# BAR MUTUAL INDEMNITY FUND LIMITED

# DIRECTORS' REPORT AND FINANCIAL STATEMENTS

# FOR THE YEAR ENDED 31 MARCH 2019

Company Number 218 2018

**CONTENTS**

**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 Wednesday 2 October 2019 at 5.00pm for the following purposes:

To receive the Directors' Report and Financial Statements for the year ended 31 March 2019 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: 4 July 2019

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) |
| Ahmed Salim | (Chief Executive Officer) |
| Rajiv A A Harnal | (Chief Financial Officer) |
| Stephen Arthur | (Resigned 9 April 2018) |
| Thomas Coghlin QC | |
| Gregory Denton-Cox | |
| Jasbir Dhillon QC | |
| Charles Dougherty QC | |
| Nina Goolamali QC | |
| Alexandra Healy QC | |
| Michael Horne QC | |
| Christopher Pocock QC | |
| Simon Salzedo QC | Appointed 1 November 2018 |
| David Scorey QC | |
| Sharif Shivji | |
| Fiona Sinclair QC | |
| Joanna Smith QC | |

## CHAIRMAN'S REPORT

### Bar Mutual's Financial Position as at 31 March 2019

I am pleased to inform Members that Bar Mutual's operations during the course of the year that ended on 31 March 2019 have resulted in a surplus of £0.342m. Because Bar Mutual is a company limited by guarantee and does not have shareholders who expect to receive a dividend, all of this surplus is applied to its free reserves, thereby reducing the amount of premium income that needs to be collected from Members in order to ensure the company's income needs are met.

Several aspects of Bar Mutual's performance over the last financial year warrant particular comment. First, gross payments during the year in respect of claims were £15.84m. This is a high figure and was primarily due to the payment of a number of high-quantum claims. However, £3.93m of this expenditure was recovered from the company's excess of loss reinsurance. In addition, better than expected claims experience on the now mature 2013 and 2014 policy years has allowed the release of £1.34m from the claims reserves. The result is that Bar Mutual' s net claims incurred during the year to 31 March 2019 came in at £10.57m.

Second, after last year's disappointing negative investment return, Bar Mutual once again achieved an outstanding net investment return of £2.37m (or 3.59%) in what continue to be very difficult and volatile market conditions, against a benchmark return of 1.91% under the Investment Policy. Lest Members be concerned that this result may be the consequence of aggressive (and, thus, risky) asset class allocation by the Investment Manager, Thomas Miller Investment Ltd, it must be noted that the Investment Policy is conservative in nature (for example, the minimum percentage of Bar Mutual's portfolio that must be held in cash and/or fixed income products is 45%). A conservative approach is adopted because the overarching aim of the Policy is simply to maintain the value of the portfolio by reference to CPI so that it is available as a loss reserve.

It is due to this investment performance that, instead of recording the projected £0.611m deficit to which I referred in my January report to you, the company has achieved a surplus for the financial year. Credit for this result, and for the substantial, above benchmark investment returns attained by Bar Mutual over the past six years, must go to Richard Jarvis of Thomas Miller Investment Ltd, who will be retiring next month. The Board wishes him well in his retirement.

In capital management terms, the above results mean that, as at 31 March 2019, Bar Mutual holds capital resources of £42.06m, as against a regulatory capital requirement of £19.23m. The Capital Resources risk appetite statement followed by the Board meant that, at year-end, the lower target for Bar Mutual's capital resources was £31.01m and the upper target was £42.79m, so Bar Mutual's capital resources were £0.78m below the latter target. The Board is confident that this provides Bar Mutual with a sound financial basis on which it can face the future.

### Minimum Terms of Cover for Self-Employed Barristers and Insurance Requirements for Single Person Entities

As part of improving its governance of the professional indemnity insurance arrangements applying to those whom it regulates and who are self-employed barristers, the Bar Standards Board has recently promulgated Minimum Terms of Cover for Self-Employed Barristers. Bar Mutual was consulted on the content of the BSB Minimum Terms document.

