BAR MUTUAL

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CHAIRMAN'S REPORT

I am pleased to report to Members once again that Bar Mutual continues to enjoy good financial health. Its most recent financial year ended on 31 March 2015. As at that date, Bar Mutual's free reserves stood at £32.903m, which includes a surplus of £1.671m on its activities during the year to 31 March 2015.

This surplus was due partly to the release of claims provisions to reflect better than expected claims experience on the 2011 and 2013 policy years. The more important factor in the achievement of this surplus, however, was the income of £2.954m that Bar Mutual generated from its investment portfolio. Positive results were achieved in all asset classes held in the portfolio. This investment income amounted to a return of almost 5 percent, an outstanding result in the current investment climate in which substantial profits are difficult to obtain and when the investment policy remains comparatively risk-averse. On behalf of the Board of Directors, I would like to thank Bar Mutual's investment manager, Thomas Miller Investment, for their very impressive work over the past year.

These strong financial results mean that Bar Mutual comfortably exceeds its regulatory capital requirement. As at 31 March 2015, Bar Mutual's capital requirement under the current regulatory regime was £25.731m. As mentioned above, its free reserves at the same date were £32.903m. In addition, its capital resources (that is, free reserves plus claims margins) were £39.585m, well in excess of the regulatory requirements.

Members will appreciate, however, that it would be imprudent for the Board to focus simply on the level of capital Bar Mutual must hold when assessing the adequacy of its capital resources. In recent months, the Board has given close consideration to the amount of capital it should aim to hold in excess of its regulatory capital requirement from time to time (the regulatory requirements will be changing with the introduction of "Solvency II"). With the assistance of the Managers' actuarial team, the Board has decided that Bar Mutual should have a buffer of no less than the monetary equivalent of a 1 in 20 year catastrophic event in excess of its regulatory capital requirement and that, in order to guard against the risk of accumulating unnecessarily large amounts of capital, there should be a maximum buffer or ceiling equivalent to another 1 in 20 year catastrophic event above the minimum buffer. Applying these measures to the capital resources as at 31 March 2015, Bar Mutual would have been comfortably above the minimum limit, but not approaching the maximum limit.

As part of the exercise of settling upon these minimum and maximum buffers above the regulatory capital requirements, the Board also reviewed the remedial actions available to it in the event of Bar Mutual being hit by an unexpected catastrophe and, as a result, seeing its capital resources fall below those requirements. Of those available, only two (a reduction in the risk profile of the investment portfolio and the calling in of premium deferral) would be capable of effecting an immediate improvement in Bar Mutual's capital position.

As between the two of them, the Board agreed that it would be contrary to Bar Mutual's long-term investment strategy of (at least) maintaining the value of the investment portfolio suddenly to reduce its equity holdings in order to overcome what may be short-term capital difficulties. Instead, it concluded that, in the unlikely event of Bar Mutual needing an injection of capital, resort should be had to deferred premium income.

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Members will recall that Bar Mutual has operated a premium deferral system for many years, under which they have not had to pay upfront the full amount of premium due as a result of a strict application of the Rating Schedule. This policy has saved Members many millions of pounds over the years – indeed, the size of the deferred premium income for each of the most recent policy years exceeds £2m per annum. It has never been necessary for the Board to consider calling upon Members for payment of the deferral (for example, the right to do so in respect of all policy years up to and including 2008 has been formally waived) and we do not foresee having to do so. It is important, however, for Members to note that, in the unlikely event of it experiencing catastrophic claims and/or investment losses, Bar Mutual retains the right to take this step.

I should inform Members that among the items of business to be transacted at the forthcoming Annual General Meeting will be the adoption of new Articles of Association for Bar Mutual. Many of the new provisions are consequential upon the recent changes to the Bar Mutual Rules permitting Bar Standards Board-regulated entities to become Members of Bar Mutual. In addition to those changes, however, the new Articles will also remove the requirement that only Bar Council members may vote on the appointment of Bar Mutual Directors and provide that any surplus left on the winding-up of Bar Mutual should be distributed to Members, not to the Bar Council.

Members will recall from my interim report in January that the Board of Directors had agreed to provide insurance to all single person entities authorised to practices by the Bar Standards Board on the same basis as self-employed barristers for the 2015 policy year and that multi-person entities would be considered for cover on a case by case basis, but that the Board reserved its position for the future, especially if the Bar Standards Board was unable to persuade to the Legal Services Board to allow it to extend the obligation to insure with Bar Mutual in rule C77 of the Handbook to all of the single person entities it regulates. The Board is pleased to note that the Bar Standards is currently consulting on such an extension and hopes the BSB (and, subsequently, the LSB) will appreciate the overwhelming benefits to both single person entities and their clients that would flow from an extension of the scope of rule C77.

Finally, I am pleased to inform Members that Nina Goolamali of 2 Temple Gardens has recently joined the Board.

Colin Edelman QC
Chairman

June 2015