BAR MUTUAL INDEMNITY FUND LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

Company Number 218 2018

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NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of the Members will be held at Devereux Chambers, Devereux Court, London, WC2R 3JH on Tuesday 2 October 2018 at 5.00pm for the following purposes:

To receive the Directors' Report and Financial Statements for the year ended 31 March 2018 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: 26 July 2018

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)
Rebecca Sabben-Clare QC	(Deputy Chairman)
Charles Flint QC	(Deputy Chairman) Retired 3 October 2017
Stephen Arthur	Resigned 9 April 2018
Thomas Coghlin QC	Appointed 18 October 2017
Gregory Denton-Cox	
Jasbir Dhillon QC	
Charles Dougherty QC	Appointed 18 October 2017
Nina Goolamali QC	
Rajiv A A Harnal	(Chief Financial Officer)
Alexandra Healy QC	
Michael Horne QC	
Leigh-Ann Mulcahy QC	Retired 3 October 2017
Christopher Pocock QC	
Ahmed Salim	(Chief Executive Officer)
David Scorey QC	
Sharif Shivji	
Fiona Sinclair QC	Appointed 18 October 2017
Joanna Smith QC	
David Wolfson QC	Retired 3 October 2017

CHAIRMAN'S REPORT

Bar Mutual's Financial Position

The end of Bar Mutual's 2017-2018 financial year marked the thirtieth anniversary of the commencement of its provision of professional indemnity insurance to all self-employed barristers in England and Wales. Over this period Bar Mutual has grown from having no assets at all to a company with an investment portfolio valued at £76m. This achievement reflects the prudence and dedication of all of those who have served as Directors of Bar Mutual and who have been involved in the day to day management of the company since 1988, to whom all Members owe a debt of gratitude.

Readers of my reports over recent years will recall what I have said about the Board of Directors being conscious that the accrual of capital by Bar Mutual is not to be regarded as an end in itself. Rather, its purpose is to ensure Bar Mutual is able to comply with its regulatory capital requirements, to meet its current claims liabilities and to secure its ability to continue to meet such liabilities in the future, thereby providing financial comfort and confidence to its Members and those who pursue claims against them. The Board is aware of the desirability of not requiring Members to pay more in premium than is necessary to ensure Bar Mutual meets these crucial objectives with a prudent (but not excessively prudent) margin to spare.

To this end, after Bar Mutual's capital resources as at 31 March 2016 exceeded the upper target under its Capital Resources Policy, the Board decided to take two steps: to reduce the ratings applicable to a number of areas of practice where doing so was consistent with Bar Mutual's long-standing rating model and to increase the level of the premium deferral from 20% to 27.5% for the 2017 policy year renewal. These measures sought to achieve a gradual reduction (and eventual elimination) of the capital held in excess of that upper target over a reasonable timeframe (which the Board regarded as three years in the circumstances). In doing so, the Board was aware that taking these steps would be very likely to lead to an underwriting deficit for the financial year ending on 31 March 2018. In my January report, I informed Members that a deficit of £2.4m was projected at that time.

I can now report that Bar Mutual has recorded a deficit of £4.038m for the financial year ending on 31 March 2018. There are two principal reasons for the actual year-end deficit being higher than that expected in January. First, the deterioration in Bar Mutual's claims experience during the first half of the 2017 financial year continued through to the end of the year, with the consequence that it became necessary to make provision for additional reinsurance reinstatement premiums that may become payable in the future. Secondly, and in contrast to recent years when favourable returns have been achieved in spite of overall market results, Bar Mutual's investment return for the year was a negative 0.55% (a loss of £0.488m) due to adverse market conditions earlier this year, in contrast to last year's positive return of 3.46%. This result demonstrates the extent to which the investment return is at the mercy of the markets and why Bar Mutual's Investment Policy remains cautious in nature.

The effect of this result on Bar Mutual's capital resources and the Board's programme to reduce the amount of capital held so that it falls within the targets suggested by the Capital Resources Policy is that, as at 31 March 2018, the excess of capital has been eliminated more quickly than had been expected. As at that date, Bar Mutual held capital resources of £40.821m, comfortably below the upper target of £43.030m, comfortably above the lower target of £31.233m and safely in excess of its regulatory capital requirement of £19.436m.

For the avoidance of any doubt, Bar Mutual remains well-capitalised and protected against the risk of unexpected adverse events impacting on its solvency position.

Cover for Foreign Practice

One of the most obvious changes in the practices of barristers in England and Wales since Bar Mutual commenced business in 1988 is the ever-increasing importance for the practices of many Members of work undertaken abroad, whether in matters governed by English law or otherwise. Enquiries to the Managers about whether Bar Mutual would cover claims arising from this work have increased substantially in recent years, such that the Rules and Cover Committee of the Board undertook a full review of this issue earlier this year, prompted by, and with the involvement of, the Commercial Bar Association, the Chancery Bar Association and the Technology and Construction Bar Association.