What is notable for any reader of both Bar Mutual's Terms of Cover and the BSB Minimum Terms (and, for that matter, the BSB's Minimum Terms of Entity Cover, introduced in 2015 when the BSB began to authorise entities to practise) is the extent to which both documents are almost identical, which I believe is very much to Bar Mutual's credit. This reflects how the Directors and Managers of Bar Mutual have consistently sought to ensure over the years that the breadth of Bar Mutual's insurance terms benefits not only Members, but also (very importantly) the interests of those who have a valid claim for compensation against a Member. Bar Mutual has never used the absence of a

**Minimum Terms of Cover for Self-Employed Barristers and Insurance Requirements for Single Person Entities (continued)**

Minimum Terms regime as an opportunity to restrict the scope of cover in a way which would be contrary to the public interest and looks forward to working with the BSB to ensure that the Minimum Terms of Cover for Self-Employed Barristers remain effective in the future.

I am also very encouraged to note that, after a very long gestation period, the BSB has recently lodged with the Legal Services Board an application to amend its Handbook to make it compulsory for all single person entities (ie an entity with a single owner, where the owner is also the entity's sole fee-earner) to purchase the first £2.5m of their professional indemnity insurance from Bar Mutual. Given that the underwriting risk posed by a single person entity is identical to that posed by a self-employed barrister, the Board of Directors has long been of the view that each mode of practice should be subject to the same professional indemnity insurance arrangements. The Board looks forward to the LSB approving the BSB's proposed amendment in time for it to come into effect for the 2020 policy year.

**Clause 1.3 of the Terms of Cover and Limits of Cover**

As Members will be aware, a unique feature of their cover with Bar Mutual is the discretion contained in clause 1.3 of the Terms of Cover, pursuant to which the Directors (normally in the form of the Claims Committee) may decide to indemnify a Member against a claim even when there is no entitlement to indemnity or the claim is one that is specifically excluded from cover. However, the exercise of this discretion is conditioned by the terms of Bar Mutual' s Memorandum of Association, which states that it should only be exercised where Bar Mutual considers it to be "in the interests of the practising Bar as a whole or of the public or of the Company".

With this in mind, Bar Mutual was concerned to learn in late March that one of the two brokers who offer to arrange excess layer cover above its primary layer of £2.5m plus defence costs for Members had said in its promotional material that requests for additional monetary cover via the discretion would be approached "sympathetically".

Regrettably, these comments misstate Bar Mutual' s consistent practice over the past 20 years, which has been to decline all requests from Members invoking the clause 1.3 discretion as a means to increase the amount of cover available to them after they have received (or had to settle) a claim that exceeds their limit of cover. Other requests for exercise of the discretion are granted only exceptionally and only if they meet the criteria quoted above. Accordingly, Members should not give any credence to suggestions that Bar Mutual may exercise its discretion under clause 1.3 to provide them with additional cover, whether within the £2.5m primary layer of insurance provided by Bar Mutual or above £2.5m.

**Board of Directors**

In accordance with the terms of the Board's Nominations Policy, Alexandra Healy QC will be stepping down as a Director at the Annual General Meeting on 2 October 2019. Alexandra became a Director of Bar Mutual in June 2010 and has served on all of the Audit and Risk Committee, Legal Services Act Committee, Management Fee and Oversight Committee and Reserves Committee at various times over the past nine years. As befits someone with an outstanding practice as a criminal silk, the hallmark of Alexandra's contribution to Board and Committee meetings has been her invaluable ability to ask incisive questions that cut to the heart of the matters under consideration. On behalf of the Board and all Members, I would like to thank her for the time she has committed to Bar Mutual on top of a busy professional and family life and to wish her well for the future.

**CHAIRMAN'S REPORT (continued)**

**Board of Directors (continued)**

The Board will shortly be replacing Alexandra with another barrister whose practice focuses on criminal law, in keeping with its goal of ensuring its deliberations benefit from the broadest range of perspectives from across Bar Mutual' s membership.

