

BAR MUTUAL INDEMNITY FUND LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014

Company Number 218 2018

BAR MUTUAL INDEMNITY FUND LIMITED

CONTENTS	PAGE
Notice of Meeting	1
Directors and Managers	2
Report of the Directors	3-7
Report of the Auditors	8-9
Income and Expenditure Account	10
Balance Sheet	11
Cash Flow Statement	12
Notes to the Financial Statements	13-23
Registered Office	24

BAR MUTUAL INDEMNITY FUND LIMITED

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of the Members will be held at The General Council of the Bar, 289-293 High Holborn, London, and WC1V 7HZ on Monday 21 July 2014 at 5.00pm for the following purposes:

To receive the Directors' Report and Financial Statements for the year ended 31 March, 2014 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



K. Halpenny
Secretary

Date: 10 June 2014

- 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.

BAR MUTUAL INDEMNITY FUND LIMITED

DIRECTORS AND MANAGERS

DIRECTORS OF BAR MUTUAL INDEMNITY FUND LIMITED

Colin Edelman QC

Richard Anelay QC Resigned 22 July 2013

Stephen Arthur

Michael Brindle QC

Gregory Denton-Cox

Jasbir Dhillon QC Appointed 11 June 2013

Charles Flint QC

Catherine Gibaud QC

Alexandra Healy QC

Michael Horne Appointed 20 April 2013

Leigh-Ann Mulcahy QC

Christopher Pocock QC Appointed 22 April 2013

David Railton QC

Colin Reese QC Resigned 22 July 2013

Rajeev Shetty

Sharif Shivji

Christopher Symons QC

David Wolfson QC

SECRETARY

K. Halpenny

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

BAR MUTUAL INDEMNITY FUND LIMITED

AUDITORS

Moore Stephens LLP, Chartered Accountants, 150 Aldersgate Street, London, EC1A 4AB.

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their Report and the Financial Statements for the year ended 31 March 2014. The Report incorporates the disclosure requirements of both the Strategic Review and the Directors Report as required by Companies Act 2006.

The Company provides principally for the mutual insurance of Barristers against claims arising from allegations of professional negligence and for representation for barristers in relation to certain complaints.

The Company has appointed Bar Mutual Management Company Limited 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 Limited and Thomas Miller Investment Limited are owned by Thomas Miller Holdings Limited.

The Company has no employees.

The Board of Directors have effected a Directors' and Officers' Liability Insurance Policy to indemnify the Directors or Officers of the Company against loss arising from any claim made against them jointly or severally by reason of any wrongful act in their capacity as Director or Officer of the Company. The insurance also covers the Company's loss when it is required or permitted to indemnify the Directors or Officers pursuant to the law, Common or Statutory, or the Articles of Association. The cost of the insurance is met by the Company and is detailed in note 10 to the Financial Statements.

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.

DIRECTORS

The Directors of the Company are shown on page 2.

In accordance with the Articles of Association, Stephen Arthur, Gregory Denton-Cox, Jasbir Dhillon QC, Charles Flint QC, and Leigh-Ann Mulcahy QC. retire by rotation and being eligible will seek reappointment at the forthcoming Annual General Meeting.

Rajeev Shetty, also being eligible for reappointment, will not be seeking reappointment at the forthcoming Annual General meeting.

BAR MUTUAL INDEMNITY FUND LIMITED
REPORT OF THE DIRECTORS (CONTINUED)

REVIEW OF THE YEAR

The Company continued to provide professional indemnity insurance to Barristers. The deficit arising out of the year's operations after tax was £(100,072) (2013 – surplus £2,593,572) and this was transferred from reserves. The reserves now amount to £31,231,463 (2013 - £31,331,535) 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.

Financial Results

The Income and Expenditure Account (on page 10) and the Balance Sheet (on page 11), together with the notes to the Financial Statements, set out the Company's financial position in detail. The following table compares key financial information for the year-end 31 March 2014 and 31 March 2013.

	2014	2013
	£'000	£'000
Premium Written	14,742	15,077
Reinsurance Premium	(2,312)	(3,754)
Net claims incurred	(12,038)	(9,407)
Operating expenses	(1,213)	(1,079)
(Deficit)/surplus on technical account	(821)	837
Investment Income	763	2,311
Surplus on ordinary activities before tax	(58)	3,148
Tax	(42)	(554)
(Deficit)/surplus for the financial year	(100)	2,594

The Directors have set in place formal investment policies and objectives. The primary objective is to conserve and accumulate capital to cover future obligations. Within and ancillary to this primary objective is a secondary objective to maximise the post-tax yield. The investment return for the year under review was 1.46% (2013: 4.05%).