The result of this review is to make it clear that where a Member accepts instructions via his/her English or Welsh chambers to act in proceedings outside England and Wales and the matter is governed by a system of law other than English or Welsh law, any claim arising from those instructions will be treated as having arisen from work that is incidental to his/her practice as a self-employed barrister in England and Wales. As such, any fee income from such instructions should continue to be declared in the normal way for each year's renewal.

Where, however, the instructions for such a case have not come through the Member's chambers in England and Wales, Bar Mutual will only cover the Member for claims arising from the instructions if (i) he/she is authorised to practise in the jurisdiction in question and (ii) Bar Mutual has specifically agreed to cover the foreign practice of this nature. Members will need to declare the fee income from this practice on a separate renewal form and a separate premium will be payable for the cover.

Amendments to the Terms of Cover to give effect to the Board's decision to adopt this approach came into force on 1 April 2018. Any Members who think they may be affected by these amendments should consult the Guidance Note on International Practice, a link to which can be found on the "Downloads" page of the Bar Mutual website (http://www.barmutual.co.uk).

Bar Mutual and the General Data Protection Regulation

In my Report in July last year, in advance of the coming into force of the General Data Protection Regulation ("the GDPR"), I highlighted the need for Members to take steps to ensure they were aware of how to minimise the risk of data security breaches and their obligations in the event of such a breach. Judging by the number of enquiries the Managers have received on this subject in recent months, it is clear that Members (or their chambers on a collective basis) have devoted much time and effort to meeting the challenges posed by the introduction of the GDPR. Many of those enquiries have related to the extent of cover for liabilities arising from breaches of the GDPR and, secondly, Bar Mutual's view on the retention of documents and information, especially after a Member's involvement in a case ends.

I am able to confirm that Bar Mutual's position on the extent of cover has not changed due to the GDPR. Where a data security breach is committed by a Member (or any person for whom she may be vicariously liable), a third party alleges that this breach has caused him loss and the third party seeks compensation from the Member, Bar Mutual will cover the Member for this claim (subject to the (unlikely) application of any relevant exclusion in the Terms of Cover). Where, however, the data security breach is the subject of an investigation by the Information Commissioner and that investigation leads to a fine being imposed on the Member, Bar Mutual does not indemnify the Member against the liability to pay that fine or any defence costs that may be incurred by the Member in relation to that investigation. This reflects the fact that Bar Mutual is a provider of professional indemnity insurance.

CHAIRMAN'S REPORT (continued)

Bar Mutual and the General Data Protection Regulation (continued)

The question of retention of documents and information is very important in the context of claims against Members. All Members know from their own practices that contemporaneous documents or information will almost always be regarded as the best evidence of what happened, and of people's motivations, in the past and will normally be preferred over oral witness evidence on the relevant issue. This applies just as much to claims against barristers. The availability of such documents and information is of invaluable assistance to the Managers and those lawyers instructed to defend Members as they evaluate the merits of claims and determine how best to safeguard the interests of both the Member subject to any particular claim and Bar Mutual.

As such, Bar Mutual believes that Members should be treated as having good reason to retain such documents and information. With this in mind, I would urge Members to continue to retain notebooks and (as regards documents that are more likely to be retained in soft copy) emails and, importantly, their attachments, attendance notes and documents they have drafted and to do so for at least fifteen years (which is the long-stop limitation period under section 14B of the Limitation Act 1980). Those whose practice involves infants and protected parties (in particular, those acting for claimants in catastrophic personal injury disputes) should consider adopting an even longer retention period.

Board of Directors

Since my report in January, Stephen Arthur has resigned from the Board as a result of the pressure of professional commitments. Stephen became a Director in December 2010 and assiduously served on the Board's Audit and Risk Committee, Rating and Reinsurance Committee and Reserves Committee, the work of which lies at the heart of Bar Mutual' s business operations. The Board has benefited immensely from his consistent and good-humoured willingness to challenge long-standing assumptions and his strong commitment to Bar Mutual's continuing development. On behalf of the Board and all Members, I wish to thank him publicly for his substantial service to Bar Mutual and to wish him well for the future.

The reason for Stephen's departure only serves to highlight the amount of invaluable, but unpaid, work undertaken by all Directors on top of their own professional and personal commitments. I wish to thank all of them for their willingness to serve as a Director and their important contributions to ensuring Bar Mutual continues to prosper as it pursues the mandate it was given thirty years ago: the provision of comprehensive professional indemnity insurance to all Members at rates that are fair and reasonable.

Colin Edelman QC
Chairman
26 July 2018

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 deficit arising out of the year's operations after tax was £4.038m (2017 – surplus £4.182m) and this was transferred from reserves. The reserves now amount to £37.544m (2017 - £41.583m) 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.