Colin Edelman QC
Chairman
4 July 2019

## STRATEGIC REPORT

### Review of the Year

The Company continued to provide professional indemnity insurance to self-employed barristers and Entities authorised by the Bar Standards Board in England and Wales. The surplus arising out of the year's operations after tax was £342k (2018 – deficit £4.038m) and this was transferred to reserves. The reserves now amount to £37.886m (2018 - £37.544m) 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 2019, about 44% 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 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 impact of Brexit on Bar Mutual is expected to be marginal, should the situation change then Bar Mutual would be able to enter into a fronting arrangement with UK P & I NV which is based in Rotterdam to deal with any risks that need to be insured by an EU insurer.

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 2019 and 31 March 2018.

| | 2019<br>£'000 | 2018<br>£'000 |
|---|---|---|
| Premium Written | 13,860 | 13,245 |
| Reinsurance Premium | (2,182) | (5,080) |
| Net claims incurred | (12,173) | (10,622) |
| Operating expenses | (1,406) | (1,326) |
| Deficit on technical account | (1,901) | (3,783) |
| Investment Income | 2,674 | (487) |
| Surplus/(deficit) on ordinary activities before tax | 773 | (4,270) |
| Tax | (431) | 232 |
| Surplus/(deficit) for the financial year | 342 | (4,038) |
| Free Reserves at 31 March | 37,886 | 37,545 |

**STRATEGIC REPORT (continued)**

**Investments**

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

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

The investment return for the year under review was 3.59% (2018: negative 0.55%).

**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 will only seek to generate sufficient profit where necessary 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 targets, 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 targets are shown in the table below:

| | £'m |
|---|---|
| Regulatory Capital Reserves as at 31 March 2019 | 42.061 |
| | |
| Solvency Capital Requirement | 19.232 |
| Lower capital target | 31.011 |
| Upper capital target | 42.791 |

At the year end the Company had met its objectives of being in a strong financial position with reserves for regulatory purposes at £42.061m and being comfortably within its defined target limits.

Colin Edelman QC
Chairman
Date: 4 July 2019

**DIRECTORS' REPORT**

The Directors have pleasure in presenting their Report and the Financial Statements for the year ended 31 March 2019.

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

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

The Company has no employees.

The Board of Directors have effected a Directors' and Officers' Liability Insurance Policy to indemnify the Directors or Officers of the Company against loss arising from any claim made against them jointly or severally by reason of any wrongful act in their capacity as Director or Officer of the Company. The insurance also covers the Company's loss when it is required or permitted to indemnify the Directors or Officers pursuant to the law, common or statutory, or the Articles of Association. The cost of the insurance is met by the Company and is detailed in note 9 to the Financial Statements.

**Risk Management**

The Company's risk management is overseen by the Audit & Risk Committee. The Committee considers the type and scale of risk that the Company is prepared to accept in its ordinary course of activity and this is used to develop strategy and decision making.

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

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

**Directors and Officers**

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

In accordance with the Articles of Association, Michael Brindle QC, Michael Horne QC and Christopher Pocock QC retire by rotation and, being eligible, will seek reappointment at the Annual General Meeting on 2 October 2019. Alexandra Healy QC will not be seeking reappointment at the Annual General Meeting.

Simon Salzedo QC having been appointed during the year, must retire and, being eligible, will seek reappointment at the Annual General Meeting on 2 October 2019.

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 the financial year: in July 2018, December 2018 and March 2019.

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 2018 were approved by the Board in July 2018 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), Gregory Denton-Cox, Nina Goolamali QC, Christopher Pocock QC, Simon Salzedo 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.

**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 also deals with applications for discretionary cover as and when such applications are made.The Committee met twice during the year and liaised frequently throughout the year on claims-related issues.

**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.

**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 reporting to the board on the manager's management fee proposals. The Committee met twice 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.

**Board Committees (continued)**

**The Reserves Committee** comprising Michael Brindle QC (Chairman), Jasbir Dhillon QC, Alexandra Healy QC, Simon Salzedo 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), 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.

**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. There were no formal meetings of the committee 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. There were no formal meetings of the Committee during the year, but the Committee liaised throughout the year on issues relating to the insurance of entities regulated by the Bar Standards Board.

**Future developments**

The future developments of the Company have been considered in the Chairman and the Strategic report.

**Post balance sheet events**

There have been no events since the balance sheet date which either requires changes to be made to the figures included in the financial statements or to be disclosed by way of a note.