Capital resources for regulatory purposes at £39.6m include allowable claims reserves margin of £8.4m exceeds the required regulatory capital of £24.3m by £15.3m.

Meetings of the Directors

The Board of the Company met formally on three occasions during the year to carry out the general and specific responsibilities entrusted to it by the Members under the Articles of Association.

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

BAR MUTUAL INDEMNITY FUND LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

The Annual Reports and Financial Statements for the year ended 31 March 2014 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, Alexandra Healy QC, 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 Risk 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 as they arise. The Committee met on four occasions in the course of the year and liaised regularly throughout the year about claims-related issues.

The Investment Committee comprising David Wolfson QC (Chairman), Gregory Denton-Cox, Jasbir Dhillon QC, Charles Flint QC, Catherine Gibaud QC, Michael Horne and Sharif Shivji assists the Board in reviewing in detail the performance of the Company investments and making recommendations to the Board in respect of the Investment Policy and other investment related issues. The Committee met on four 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 liaised regularly throughout the year.

The Nominations Committee comprising Colin Edelman QC (Chairman), Michael Brindle QC, Catherine Gibaud 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 on one occasion in the course of the year.

The Reserves Committee comprising Michael Brindle QC (Chairman), Stephen Arthur, Jasbir Dhillon QC, Alexandra Healy QC, Rajeev Shetty and Sharif Shivji assists the Board in reviewing in detail the Company's claim reserves, claims reserves policy and provides a clear channel of communication between the Managers' actuaries and the Board. The Committee met on two occasions in the course of the year.

The Rating and Reinsurance Committee comprising Colin Edelman QC (Chairman), Stephen Arthur, Leigh-Ann Mulcahy QC, Christopher Pocock QC, David Railton QC, Rajeev Shetty 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 rating to be applied to the next policy year. The Committee also reviews the Company's reinsurance programme. The Committee met on one occasion in the course of the year.

The Rules and Cover Committee comprising Colin Edelman QC (Chairman), Michael Brindle QC, Michael Horne, Leigh-Ann Mulcahy QC and David Railton QC reviews the terms on which insurance cover is provided by the Company. This Committee meets at the discretion of the Chairman.

BAR MUTUAL INDEMNITY FUND LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

The Legal Services Act Committee comprises Colin Edelman QC (Chairman), Michael Brindle QC, Catherine Gibaud QC, Leigh-Ann Mulcahy QC and Christopher Symons QC. The Committee is considering the impact of the Legal Services Act on the members of Bar Mutual Indemnity Fund.

RISK MANAGEMENT

The Company is exposed to financial risk through its assets and liabilities. The most significant risks are market risk, credit risk, insurance risk and reinsurance risk. The Company has policies and procedures in place to manage these risks.

Market risk is the risk of changes in the financial markets affecting the value of the Company's investments. It is managed by the Company's investment policy, which is monitored by means of reports from the Investment Manager to the members of the Investment Committee who in turn report to the Board.

Credit risk is the risk of losses caused by other parties failing, in whole or in part, to meet obligations to the Company. Debtor exposure is mitigated because it is widely spread across the membership. This exposure is monitored by means of financial reports from the Managers at Board meetings.

Insurance risk is the risk associated with claims on the Company. Exposure is mitigated by a strategy of risk transfer through the Company's reinsurance programme, as well as holding adequate claims reserves.

Reinsurance risk is the risk that the Company has inadequate reinsurance cover or of the Company's reinsurers being unable to meet their obligations under the treaties. This risk is mitigated by only placing reinsurance with reinsurers holding a Standard & Poor rating of A- or higher and limiting the exposure to a maximum line with any one reinsurer of 25 per cent on any one layer. The ratings are kept under review and to date no reinsurer has fallen below the rating criteria.

Prior to the AGM, the Chairman Colin Edelman QC will distribute a Chairman's Report, which will include a detailed review of the Company's performance in the year ended 31 March 2014.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the 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. Under that law, the Directors have elected to prepare the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make 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;

BAR MUTUAL INDEMNITY FUND LIMITED
REPORT OF THE DIRECTORS (CONTINUED)

- 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.