Principal Risks and Uncertainties

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. All policies are subject to Board approval and ongoing review by the Audit & Risk Committee and internal audit. Compliance with regulation, legal and ethical standards is a high priority for the Company, the compliance team and finance department. They perform an important oversight role in this regard.

The Company operates a risk transfer strategy by purchasing reinsurance and so safeguarding its reserves. During the year ended 31 March 2018, about 47% of the reinsurance contract was placed at Lloyd's, with the balance placed with insurance companies in the UK. This is consistent with the placement last year. Note 6 in the Financial Statements explains the Company's reinsurance programme.

The principal risk facing the Company as an insurance company is a severe reversal in what has in recent years been a relatively benign claims experience. The claims history demonstrates that, quite unexpectedly, claims can climb to levels that could have an impact on its financial strength were it not adequately reserved.

The Company's key performance indicators are its financial results and its Investment performance which is shown below.

Financial results

The Statement of Income and Movement in Reserves (on page 17) and the Statement of Financial Position (on page 18) 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 2018 and 31 March 2017.

	2018	2017
	£'000	£'000
Premium Written	13,245	15,580
Reinsurance Premium	(5,080)	(2,545)
Net claims incurred	(10,622)	(9,577)
Operating expenses	(1,326)	(1,312)
Surplus/(deficit) on technical account	(3,783)	2,146
Investment Income	(487)	2,459
Surplus/(deficit) on ordinary activities before tax	(4,270)	4,605
Tax	232	(423)
Surplus/(deficit)for the financial year	(4,038)	4,182
Free Reserves at 31 March	37,545	41,583

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 negative 0.55% (2017: positive 3.46%).

Company's Current and Future Plans

The Company's central objective is to provide professional indemnity insurance to its Members at a price that is fair and reasonable. Generating profits for distribution to shareholders is therefore not one of the Company's objectives. Rather, it seeks to generate sufficient profit to strengthen its financial and solvency position to ensure that it can continue to provide professional indemnity insurance to self-employed barristers in the longer term.

The Company has a target range in excess of its regulatory capital requirement, with upper and lower targerts, within which its free reserves for regulatory purposes should sit.

The upper and lower targets have been calculated with reference to a 1 in 20 year capital loss. The limits are shown in the table below:

	£'m
Regulatory Capital Reserves as at 31 March 2018	40.821
Solvency Capital Requirement	19.436
Lower capital target	30.233
Upper capital target	43.030

At the year end the Company had met its objectives of being in a strong financial position with reserves for regulatory purposes at £40.821m and being comfortably within its defined target limits.

Colin Edelman QC
Chairman
Date: 26 July 2018

DIRECTORS' REPORT

The Directors have pleasure in presenting their Report and the Financial Statements for the year ended 31 March 2018.

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, Colin Edelman QC, Nina Goolamali QC, David Railton QC, Rebecca Sabben-Clare QC, Sharif Shivji and Joanna Smith QC retire by rotation and, being eligible, will seek reappointment at the Annual General Meeting on 2 October 2018.

Thomas Coghlin QC, Charles Dougherty QC, and Fiona Sinclair QC, having been appointed during the year, must retire and, being eligible, will seek reappointment at the Annual General Meeting on 2 October 2018.

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' REPORT (CONTINUED)

Meetings of the Directors

The Board of the Company held three formal meetings: in July 2017, December 2017 and March 2018.

They also maintained contact with the Managers between meetings, in order to fulfil the general and specific responsibilities entrusted to them by the Members under the 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 2017 were approved by the Board in July 2017 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, Nina Goolamali QC, Christopher Pocock QC, David Scorey QC and Fiona Sinclair 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. Charles Flint QC retired as a member during the year.

The Claims Committee comprising Colin Edelman QC (Chairman), Michael Brindle QC, David Railton QC and Joanna Smith 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. Charles Flint QC retired as a member during the year.

The Investment Committee comprising Jasbir Dhillon QC (Chairman), Thomas Coghlin QC, Gregory Denton-Cox, Charles Dougherty QC, Michael Horne QC, Rebecca Sabben-Clare 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. David Wolfson QC and Charles Flint QC retired as a member during the year.

The Management Fee and Oversight Committee comprising David Railton QC (Chairman), Colin Edelman QC, Alexandra Healy QC and Joanna Smith 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.

The Nominations Committee comprising Colin Edelman QC (Chairman), Michael Brindle QC, Nina Goolamali QC, Rebecca Sabben-Clare QC and Sharif Shivji 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 Directors for the Board to consider. The Committee met once during the year. David Wolfson QC retired as a member during the year.