**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**

On 1 February 2019 Moore Stephens LLP merged its business with BDO LLP. As a result, Moore Stephens LLP has resigned as auditor and the Directors have appointed BDO LLP as auditor in their place. BDO 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: 4 July 2019

## 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 2019 which comprise the Statement of Income and Movement in Reserves, the Statement of Financial Position, the 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 Financial Reporting Standard 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 2019 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.

### 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.

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

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
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**Valuation of 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 (Note 7) record gross technical provisions of £50.0m (2018 £52.2m), reinsurer share of £14.7m (2018 £15.6m) and net technical provisions of £35.3m (2018 £36.6m).**

**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').**

**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.**

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We engaged our actuarial experts to perform a review of the appropriateness of the methodologies employed by the Company when setting technical provisions.

Our actuarial experts re-projected technical provisions in order to conclude whether technical provisions are sufficient to cover the liabilities of the Company.

Our actuarial experts obtained, reviewed and challenged the report by the Company's actuarial function and held discussions with the Company's actuarial function regarding process, assumptions, findings and the results of the re-projection including appropriateness of assumptions and processes and why other bases were considered less appropriate.

In addition to the work of our actuarial experts we have also:

- 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,
- Used substantive audit procedures to assess whether the reinsurers' share of large claims have been correctly recognised,
- 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, and
- Reconciled key actuarial inputs used in actuarial models to accounting records.

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**Our application of materiality**
In planning and performing our audit we were influenced by our application of materiality. We consider materiality to be the magnitude by which misstatements, including omissions, could change or influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements. Importantly, we also take into account the nature of identified misstatements and the particular circumstances of their occurrence when evaluating their effect on the financial statements as a whole, and so misstatements below these levels will not necessarily be evaluated as immaterial.

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. Based on our professional judgment, we determined materiality for the financial statements as a whole to be £800,000 (2018: £600,000). The principal determinant in this assessment was the Company's Net Assets, which we consider to be the most relevant benchmark, as this reflects the fundamental solvency of the Company. Our materiality represents approximately 2.0% (2018: 1.6%) of Net Assets.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Basic performance materiality was set at £480,000 (2018: £360,000) which represents 60% (2018: 60%) of the above lower level materiality levels. This level is based on our assessment of the control environment in place at the Company and the expectation of misstatement which remains consistent with the prior year.

We agreed with the Audit and Risk Committee that we would report to them any misstatements in excess of £40,000 (2018: £30,000) that we identified through the course of our audit, together with any qualitative matters that warrant reporting.

**An overview of the scope of the audit**
The scope of the audit for the financial statements has been determined by our application of our materiality to the financial statements of the Company when determining the level of work to be performed.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgments, for example in respect of the valuation of technical provisions which are subject to management judgment and estimation.

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Companies Act 2006, Prudential Regulation Authority ('PRA') and Financial Conduct Authority ('FCA') rules, FRS 102 and FRS 103.

We obtained our understanding through internal and external training, and the use of an appropriately qualified and experienced audit team who specialise in the insurance sector.

We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error.

We focused on laws and regulations that could give rise to a material misstatement in the Company's financial statements. Our tests included, but were not limited to:

- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of management;

• review of minutes of board and management meetings throughout the period;
• obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
• review of correspondence with the PRA and FCA; and
• review of the Company's breaches register and Internal Audit reports.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely, as auditor of the financial statements, we would become aware of it. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that might reasonably represent a risk of material misstatement due to fraud.

**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.

**Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

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

**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 in relation to which 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.

