0.193m) 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

	2017	2016
	£	£
Gross claims paid	8,155,588	8,885,728
Claims handling (note 8)	1,436,810	1,394,962
	<u>9,592,398</u>	<u>10,280,690</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Claims and technical provisions (continued)

Insurance contract liabilities and assets

	2017	2016
	£	£
Technical provisions at the beginning of the year	35,526,556	36,161,298
Claims paid	(9,592,398)	(10,280,962)
Claims incurred	9,919,643	9,645,948
Technical provision at the end of the year	<u>35,853,801</u>	<u>35,526,556</u>
Reinsurance share of technical provision at the beginning of the year	994,660	1,486,685
Reinsurance share of paid claims	(567,695)	(1,313,753)
Reinsurance share of incurred claims	342,582	821,728
Reinsurers share of technical provisions at the end of the year	<u>769,547</u>	<u>994,660</u>
Net technical provisions	<u>35,084,254</u>	<u>34,531,896</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 judgement 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).

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 2016/2017 policy 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

Reporting Year	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000
At the end of the reporting year	9,100	11,200	9,400	10,700	10,700	11,000	11,600
1 year later	9,100	11,868	10,202	10,487	9,500	9,600	
2 years later	8,300	12,149	12,350	8,900	8,500		
3 years later	7,900	10,550	11,369	8,250			
4 year later	7,600	10,126	10,825				
5 years later	7,850	10,140					
6 years later	7,755						
Estimate of ultimate claims	7,755	10,140	10,825	8,250	8,500	9,600	11,600

Net estimate of ultimate claims costs attributable to policy year

Reporting Year	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000
At the end of the reporting year	9,100	11,200	9,400	10,700	10,700	11,000	11,600
1 year later	9,100	11,308	9,800	10,300	9,500	9,600	
2 years later	8,300	11,308	11,100	8,900	8,500		
3 years later	7,900	10,500	10,600	8,250			
4 year later	7,600	9,900	10,100				
5 years later	7,850	10,100					
6 years later	7,750						
Estimate of ultimate claims	7,750	10,100	10,100	8,250	8,500	9,600	11,600
Cumulative payments to date	7,718	9,691	9,515	4,755	3,849	2,657	1,405
Liability recognised in statement of financial position	32	409	585	3,495	4,651	6,943	10,195

Total liability relating to last seven policy years	26,310
Other claims liabilities	8,774
Total net technical provisions included in the statement of financial position	35,084

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Claims and technical provisions (continued)

Change in reinsurers' share of technical provisions

	2017	2016
	£	£
Reinsurers' share of claims outstanding at end of year	769,547	994,660
Reinsurers' share of claims outstanding at beginning of year	994,660	1,486,685
Decrease in reinsurers' share of claims outstanding	<u>(225,113)</u>	<u>(492,025)</u>

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 29 for the details of the reinsurance cover purchased by the Company.

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.

	2017	2016
	£	£
Acquisition costs (note 9)	676,284	656,586
Claims handling (note 7)	1,436,810	1,394,962
Administration expenses (note 9)	344,995	334,947
	<u>2,458,089</u>	<u>2,386,495</u>
A separate fee is paid to the Investment Managers and included in investment expenses and charges (note 10)		
Investment management expenses	57,499	55,824
Management fees	<u>2,515,588</u>	<u>2,442,319</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Net operating expenses

	2017	2016
	£	£
a) Acquisition costs	676,284	656,586
b) <u>Administration expenses</u>		
Legal and professional fees	47,498	40,330
Directors' & Officers' Liability insurance	59,105	68,406
AGM & printing costs	25,974	39,614
Charitable donations – Law Care	10,000	10,000
Regulatory fees	74,215	41,572
Auditors' remuneration - Audit	69,600	46,910
- Taxation	4,740	16,715
Management administration expenses	344,995	334,947
	<u>1,312,411</u>	<u>1,255,081</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 Sol Care. 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.