DIRECTORS' REPORT (CONTINUED)

Board Committees (continued)

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, Charles Dougherty QC, Christopher Pocock QC, David Railton QC, Rebecca Sabben-Clare QC, David Scorey QC and Joanna Smith 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 two occasions during the year. Leigh-Ann Mulcahy QC retired as a member during the year.

The Rules and Cover Committee comprising Colin Edelman QC (Chairman), Michael Brindle QC, Thomas Coghlin QC, Rebecca Sabben-Clare QC and Fiona Sinclair QC reviews the terms on which insurance cover is provided by the Company. The committee met on two occasions during the year. Leigh-Ann Mulcahy QC retired as a member during the year.

The Legal Services Act Committee comprises Colin Edelman QC (Chairman), Michael Brindle QC, Nina Goolamali QC, Alexandra Healy QC and Michael Horne 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. Leigh-Ann Mulcahy 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: 26 July 2018

Independent Auditor's Report to the Members of Bar Mutual Indemnity Fund Limited

Our Opinion

We have audited the financial statements of Bar Mutual Indemnity Fund Limited ('The Company') for the year ended 31 March 2018 which comprise the Income and Movement in Reserves, Statement of Financial Position, Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts" ('United Kingdom Generally Accepted Accounting Practice').

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2018 and of its deficit 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.

Basis for opinion

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

Conclusions relating to going concern

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

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

Key audit matters

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

Area of focus	Work performed to address this risk	Results from our work performed
Valuation of gross technical provisions **The valuation of technical provisions is a key area of judgement and estimation within the financial statements. There is a risk that inappropriate assumptions and judgements are made when determining the valuation of technical provisions.** **The Company's financial statements record gross technical provisions of £52.2m (2017 restated: £38.9m).** **1. Case estimates rely on:** • **The expertise of the claims handlers and their experience of assessing claims;** • **The correct and timely entry of claims information onto the claims system before the year end;** • **Adjustments being made to significant year end estimates and payments being absorbed by the Company's assessment of claims incurred but not enough reported ('IBNER').** **2. IBNER modelling is reliant on:** • **Relevant claims data being input correctly into actuarial models.** • **The application of appropriate actuarial techniques, judgements and assumption when assessing the IBNER.** • **IBNER comprises a large proportion of total reserves as estimates are only made to the next stage of legal development. IBNER must therefore allow for prospective costs of future escalation of claims to more senior courts.**	We have performed the following: **Valuation and Cut-off of Case Estimates:** • Agreed all case estimates above our performance materiality level and a sample of other case estimates to supporting documentation and that any adjustments were accounted for in the correct period. • Reviewed the outturn of prior years' estimates against the previous year's position. • Tested significant claim adjustments and payments after year end, to ensure these adjustments and payments were accounted for in the correct period. **Valuation of IBNER:** • Reconciled key actuarial inputs used in actuarial models to accounting records. • Assessed the methodology, significant judgements and assumptions applied by the Company's actuarial team through the use of our in-house actuarial team. • Reviewed the outturn of prior years' IBNER. • Independently projected the ultimate claims figure using historical claims data and actuarial techniques.	Based on our audit procedures we have gained audit assurance that the valuation of technical provisions is fairly stated.

Our application of materiality

In planning and performing our audit we were guided by our application of materiality. We set certain quantitative measures and thresholds for materiality, which together with other, qualitative, considerations, helped us to determine the scope of our audit and the nature, timing and extent of the procedures performed.

Financial statements materiality was set at £600,000. The principal determinant in this assessment was the Company's net assets, which we consider to be the most relevant benchmark, as it reflects the financial strength of the Company. Our materiality was set at approximately 1.5% of this number.

We have agreed with the Audit, and Risk Committee that we shall report to them any misstatements in excess of £30,000 that we identify through the course of our audit, together with any qualitative matters that warrant reporting.

An overview of the scope of the audit
The audit scope is of the Company only with there being no component branches or subsidiaries.
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.

Effectiveness of the audit on the identification of possible fraud
The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. Our responsibilities are to gain reasonable assurance that the financial statements are not materially misstated as a result of fraud or otherwise. We have designed our audit approach to try and identify possible fraud in the financial statements of the Company. We consider the primary fraud risks to be around the misappropriation of assets and fraudulent reporting, as well as the valuation of technical provisions.

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report to the Members of Bar Mutual Indemnity Fund Limited (continued)

Opinion on the matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters 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 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 explanation we require for our audit.