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

**Responsibilities of Directors**
As explained more fully in the Statement of Directors' 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

**Other matters 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 30 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 and Risk 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

5th July 2019

For and on behalf of
**BDO LLP**
Statutory Auditor
London, UK

## STATEMENT OF INCOME AND MOVEMENT IN RESERVES
**For the year ended 31 March 2019**

| TECHNICAL ACCOUNT GENERAL BUSINESS | Note | 2019<br>£ | 2018<br>£ |
|---|---|---|---|
| **Earned premiums, net of reinsurance** | | | |
| Gross Premiums written | 5 | 13,860,275 | 13,245,128 |
| Reinsurance premiums | 6 | (2,181,755) | (5,079,892) |
| Earned premiums, net of reinsurance | | 11,678,520 | 8,165,236 |
| **Claims incurred, net of reinsurance** | | | |
| Claims paid | | | |
| Gross amount | 7 | (17,441,827) | (11,055,944) |
| Reinsurers' share | 7 | 3,926,237 | 1,950,160 |
| Net claims paid | A | (13,515,590) | (9,105,784) |
| Change in the provision for claims | | | |
| Gross amount | 7 | 2,173,697 | (13,243,583) |
| Reinsurers' share | 7 | (831,448) | 11,727,697 |
| Change in the net provision for claims | B | 1,342,249 | (1,515,886) |
| Claims incurred, net of reinsurance | A+B | (12,173,341) | (10,621,670) |
| Net operating expenses | 9 | (1,406,346) | (1,326,100) |
| Balance on the technical account | C | (1,901,167) | (3,782,534) |
| **NON-TECHNICAL ACCOUNT** | | | |
| Investment income | 10 | 2,519,546 | 2,111,112 |
| Unrealised gains/(losses) on investments | 10 | 278,604 | (2,464,509) |
| Investment expenses and charges | 10 | (124,508) | (134,482) |
| | D | 2,673,642 | (487,879) |
| Surplus/(losses) on ordinary activities before tax | C+D | 772,475 | (4,270,413) |
| Tax rebate/(charge) on ordinary activities | 11 | (430,825) | 231,975 |
| Surplus/(deficit) for the financial year | | 341,650 | (4,038,438) |
| Reserves at 31 March, 2018 | | 37,544,278 | 41,582,716 |
| Reserves at 31 March, 2019 | | 37,885,928 | 37,544,278 |

All income and expenses relate to continuing operations.

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

Company number 218 2018

## STATEMENT OF FINANCIAL POSITION
### As at 31 March 2019

| | Note | 2019 | 2018 |
|---|---|---|---|
| **ASSETS** | | £ | £ |
| **Investments** | | | |
| Other financial investments | 12 | 77,554,964 | 76,264,059 |
| **Reinsurers' share of gross technical provisions** | | | |
| Claims outstanding | 7 | 14,732,995 | 15,564,443 |
| **Debtors** | | | |
| Debtors arising out of direct insurance operations | 13 | 20,332 | 28,190 |
| Debtors arising out of reinsurance operations | 14 | 92,727 | 1,771,643 |
| Other debtors | 15 | 160,798 | 603,742 |
| | | 273,857 | 2,403,575 |
| **Other assets** | | | |
| Cash at bank | 16 | 7,753,524 | 8,067,780 |
| **Prepayments and accrued income** | | | |
| Accrued interest-interest earned but not yet received on fixed interest securities | | 181,603 | 273,442 |
| Other prepayments and accrued income | | 16,990 | 17,424 |
| **TOTAL ASSETS** | | 100,513,933 | 102,590,723 |
| **LIABILITIES AND RESERVES** | | | |
| **Reserves** | | | |
| Free reserves | | 37,885,928 | 37,544,278 |
| **Technical provisions** | | | |
| Gross Claims outstanding | 7 | 49,990,887 | 52,164,583 |
| **Creditors** | | | |
| Creditor arising out of direct insurance operations | | 23,306 | 21,583 |
| Creditors arising out of reinsurance operations | 17 | 754,229 | 2,946,668 |
| Other creditors including taxation | 18 | 869,150 | 4,997 |
| | | 1,646,685 | 2,973,248 |
| **Accruals and deferred income** | 19 | 10,990,433 | 9,908,614 |
| **TOTAL LIABILITIES AND RESERVES** | | 100,513,933 | 102,590,723 |

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: 4 July 2019 by:

Colin Edelman QC (Chairman)

David Railton QC (Deputy Chairman)