AUDITORS

The Company's auditors, Messrs 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: 10 June 2014

BAR MUTUAL INDEMNITY FUND LIMITED

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 2014, which are set out on pages 10 to 24. 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 6, 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

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2014 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 matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

BAR MUTUAL INDEMNITY FUND LIMITED

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



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

Date: 19 June 2014

The maintenance and integrity of Bar Mutual Indemnity Fund Limited 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.

BAR MUTUAL INDEMNITY FUND LIMITED

INCOME AND EXPENDITURE ACCOUNT

For the year ended 31 March 2014

	Note	2014 £	2013 £
TECHNICAL ACCOUNT GENERAL BUSINESS			
Earned premiums, net of reinsurance			
Gross Premiums written	3	14,742,256	15,076,639
Reinsurance premiums	4	(2,312,485)	(3,753,383)
Earned premiums, net of reinsurance		<u>12,429,771</u>	<u>11,323,256</u>
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	6,9	(9,211,593)	(14,508,361)
Reinsurers' share		97,685	1,906,213
Net claims paid (A)		<u>(9,113,908)</u>	<u>(12,602,148)</u>
Change in the provision for claims			
Gross amount	7	(3,593,749)	2,586,459
Reinsurers' share	8	670,136	608,485
Change in the net provision for claims (B)		<u>(2,923,613)</u>	<u>3,194,944</u>
Claims incurred, net of reinsurance (A+B)		<u>(12,037,521)</u>	<u>(9,407,204)</u>
Net operating expenses	10	(1,213,207)	(1,079,134)
Balance on the technical account		<u>(820,957)</u>	<u>836,918</u>
NON-TECHNICAL ACCOUNT			
Balance on the general business technical account as above		(820,957)	836,918
Investment income	11	2,405,958	1,702,531
Unrealised gains/(losses) on investments	13	(1,491,250)	771,616
Investment expenses and charges	11	(152,201)	(163,460)
Surplus on ordinary activities before tax		(58,450)	3,147,605
Tax on ordinary activities	20	(41,622)	(554,033)
(Deficit)/surplus for the financial year		(100,072)	2,593,572
Surplus at 31 March, 2013		31,331,535	28,737,963
Surplus at 31 March, 2014		<u>31,231,463</u>	<u>31,331,535</u>

All income and expenses relate to continuing operations. There are no recognised gains or losses other than those shown in the Income and Expenditure account.

The notes on pages 13 to 24 form an integral part of these Financial Statements.

BAR MUTUAL INDEMNITY FUND LIMITED

Company number 218 2018

		BALANCE SHEET	
		As at 31 March 2014	
	Note	2014	2013
		£	£
ASSETS			
Investments			
Other financial investments	12	64,224,764	57,266,052
Reinsurers' share of technical provisions			
Claims outstanding	8	1,278,621	608,485
Debtors			
Debtors arising out of direct insurance operations	14	26,431	9,844
Debtors arising out of reinsurance operations	15	472,075	595,641
Other debtors	16	300,534	120,617
		<u>799,040</u>	<u>726,102</u>
Other assets			
Cash at bank	26	10,345,004	13,092,008
Prepayments and accrued income			
Accrued interest-interest earned but not yet received on fixed interest securities		438,223	97,420
Other prepayments and accrued income		16,088	22,190
		<u>77,101,740</u>	<u>71,812,257</u>
TOTAL ASSETS			
LIABILITIES			
Reserves			
Income and Expenditure Account		31,231,463	31,331,535
Technical provisions			
Claims outstanding - gross amount	7	34,210,234	30,616,485
Creditors			
Creditor arising out of direct insurance operations		21,677	19,878
Creditors arising out of reinsurance operations	18	1,058,977	1,314,873
Other creditors including taxation	17	104,715	550,623
		<u>1,185,369</u>	<u>1,885,374</u>
Accruals and deferred income	19	10,474,675	7,978,863
		<u>77,101,740</u>	<u>71,812,257</u>
TOTAL LIABILITIES			

The notes on pages 13 to 24 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: 10 June 2014 by:

Director:

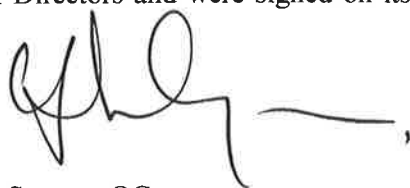


Colin Edelman QC

Signed on behalf of the Managers R.A.A. Harnal

Bar Mutual Management Company Limited

Director:



Christopher Symons QC

BAR MUTUAL INDEMNITY FUND LIMITED

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

Operating activities

	Note	2014 £	2013 £
(Deficit)surplus on ordinary activities before tax		(58,450)	3,147,605
Investment return		(914,708)	(2,474,147)
Investment expenses		152,201	163,460
Balance on the general business technical account		<u>(820,957)</u>	<u>836,918</u>
(Increase)decrease in debtors	22	(66,836)	722,657
Increase/(decrease) in creditors	23	2,250,340	(1,863,451)
Increase/(decrease) in net provision for claims		2,923,613	(3,194,944)
Net difference between accruals and cash basis		<u>5,107,117</u>	<u>(4,335,738)</u>
Net cash inflow/(outflow) from operating activities	24	<u>4,286,160</u>	<u>(3,498,820)</u>

CASH FLOW STATEMENT

Net cash inflow/(outflow) from operating activities	24	4,286,160	(3,498,820)
Returns on investment and servicing of finance			
Interest received		1,784,685	1,840,404
Dividends received	11	280,468	16,155
Investment expenses		(159,839)	(161,571)
		<u>1,905,314</u>	<u>1,694,988</u>
Taxation			
Corporation tax paid	20(c), 21	(488,516)	(542,635)
Increase in cash, deposits and investments in the year	25,26	<u>5,702,958</u>	<u>(2,346,467)</u>

CASHFLOWS WERE INVESTED AS FOLLOWS:

	Note	2014 £	2013 £
(Decrease)/increase in cash at bank	26	(2,747,004)	3,156,147
Net portfolio investment/(disinvestment)			
Disposal/(purchase) of debt securities and other fixed income securities	26	4,107,946	(1,760,092)
Purchase/(disposal) of equities	26	4,342,016	(3,742,522)
	25,26	<u>5,702,958</u>	<u>(2,346,467)</u>

BAR MUTUAL INDEMNITY FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Constitution

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 General Council of The Bar of England and Wales as set out in the Articles of Association.

2. Accounting Policies

(a) Basis of preparation

The Financial Statements are prepared in accordance with the provisions of Section 396 to the Companies Act 2006 and Schedule 3 to the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulation 2008 (SI 2008/410), and in compliance with applicable accounting standards and the ABI SORP Accounting for Insurance Business issued in December 2005 (as amended in December 2006).

(b) 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.

(c) 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, 2014, 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, 2014; and
- (iii) A provision for the Managers' future claims handling costs in respect of (i) and (ii).

Claims incurred in the Income and Expenditure Account includes:

- (i) Claims and costs paid during the year;
- (ii) The claims handling costs of the Managers (see note 9); and
- (iii) The movement in the claims provision (see note 7)

BAR MUTUAL INDEMNITY FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting Policies (continued)

(d) Reinsurance Recoveries

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

(e) Investment income

This comprises:

- (i) Interest income received during the year adjusted in respect of interest receivable at the year end;
- (ii) Dividends received from equities;
- (iii) Gains or losses from the disposal of investments.

(f) Investments

Investments are stated in the Balance Sheet at market value. Unrealised investment gains and losses represent the difference between the valuation of investments held at the balance sheet date and their purchase price or previous valuation. Unrealised gains and losses are accounted for through the Non Technical Account. Realised gains and losses are recognised at the time of disposal as gains/losses on realisation of investments.

(g) Taxation

Unrealised gains or losses as a result of movements in the market value of unit trusts are taxed through the Non-Technical Account.

(h) 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).

(i) Reinsurance premiums

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

3. Gross Premiums written

In accordance with the practice the Company introduced in 1999 of providing a premium discount, where appropriate, in the year ended 31 March 2014 the Company gave a general discount on premiums of 20% (2013 – discount of 15%). Gross premiums written are reported net of this discount. The Company reserves the right to call the discounted premium from members.

BAR MUTUAL INDEMNITY FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Reinsurance premiums

In respect of the year ended 31 March 2014, 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 layer.

	2014	2013
	£	£
Treaty reinsurance	2,402,060	2,366,297
Reinstatement premium	(459,531)	1,018,769
Stop loss reinsurance premium	1,389,701	1,367,518
Stop loss profit commission	(1,019,745)	(999,201)
	<u>2,312,485</u>	<u>3,753,383</u>

The Company purchased a Stop Loss Reinsurance policy covering the 2011, 2012 and 2013 policy years. The cover is subject to a mandatory commutation on 1 April 2019. The Company may commute the policy at an earlier date with the agreement of Hannover Re. This policy provides 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 has paid the final minimum annual instalment of £1.2m in respect of the 2013 policy year.