Responsibilities of Directors
As explained more fully in the Statement of Director's Responsibilities on page 11, the directors' are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Matters on which we are required to address

We were appointed by the then Audit Committee in 1989. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 29 years.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

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

Alexander Barnes

Alexander Barnes
Senior Statutory Auditor

For and on behalf of
Moore Stephens LLP
Statutory Auditor
150 Aldersgate Street
London
EC1A 4AB

30th July 2018

STATEMENT OF INCOME AND MOVEMENT IN RESERVES
For the year ended 31 March 2018

	Note	2018	2017 Restated*
TECHNICAL ACCOUNT GENERAL BUSINESS		£	£
Earned premiums, net of reinsurance			
Gross Premiums written	5	13,245,128	15,580,233
Reinsurance premiums	6	(5,079,892)	(2,545,378)
Earned premiums, net of reinsurance		8,165,236	13,034,855
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	7	(11,055,944)	(9,592,398)
Reinsurers' share		1,950,160	567,695
Net claims paid	A	(9,105,784)	(9,024,703)
Change in the provision for claims			
Gross amount	7	(13,243,583)	(3,394,444)
Reinsurers' share	7	11,727,697	2,842,086
Change in the net provision for claims	B	(1,515,886)	(552,358)
Claims incurred, net of reinsurance	A+B	(10,621,670)	(9,577,061)
Net operating expenses	9	(1,326,100)	(1,312,411)
Balance on the technical account	C	(3,782,534)	2,145,383
NON-TECHNICAL ACCOUNT			
Investment income	10	2,111,112	1,885,408
Unrealised gains/(losses) on investments	10	(2,464,509)	732,160
Investment expenses and charges	10	(134,482)	(158,381)
	D	(487,879)	2,459,187
Surplus/(losses) on ordinary activities before tax	C+D	(4,270,413)	4,604,570
Tax rebate/(charge) on ordinary activities	11	231,975	(422,156)
Surplus/(deficit) for the financial year		(4,038,438)	4,182,414
Reserves at 31 March, 2017		41,582,716	37,400,302
Reserves at 31 March, 2018		37,544,278	41,582,716

All income and expenses relate to continuing operations.

The notes on pages 20 to 41 form an integral part of these Financial Statements.

* Certain amounts shown here do not correspond to the 2017 financial statements and reflect adjustments made this year in respect to prior year comparatives, refer to Note 21.

Company number 218 2018

STATEMENT OF FINANCIAL POSITION
As at 31 March 2018

	Note	2018	2017 Restated *
		£	£
ASSETS			
Investments			
Other financial investments	12	76,264,059	79,496,379
Reinsurers' share of gross technical provisions			
Claims outstanding	7	15,564,443	3,836,746
Debtors			
Debtors arising out of direct insurance operations	13	28,190	11,855
Debtors arising out of reinsurance operations	14	1,771,643	982,710
Other debtors	15	603,742	253,031
		2,403,575	1,247,596
Other assets			
Cash at bank	16	8,067,780	7,131,254
Prepayments and accrued income			
Accrued interest-interest earned but not yet received on fixed interest securities		273,442	284,444
Other prepayments and accrued income		17,424	16,214
TOTAL ASSETS		102,590,723	92,012,633
LIABILITIES AND RESERVES			
Reserves			
Free reserves		37,544,278	41,582,716
Technical provisions			
Gross Claims outstanding	7	52,164,583	38,921,000
Creditors			
Creditor arising out of direct insurance operations		21,583	22,736
Creditors arising out of reinsurance operations	17	2,946,668	443,632
Other creditors including taxation	18	4,997	424,448
		2,973,248	890,816
Accruals and deferred income	19	9,908,614	10,618,101
TOTAL LIABILITIES AND RESERVES		102,590,723	92,012,633

* Certain amounts shown here do not correspond to the 2017 financial statements and reflect adjustments made this year in respect of prior year comparatives, refer to Note 21.

The notes on pages 20 to 41 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: 26 July 2018 by:

Colin Edelman QC (Chairman)

Gregory Denton-Cox

R.A.A. Harnal (Chief Financial Officer)

CASH FLOW STATEMENT
For the year ended 31 March 2018

Operating activities

	Note	2018	2017
		£	£
Premiums received		12,504,548	15,139,469
Reinsurance premium paid		(2,576,856)	(2,648,700)
Claims paid		(11,052,045)	(9,581,567)
Reinsurance recoveries received		1,161,227	-
Operating expenses paid		(1,430,035)	(1,248,883)
Taxation paid		(422,514)	157,363
Net cash (used)/provided by operating activities		(1,815,675)	1,817,682

Cash flows from investment activities

	Note	2018	2017
Purchase of investments		(72,723,910)	(74,526,889)
Sale of investments		73,898,692	66,555,617
Interest received		1,024,717	1,038,010
Dividends received		552,702	346,619
Net cash flow from investment activities		2,752,201	(6,586,642)
Net increase/(decrease) in cash and cash equivalents		936,526	(4,768,960)
Cash and cash equivalents at the beginning of the year		7,131,254	11,900,214
Cash and cash equivalents at the end of the year	16	8,067,780	7,131,254

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 2018, 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 2018;

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.

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.

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 (see note 7).