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

## CASH FLOW STATEMENT
**For the year ended 31 March 2019**

### Operating activities

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | £ | £ |
| Premiums received | | 14,960,878 | 12,504,548 |
| Reinsurance premium paid | | (4,374,194) | (2,576,856) |
| Claims paid | | (17,376,627) | (11,052,045) |
| Reinsurance recoveries received | | 5,605,153 | 1,161,227 |
| Operating expenses paid | | (1,276,607) | (1,430,035) |
| Taxation paid | | - | (422,514) |
| Net cash (used)/provided by operating activities | | (2,461,397) | (1,815,675) |

### Cash flows from investment activities

| | Note | 2019 | 2018 |
|---|---|---|---|
| Purchase of investments | | (78,367,490) | (72,723,910) |
| Sale of investments | | 78,884,190 | 73,898,692 |
| Interest received | | 1,099,810 | 1,024,717 |
| Dividends received | | 530,631 | 552,702 |
| Net cash flow from investment activities | | 2,147,141 | 2,752,201 |
| **Net increase/(decrease) in cash and cash equivalents** | | (314,256) | 936,526 |
| Cash and cash equivalents at the beginning of the year | | 8,067,780 | 7,131,254 |
| Cash and cash equivalents at the end of the year | 16 | 7,753,524 | 8,067,780 |

**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.

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 Company uses a number of standard actuarial techniques to determine its ultimate claims liability, based on past claims experience. These include development factor methods, the Bornhuetter-Ferguson method and other related analyses as appropriate.

The claims provision recognised in the Statement of Financial Position is made up of:

(i) Estimated claims and settlement costs as at 31 March 2019, 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 2019;

**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 statement of income and movement in reserves 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 statement of financial position 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 or 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 statement of income and movement in reserves 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 statement of income and movement in reserves 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 statement of income and movement in reserves.

**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 statement of financial position 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 2A.1. of FRS 102. This requires, for financial instruments held at fair value in the statement of financial position, 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 2019 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **Assets** | | | | |
| Fixed interest - Government | - | 42,126 | - | 42,126 |
| Fixed interest – Corporate | - | 10,349 | - | 10,349 |
| Equities & Alternatives | 12,775 | 3,909 | - | 16,684 |
| UCITS | - | 7,728 | - | 7,728 |
| | 12,775 | 64,112 | - | 76,887 |

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 |

## 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 2019, about 44% of the reinsurance contract was placed at Lloyd's and the remaining 56% 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.

## 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.

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Increase in loss ratio by 5 percentage points | | |
| Gross | (693,014) | (662,256) |
| Net | (583,926) | (408,262) |

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)

Currency exchange risk management

The currency risk exposure for Bar Mutual is trivial.

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 £525k 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 18.9% of the investment portfolio (2018: 12.17%).

A 1% increase in equity values would be estimated to have increased the surplus before tax at the year-end by £145k. 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.

## 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 2019 | **AAA/AA** | **A** | **BBB or less or not rated** | **Total** |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Fixed interest-Government | 42,126 | - | - | 42,126 |
| Fixed interest-Corporate | 4,520 | 5,829 | - | 10,349 |
| Equities & Alternatives | 12,775 | - | 3,909 | 16,684 |
| UCITS | 8,396 | - | - | 8,396 |
| Assets arising from reinsurance contracts | - | 14,733 | - | 14,733 |
| Reinsurance debtors | - | 93 | - | 93 |
| Cash at bank | - | - | 7,754 | 7,754 |
| Other | 182 | - | 198 | 380 |
| | 67,999 | 20,655 | 11,861 | 100,515 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 4. Management of Risk (continued)

### 4.3 Credit Risk (continued)

| 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 |

There were no past due or impaired assets at 31 March 2019 (2018: 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 2019, the Company's short term deposits (including cash and UCITs) amounted to £16.150m (2018: £16.906m). The Company has sufficient liquid assets to meet its liabilities as they fall due.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**4. Management of Risk (continued)**