10. Investment income

	2017	2016
	£	£
Interest on listed investments	1,025,343	906,478
Gain on foreign exchange	-	82,675
Bank deposit interest	12,667	20,244
Dividends on equities	346,619	757,850
	<u>1,384,629</u>	<u>1,767,247</u>
Gains on realisation of investments	500,779	191,542
	<u>1,885,408</u>	<u>1,958,789</u>

Investment expenses and charges

	2017	2016
	£	£
Bank, custodial and other charges	100,882	116,933
Investment management expenses (see note 8)	57,499	55,824
	<u>158,381</u>	<u>172,757</u>

Unrealised gains on investments

	2017	2016
	£	£
Cost (see note 12)	78,232,900	69,699,583
Market value (see note 12)	79,652,146	70,386,667
Unrealised gains at year end	<u>1,419,246</u>	<u>687,084</u>
Unrealised gains/(losses) movement for the year	<u>732,160</u>	<u>(1,775,827)</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	2017	2016
	£	£
UK corporation tax (Note 11c)	422,514	(157,005)
(Over)/under provision prior year & interest on tax	(358)	690
	<u>422,156</u>	<u>(156,315)</u>

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

	2017	2016
	£	£
Surplus on ordinary activities before tax	<u>4,604,570</u>	<u>4,341,060</u>
Surplus on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2016: 20%)	920,914	868,212
<i>Effects of:</i>		
Non-taxable mutual insurance operations	(429,076)	(866,171)
Non-taxable dividend distribution	(69,324)	(151,570)
Utilisation of losses, differences due to tax rates	-	(7,476)
Current year tax charge	<u>422,514</u>	<u>(157,005)</u>

- (c) Balance sheet

	2017	2016
	£	£
<u>Taxation creditor</u>		
Taxation (debtor)/creditor brought forward	(157,005)	476,787
(Recovery)/payment of corporation tax	<u>(157,005)</u>	<u>476,787</u>
	-	-
UK corporation tax for the current year	<u>422,514</u>	<u>(157,005)</u>
Creditor/(debtor) as at 31 March	<u>422,514</u>	<u>(157,005)</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Other financial investments

	Market Value 2017 £	Market Value 2016 £	Cost 2017 £	Cost 2016 £
Other financial Investments comprise:				
Equities & Alternatives	15,996,483	10,318,198	12,681,807	9,664,526
UCITS	26,600,799	14,654,180	28,658,471	14,654,180
Fixed interest securities	36,899,097	45,414,289	36,892,622	45,380,877
	<u>79,496,379</u>	<u>70,386,667</u>	<u>78,232,900</u>	<u>69,699,583</u>

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".

13. Debtors arising out of direct insurance

	2017 £	2016 £
Debts due from Members (Premiums)	34,262	47,143
Provision for doubtful debts	(22,407)	(21,426)
Debtors arising out of direct insurance	<u>11,855</u>	<u>25,717</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 £982,710 (2016: £415,015) are reinsurance recoveries which are due from reinsurers.

15. Other Debtors

Other debtors of £253,031 (2016: £484,056) includes recoveries expected from claims against third parties.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. Cash and cash equivalents

	2017	2016
	£	£
Cash at Bank	6,975,487	11,900,214
Cash with Financial institutions	155,767	-
Cash at hand and in bank	<u>7,131,254</u>	<u>11,900,214</u>

Included in this balance is £2.782m restricted cash which is held in a special interest account in accordance with the Stop Loss treaty agreement with Hannover Re.

17. Creditors arising out of reinsurance operations

	2017	2016
	£	£
Reinsurance creditor	<u>443,632</u>	<u>546,954</u>

18. Other creditors including taxation

	2017	2016
	£	£
Insurance Premium tax	1,934	2,117
Taxation (note 11(c))	422,514	-
	<u>424,448</u>	<u>2,117</u>

19. Accruals and deferred income

	2017	2016
	£	£
Accrued expenses	121,050	99,656
Deferred income –premiums received in advance	<u>10,497,051</u>	<u>10,951,677</u>
	<u>10,618,101</u>	<u>11,051,333</u>

20. 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 Bar Mutual Management Company. 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. The Member Directors received no remuneration for their services to the company.

Bar Mutual Management Company received £2,515,588 (2016: £2,442,319) from the Company in respect of management fees for the year.

21. 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