3. Critical accounting estimates and judgements (continued)

3.2 Fair value estimations

In accordance with section 11 of FRS 102, as a financial institution, the Company applies the requirements of paragraph 11.27 of FRS 102. This requires, for financial instruments held at fair value in the balance sheet, disclosure of fair value measurements by level of the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the assets, either directly (that is, price) or indirectly (that is, derived from prices).

Level 3 – Inputs for the assets that are not based on observable market data (that is, unobservable inputs).

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

As at 31 March 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
	£'000	£'000	£'000	£'000
Assets				
Fixed interest - Government	-	42,775	-	42,775
Fixed interest – Corporate	-	11,318	-	11,318
Equities & Alternatives	6,981	6,352	-	13,333
UCITS	-	8,838	-	8,838
	6,981	69,283	-	76,264

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

As at 31 March 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
	£'000	£'000	£'000	£'000
Assets				
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	-	26,6,01
	11,305	68,191	-	79,496

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 2018, 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 notified claims 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.

	2018	2017
	£	£
Increase in loss ratio by 5 percentage points		
Gross	(662,256)	(779,012)
Net	(408,262)	(651,743)

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 £541k 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 12.17% of the investment portfolio (2017: 17.58%).

A 1% increase in equity values would be estimated to have increased the surplus before tax at the year-end by £93k. 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 2018	AAA/AA	A	BBB or less or not rated	Total
	£'000	£'000	£'000	£'000
Fixed interest-Government	42,775	-	-	42,775
Fixed interest-Corporate	1,977	9,341	-	11,318
Equities & Alternatives	-	-	13,334	13,334
UCITS	8,838	-	-	8,838
Assets arising from reinsurance contracts	-	15,564	-	15,564
Reinsurance debtors	-	1,772	-	1,772
Cash at bank	-	-	8,068	8,068
Other	273	-	649	922
	53,863	26,677	22,051	102,591

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Management of Risk (continued)

4.3 Credit Risk (continued)

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	-	3,837	-	3,837
Reinsurance debtors	-	983	-	983
Cash at bank	-	-	7,131	7,131
Other	284	-	281	565
	50,710	17,894	23,408	92,012

There were no past due or impaired assets at 31 March 2018 (2017: Nil).

4.4 Liquidity Risk

Liquidity and cash flow risk is the risk that cash may not be available to pay obligations as they fall due at a reasonable cost. The Company maintains holdings in short term deposits to ensure there are sufficient funds available to cover anticipated liabilities and unexpected levels of demand. As at 31 March 2018, the Company's short term deposits (including cash and UCITs) amounted to £16.906m (2017: £33.732m). The Company has sufficient liquid assets to meet its liabilities as they fall due.

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 2018	Short term liabilities	More than 1 year	2-5 years	Total
	£'000	£'000	£'000	£'000
Technical provisions- claims	18,004	11,988	22,173	52,165
Creditors arising out of direct insurance operations	22	-	-	22
Creditors arising out of reinsurance operations	2,947	-	-	2,947
Other creditors including taxation	5	-	-	5
Accruals and deferred income	9,909	-	-	9,909
	30,887	11,988	22,173	65,048

As at 31 March 2017	Short term liabilities	More than 1 year	2-5 years	Total
	£'000	£'000	£'000	£'000
Technical provisions- claims	13,728	9,548	15,644	38,921
Creditors 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	10,618	-	-	10,618
	25,237	9,548	15,644	50,430

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 2018	Short term assets	After 1 year	2-5 years	Total
	£'000	£'000	£'000	£'000
Fixed interest-Government	-	6,982	35,793	42,775
Fixed interest-Corporate	-	3,550	7,767	11,317
Equities & Alternatives	13,334	-	-	13,334
UCITS	8,838	-	-	8,838
Debtors arising from reinsurance contracts	5,372	3,577	6,616	15,564
Debtors arising out of direct insurance	1,772	-	-	1,772
Cash at bank	8,068	-	-	8,068
Other	923	-	-	923
	38,307	14,109	50,176	102,591

As at 31 March 2017	Short term assets	After 1 year	2-5 years	Total
	£'000	£'000	£'000	£'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
Debtors arising from reinsurance contracts	1,353	941	1,543	3,837
Debtors arising out of direct insurance	983	-	-	983
Cash at bank	7,131	-	-	7,131
Other	565	-	-	565
	52,629	10,341	29,041	92,012

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.

4. Management of Risk (continued)

4.6 Limitation of the sensitivity analysis

The sensitivity analysis 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 £11.797m as at 31 March 2018. 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 £31.233m and maximum target level of capital resources of £43.030m as at 31 March 2018.

At year-end capital resources eligible for regulatory purposes is £40.821m which is £2.209m below the Company's maximum target limit.