Following a year end review of the policy to assess the probability of crystallising the profit commission or reinsurance recovery, the review has led to a release of £1,019,745 profit commission for the third of the policy years.

The treatment of the release of the profit commission is in accordance with the ABI SORP Accounting for Insurance Business issued in December 2005 (as amended in December 2006).

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.

5. 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. There was only one related party transaction in the year. Leigh-Ann Mulcahy QC was paid £295 by the Company to defend a claim against one of its members.

Bar Mutual Management Company received £2,339,999 (2013: £2,171,153) from the Company in respect of management fees for the year.

BAR MUTUAL INDEMNITY FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Claims Paid

	2014	2013
	£	£
Gross claims paid	7,875,072	13,268,279
Claims handling (note 9)	1,336,521	1,240,082
	<u>9,211,593</u>	<u>14,508,361</u>

7. Change in gross provision for claims

	2014	2013
	£	£
Gross claims outstanding at end of year	34,210,234	30,616,485
Gross claims outstanding at beginning of year	30,616,485	33,202,944
Increase/(decrease) in gross provision for claims	<u>3,593,749</u>	<u>(2,586,459)</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 2c).

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 2013/2014 policy year.

8. Change in reinsurers' share of technical provisions

	2014	2013
	£	£
Reinsurers' share of claims outstanding at end of year	1,278,621	608,485
Reinsurers' share of claims outstanding at beginning of year	608,485	-
Increase in reinsurers' share of claims outstanding	<u>670,136</u>	<u>608,485</u>

The reinsurers' share represents the provision for that part of the gross claims provision, which is recoverable from reinsurers and 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 4 on page 15 for the details of the reinsurance cover purchased by the Company.

BAR MUTUAL INDEMNITY FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Management costs

The Companies Act 2006 and Association of British Insurers (Statement of Recommended Practice) 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; claims handling costs; investment management expenses and administration expenses which include regulatory compliance, the preparation of accounts and general management.

In order to comply with this requirement, the Managers have made an apportionment.

	2014	2013
	£	£
Acquisition costs (note 10)	629,079	583,687
Claims handling (note 6)	1,336,521	1,240,082
Administration expenses (note 10)	320,914	297,758
	<u>2,286,514</u>	<u>2,121,527</u>
A separate fee is paid to the Investment Managers and included in investment expenses and charges (note 11)		
Investment management expenses	53,485	49,626
Management fees	<u>2,339,999</u>	<u>2,171,153</u>

Claims handling costs are treated as part of claims paid (note 6). Acquisition and administration expenses are included in net operating expenses (note 10).

10. Net operating expenses

	2014	2013
	£	£
a) Acquisition costs	629,079	583,687
b) <u>Administration expenses</u>		
Legal and Professional Fees	10,695	30,687
Directors' & Officers' Liability Insurance	60,454	49,158
AGM & Printing Costs	23,352	18,454
Charitable donations – LawCare	10,000	10,000
FCA statutory fees for authorisation	62,752	40,910
Auditors' remuneration - Audit of Financial Statements	33,510	31,191
- Tax	8,011	9,284
Control Audit fees	-	7,387
Governance internal audit fees	8,000	-
Capital reserves fees	46,440	-
Management administration expenses	320,914	297,758
Other expenses	-	618
	<u>1,213,207</u>	<u>1,079,134</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.

BAR MUTUAL INDEMNITY FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Investment income

	2014	2013
	£	£
Interest on listed investments	941,844	1,235,836
Gain on foreign exchange	379	11,473
Bank deposit interest	15,887	10,968
Dividends on equities	280,468	280,554
	<u>1,238,578</u>	<u>1,538,831</u>
Gains on realisation of investments	1,167,378	163,700
	<u>2,405,956</u>	<u>1,702,531</u>
Investment expenses and charges	2014	2013
	£	£
Bank, custodial and other charges	98,716	113,834
Investment management expenses (see note 9)	53,485	49,626
	<u>152,201</u>	<u>163,460</u>

12. Other Financial Investments

	Market Value 2014 £	Market Value 2013 £	Cost 2014 £	Cost 2013 £
Other financial				
Investments comprise:				
Equities	18,945,412	11,130,412	17,785,011	8,968,970
UCITS Cash	5,856,840	10,330,865	5,856,840	10,330,865
Fixed interest securities	39,422,512	35,804,775	39,609,006	35,501,060
	<u>64,224,764</u>	<u>57,266,052</u>	<u>63,250,857</u>	<u>54,800,895</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.