At year-end capital resources exceed the Company's Solvency Capital Requirement (SCR) capital of £19.436m by £21.385m.

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 27.5% on premiums for the year ended 31 March 2018 (2017: 20%). Gross premiums written are reported net of this deferral. The Company reserves the right to call the deferred premium from members unless it has waived its right to do so.

6. Reinsurance premiums

In respect of the year ended 31 March 2018, 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.

	2018	2017
	£	£
Treaty reinsurance	2,517,638	2,535,378
Reinstatement premium	2,552,254	-
Stop loss reinsurance premium	65,496	64,558
Stop loss profit commission	(55,496)	(54,558)
	5,079,892	2,545,378

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 was due on 1 April 2019. The Company has commuted the remaining policy post year end 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, 2016 and 2017.

The Stop Loss reinsurance premium of £0.065m 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 £0.055m (2017: £0.054m) 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 FRS 103 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

	2018	2017
	£	£
Gross claims paid	9,544,421	8,155,588
Claims handling (note 8)	1,511,524	1,436,810
	11,055,945	9,592,398

7. Claims and technical provisions (continued)

Insurance contract liabilities and assets

	2018	2017
	£	£
Gross technical provisions at the beginning of the year	38,921,000	35,526,556
Claims paid	(11,055,945)	(9,592,398)
Claims incurred	24,299,528	12,986,842
Change in gross technical provisions	13,243,583	3,394,444
Gross technical provision at the end of the year	52,164,583	38,921,000
Gross Reinsurance share of technical provision at the beginning of the year	3,836,746	994,660
Reinsurance share of paid claims	(1,950,160)	(567,695)
Reinsurance share of incurred claims	13,677,857	3,409,781
Change in gross reinsurance provisions	11,727,697	2,872,086
Reinsurers share of technical provisions at the end of the year	15,564,443	3,836,746
Net technical provisions	36,600,140	35,084,254

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 biannually. 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 2017/2018 policy year.

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	2018 £'000
At the end of the reporting year	9,100	11,200	9,400	10,700	10,700	11,000	12,703	17,144
1 year later	9,100	11,868	10,202	10,487	9,500	10,607	16,469	
2 years later	8,300	12,149	12,350	8,900	8,500	16,220		
3 years later	7,900	10,550	11,369	8,250	7,528			
4 year later	7,600	10,126	13,040	8,611				
5 years later	7,850	13,039	12,819					
6 years later	8,062	14,565						
7 years later	7,635							
Estimate of ultimate claims	7,635	14,565	12,819	8,611	7,528	16,220	16,469	17,144
Cumulative payments to date	7,594	13,779	10,860	5,617	4,638	4,609	4,691	693
Liability recognised in statement of financial position	41	786	1,959	2,994	2,890	11,611	11,778	16,451

Total liability relating to last eight policy years	48,510
Other claims liabilities	3,655
Total gross technical provisions included in the statement of financial position	52,165

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	2018 £'000
At the end of the reporting year	9,100	11,200	9,400	10,700	10,700	11,000	11,600	12,976
1 year later	9,100	11,308	9,800	10,300	9,500	9,600	13,042	
2 years later	8,300	11,308	11,100	8,900	8,500	9,434		
3 years later	7,900	10,500	10,600	8,250	7,391			
4 year later	7,600	9,900	10,100	8,467				
5 years later	7,850	10,100	9,851					
6 years later	7,750	12,250						
7 years later	7,604							
Estimate of ultimate claims	7,604	12,250	9,851	8,467	7,391	9,434	13,042	12,976
Cumulative payments to date	7,594	11,548	8,762	5,477	4,638	4,609	4,691	693
Liability recognised in statement of financial position	10	702	1,089	2,989	2,753	4,825	8,352	12,283

Total liability relating to last eight policy years	33,003
Other claims liabilities	3,597
Total net technical provisions included in the statement of financial position	36,600

7. Claims and technical provisions (continued)

Change in reinsurers' share of technical provisions

	2018	2017
	£	£
Reinsurers' share of claims outstanding at end of year	15,564,443	3,836,746
Reinsurers' share of claims outstanding at beginning of year	3,836,746	994,660
Increase in reinsurers' share of claims outstanding	11,727,697	2,842,086

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 33 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.

	2018	2017
	£	£
Acquisition costs (note 9)	711,450	676,281
Claims handling (note 7)	1,511,524	1,436,810
Administration expenses (note 9)	362,935	344,995
	2,585,909	2,458,089
A separate fee is paid to the Investment Managers and included in investment expenses and charges (note 10)		
Investment management expenses	60,489	57,499
Management fees	2,646,398	2,515,588

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Net operating expenses

		2018	2017
		£	£
a)	Acquisition costs	711,450	676,284
b)	Administration expenses		
	Legal and professional fees	12,254	47,498
	Directors' & Officers' Liability insurance	68,485	59,105
	AGM & printing costs	27,375	25,974
	Charitable donations – Law Care	-	10,000
	Regulatory fees	36,601	74,215
	Auditors' remuneration - Audit	102,260	69,600
	- Taxation	4,740	4,740
	Management administration expenses	362,935	344,995
		1,326,100	1,312,411

There were no Directors' emoluments during the year.

10. Investment income

	2018	2017
	£	£
Interest on listed investments	1,022,527	1,025,343
Gain on foreign exchange	-	-
Bank deposit interest	2,185	12,667
Dividends on equities	552,702	346,619
	1,577,414	1,384,629
Gains on realisation of investments	533,698	500,779
	2,111,112	1,885,408

Investment expenses and charges

	2018	2017
	£	£
Bank, custodial and other charges	73,993	100,882
Investment management expenses (see note 8)	60,489	57,499
	134,482	158,381

Unrealised gains/(loss) on investments

	2018	2017
	£	£
Cost (see note 12)	77,309,322	78,232,900
Market value (see note 12)	76,264,059	79,652,146
Unrealised gains/(loss) at year end	(1,045,263)	1,419,246
Unrealised gains/(loss) movement for the year	(2,464,509)	732,160

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	**2018**	**2017**
	£	**£**
UK corporation tax (Note 11c)	-	422,514
(Over)/under provision prior year & interest on tax	(231,975)	(358)
	(231,975)	422,156

(b) The tax assessed for the period differs from the standard rate of corporation tax in the UK (19 %) and is computed as follows:

	2018	**2017**
	£	**£**
Surplus/(deficit) on ordinary activities before tax	(4,270,413)	4,604,570
Surplus on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017: 20%)	(811,379)	920,914
Effects of:		
Non-taxable mutual insurance operations	718,681	(429,076)
Non-taxable dividend distribution	(127,678)	(69,324)
Utilisation of losses, differences due to tax rates	(11,599)	-
Current year tax charge/(rebate)	(231,975)	422,514

(c) Balance sheet

	2018	**2017**
	£	**£**
Taxation creditor		
Taxation (debtor)/creditor brought forward	422,514	(157,005)
(Recovery)/payment of corporation tax	422,514	(157,005)
	-	-
UK corporation tax for the current year	-	422,514
Creditor/(debtor) as at 31 March	-	422,514

12. Other financial investments

	Market Value 2018 £	Market Value 2017 £	Cost 2018 £	Cost 2017 £
Other financial Investments comprise:				
Equities & Alternatives	13,333,549	15,996,483	13,357,803	12,681,807
UCITS	8,837,578	26,600,799	8,837,578	28,658,471
Fixed interest securities	54,092,932	36,899,097	55,113,941	36,892,622
	76,264,059	79,496,379	77,309,322	78,232,900

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. These holdings are also referred to as cash and cash alternatives.

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

	2018 £	2017 £
Debts due from Members (Premiums)	48,737	34,262
Provision for doubtful debts	(20,547)	(22,407)
Debtors arising out of direct insurance	28,190	11,855

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 £1,771,643 (2017: £982,710) are reinsurance recoveries which are due from reinsurers.

15. Other Debtors

	2018 £	2017 £
Sundry debtors	147,917	25,281
Claim recoveries due from third parties	223,850	227,750
Taxation repayment	231,975	-
Debtors arising out of direct insurance	603,742	253,031

16. Cash and cash equivalents

	2018	2017
	£	£
Cash at Bank	8,024,274	6,975,487
Cash with Financial institutions	43,506	155,767
Cash at hand and in bank	8,067,780	7,131,254

Included in this balance is £2.838m 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

	2018	2017
	£	£
Reinsurance creditor	2,946,668	443,632

18. Other creditors including taxation

	2018	2017
	£	£
Insurance Premium tax	4,997	1,934
Taxation (note 11(c))	-	422,514
	4,997	424,448

19. Accruals and deferred income

	2018	2017
	£	£
Accrued expenses	135,807	121,050
Deferred income –premiums received in advance	9,772,807	10,497,051
	9,908,614	10,618,101

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 £2,646,398 (2017: £2,515,588) from the Company in respect of management fees for the year.

21. 2017 Restated figures

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

	2017 restated Gross £	2017 Net £
Reinsurers share of technical provisions –claims outstanding	3,836,746	769,547
Technical provisions claims outstanding	38,921,000	35,853,801

22. Location and nature of business

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

MANAGERS AND OFFICERS

MANAGERS

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

DIRECTORS OF BAR MUTUAL MANAGEMENT COMPANY:

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

SECRETARY

K. Halpenny

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

Registered in England No. 2182018

REGISTERED OFFICE

90 Fenchurch Street
London, EC3M 4ST

AUDITORS

Moore Stephens LLP
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EC1A 4AB