BAR MUTUAL INDEMNITY FUND LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****12. Other Financial Investments - (continued)**

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. Unrealised gains on investments

	2014	2013
	£	£
Cost (see note 12)	63,250,857	54,800,895
Market value (see note 12)	<u>64,224,764</u>	<u>57,266,052</u>
Unrealised gains at year end	<u>973,907</u>	<u>2,465,157</u>
Unrealised (losses)/gains movement for the year	<u>(1,491,250)</u>	<u>771,616</u>

14. Debtors arising out of direct insurance

	2014	2013
	£	£
Debts due from Members (Premiums)	54,330	35,246
Provision for doubtful debts	<u>(27,899)</u>	<u>(25,402)</u>
Debtors arising out of direct insurance	<u>26,431</u>	<u>9,844</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 Council Members who have not paid their premiums so that the Bar Council may take appropriate action against them in accordance with the Code of Conduct.

15. Debtors arising out of reinsurance operations

Debtors arising out of reinsurance operations of £472,075 (2013: £595,641) are reinsurance recoveries which are due from reinsurers.

16. Other Debtors

Other Debtors of £300,534 (2013: £120,617) includes recoveries expected from claims against third parties.

BAR MUTUAL INDEMNITY FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. Other creditors including taxation

	2014	2013
	£	£
Insurance Premium tax	1,978	992
Taxation (note 20(c))	102,737	549,631
	<u>104,715</u>	<u>550,623</u>

18. Creditors arising out of reinsurance operations

	2014	2013
	£	£
Reinsurance creditor	<u>1,058,977</u>	<u>1,314,873</u>

19. Accruals and deferred income

	2014	2013
	£	£
Accrued expenses	212,359	49,946
Deferred income –premiums received in advance	10,262,316	7,928,917
	<u>10,474,675</u>	<u>7,978,863</u>

20. 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	2014	2013
	£	£
UK corporation tax (Note 20b)	102,737	549,631
(Over)/under provision prior year & interest on tax	(61,115)	4,402
	<u>41,622</u>	<u>554,033</u>

- (b) The tax assessed for the period differs from the standard rate of corporation tax in the UK (24 %) and is computed as follows:

	2014	2013
	£	£
(Deficit)/surplus on ordinary activities before tax	<u>(58,450)</u>	<u>3,147,605</u>
(Deficit)/surplus on ordinary activities multiplied by standard rate of corporation tax in the UK of 23% (2013: 24%)	(13,444)	755,425
<i>Effects of:</i>		
Interest on tax instalments	(482)	(1,057)
Non-taxable mutual insurance operations	188,820	(200,860)
Non-taxable dividend distribution	(64,507)	(3,877)
Marginal relief	(7,650)	-
Current year tax charge	<u>102,737</u>	<u>549,631</u>

BAR MUTUAL INDEMNITY FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(c) Balance sheet

	2014	2013
	£	£
<u>Taxation creditor/(debtor)</u>		
Taxation creditor/(debtor) brought forward	549,631	538,233
Payment of corporation tax	488,516	542,635
	<u>61,115</u>	<u>(4,402)</u>
UK corporation tax for the current year	41,622	554,033
Creditor as at 31 March	<u>102,737</u>	<u>549,631</u>

21. Cash flow statement

Corporation tax

	2014	2013
	£	£
Tax creditor/(debtor) b/fwd	549,631	538,233
UK corporation tax for the current year	41,622	554,033
Tax (creditor) c/fwd	<u>(102,737)</u>	<u>(549,631)</u>
Taxation paid	<u>488,516</u>	<u>542,635</u>

22. Cash flow statement – movement in debtor balances

	At 31 March	At 1 April	Decrease/ (increase)
	2014	2013	In Year
	£	£	£
Arising out of direct insurance	26,431	9,844	(16,587)
Arising out of reinsurance operations (see note below & note 15)	472,075	595,641	123,566
Other	<u>316,622</u>	<u>142,807</u>	<u>(173,815)</u>
	<u>815,128</u>	<u>748,292</u>	<u>(66,836)</u>

The comparatives for last year were:

	At 31 March	At 1 April	Decrease/ (increase)
	2013	2012	In Year
	£	£	£
Arising out of direct insurance	9,844	8,217	(1,627)
Arising out of reinsurance operations (see note below)	595,641	516,996	(78,645)
Other	<u>142,807</u>	<u>945,736</u>	<u>802,929</u>
	<u>748,292</u>	<u>1,470,949</u>	<u>722,657</u>

Debtors arising out of reinsurance operations relate to actual claim and settlement costs payments made on claim files where the retention level for reinsurance recoveries has been reached.

BAR MUTUAL INDEMNITY FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. Cash flow statement – movement in creditor balances

	At 31 March 2014	At 1 April 2013	Increase/ (decrease) in Year
	£	£	£
Deferred Income –			
Premiums received in advance	10,262,316	7,928,917	2,333,399
Arising out of direct operations	21,677	19,878	1,799
Arising out of reinsurance operations	1,058,977	1,314,873	(255,896)
Accrued expenses	41,376	40,170	1,206
Insurance premium tax	1,978	992	986
	<u>11,386,324</u>	<u>9,304,830</u>	<u>2,081,494</u>

The comparatives for last year were:

	At 31 March 2013	At 1 April 2012	Increase in Year
	£	£	£
Deferred Income –			
Premiums received in advance	7,928,917	10,247,183	(2,318,266)
Arising out of direct operations	19,878	12,843	7,035
Arising out of reinsurance operations	1,314,873	868,320	446,553
Accrued expenses	40,170	39,000	1,170
Insurance premium tax	992	935	57
	<u>9,304,830</u>	<u>11,168,281</u>	<u>(1,863,451)</u>

24. Net cash flow from operating activities

	2014 £	2013 £
Operating Activities		
Premiums received from Members *	17,059,068	12,756,746
Reinsurance paid	(2,568,381)	(3,306,830)
Claims paid	(9,213,458)	(14,548,921)
Reinsurance recovered	221,251	1,827,568
Other operating cash paid	<u>(1,212,320)</u>	<u>(227,383)</u>
Net cash (out)/in flow from operating activities	<u>4,286,160</u>	<u>(3,498,820)</u>

* Premiums received from members during the year include premiums received in advance in respect of the year to 31 March 2015 (see note 19).

BAR MUTUAL INDEMNITY FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. Movement in opening and closing portfolio investments

	2014	2013
	£	£
Net cash (outflow)/inflow for the year	(2,747,004)	3,156,147
Portfolio investments	8,449,962	(5,502,614)
Movement arising from cash inflow	5,702,958	(2,346,467)
Movement in investment valuations	(1,491,250)	771,616
Movement for the year	4,211,708	(1,574,851)
Portfolio investments at 1 April	70,358,060	71,932,911
Portfolio investments at 31 March	74,569,768	70,358,060

26. Movement in cash, deposits and investments in the year

	At 1st April 2013 £	Cash flow Movement £	Changes To market Value £	At 31st March 2014 £
Cash at bank *	13,092,008	(2,747,004)	-	10,345,004
Fixed interest securities	35,804,775	4,107,946	(490,209)	39,422,512
Equities	21,461,277	4,342,016	(1,001,041)	24,802,252
	<u>70,358,060</u>	<u>5,702,958</u>	<u>(1,491,250)</u>	<u>74,569,768</u>

The comparative figures for last year were:

	At 1st April 2012 £	Cash flow Movement £	Changes To market Value £	At 31st March 2013 £
Cash at bank	9,935,861	3,156,147	-	13,092,008
Fixed interest securities	34,864,780	792,143	147,852	35,804,775
Absolute Return Funds	2,619,083	(2,552,235)	(66,848)	-
Equities	24,513,187	(3,742,522)	690,612	21,461,277
	<u>71,932,911</u>	<u>(2,346,467)</u>	<u>771,616</u>	<u>70,358,060</u>

* The large cash balance reflects the premiums received in advance before the year end as well as £5.6m held in a separate account in relation to Hannover Reinsurance. This account can only be accessed jointly with Hannover Reinsurance. The Company receives all the interest on this account.

27. Location and nature of business

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

BAR MUTUAL INDEMNITY FUND LIMITED

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

Registered in England No. 2182018

REGISTERED OFFICE

90 Fenchurch Street
London, EC3M 4ST