**4.4 Liquidity Risk (continued)**

The tables below show the maturity analysis of financial liabilities of the remaining contractual liabilities at undiscounted amounts:

| As at 31 March 2019 | **Short term liabilities** | **More than 1 year** | **2-5 years** | **Total** |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Technical provisions- claims | 17,110 | 12,620 | 20,261 | 49,991 |
| Creditors arising out of direct insurance operations | 23 | - | - | 23 |
| Creditors arising out of reinsurance operations | 754 | - | - | 754 |
| Other creditors including taxation | 869 | - | - | 869 |
| Accruals and deferred income | 10,990 | - | - | 10,990 |
| | 29,746 | 12,620 | 20,261 | 62,627 |

| 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 |

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 2019 | Short term assets | After 1 year | 2-5 years | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Fixed interest-Government | - | 17,136 | 24,990 | 42,126 |
| Fixed interest-Corporate | - | 3,825 | 6,524 | 10,349 |
| Equities & Alternatives | 16,684 | - | - | 16,684 |
| UCITS | 8,396 | - | - | 8,396 |
| Debtors arising from reinsurance contracts | 5,043 | 3,719 | 5,971 | 14,733 |
| Debtors arising out of direct insurance | 93 | - | - | 93 |
| Cash at bank | 7,754 | - | - | 7,754 |
| Other | 380 | - | - | 380 |
| | 38,350 | 24,680 | 37,485 | 100,515 |

| 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 |

**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 above its s regulatory capital requirement and within a target range defined by minimum and maximum buffers. The value of the minimum buffer has been set as a 1 in 20 year capital loss. This is projected to be £11.779m as at 31 March 2019. 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 £31.011m and maximum target level of capital resources of £42.791m as at 31 March 2019.

At year-end capital resources eligible for regulatory purposes is £42.061m which is £730k below the Company's maximum target limit.

At year-end capital resources exceed the Company's Solvency Capital Requirement (SCR) capital of £19.232m by £22.829m.

## 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 2019 (2018: 27.5%). Gross premiums written are reported net of this deferral. The Company reserves the right to call the deferred premium from members unless it has waived its right to do so.

**6. Reinsurance premiums**

In respect of the year ended 31 March 2019, 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.

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Treaty reinsurance | 3,113,459 | 2,517,638 |
| Reinstatement premium | (931,704) | 2,552,254 |
| Stop loss reinsurance premium | - | 65,496 |
| Stop loss profit commission | - | (55,496) |
| | 2,181,755 | 5,079,892 |

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 second on 1 April 2019 with the agreement of Hannover Re.

The Company did not purchase any further Stop Loss Policies.

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.

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**

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Gross claims paid | 15,839,612 | 9,544,421 |
| Claims handling (note 8) | 1,602,215 | 1,511,524 |
| | 17,441,827 | 11,055,945 |

## 7. Claims and technical provisions (continued)

### Insurance contract liabilities and assets

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Gross technical provisions at the beginning of the year | 52,164,583 | 38,921,000 |
| Claims paid | (15,839,612) | (11,055,945) |
| Claims incurred | 13,665,916 | 24,299,528 |
| Change in gross technical provisions | (2,173,696) | 13,243,583 |
| Gross technical provision at the end of the year | 49,990,887 | 52,164,583 |
| Gross Reinsurance share of technical provision at the beginning of the year | 15,564,443 | 3,836,746 |
| Reinsurance share of paid claims | (3,926,237) | (1,950,160) |
| Reinsurance share of incurred claims | 3,094,789 | 13,677,857 |
| Change in gross reinsurance provisions | (831,448) | 11,727,697 |
| Reinsurers share of technical provisions at the end of the year | 14,732,995 | 15,564,443 |
| Net technical provisions | 35,257,892 | 36,600,140 |

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 statement of financial position 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 2018/2019 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** | **2019 £'000** |
|---|---|---|---|---|---|---|---|---|---|
| At the end of the reporting year | 9,100 | 11,200 | 9,400 | 10,700 | 10,700 | 11,000 | 12,703 | 17,144 | 16,566 |
| 1 year later | 9,100 | 11,868 | 10,202 | 10,487 | 9,500 | 10,607 | 16,469 | 18,354 | |
| 2 years later | 8,300 | 12,149 | 12,350 | 8,900 | 8,500 | 16,220 | 16,941 | | |
| 3 years later | 7,900 | 10,550 | 11,369 | 8,250 | 7,528 | 13,860 | | | |
| 4 year later | 7,600 | 10,126 | 13,040 | 8,611 | 7,729 | | | | |
| 5 years later | 7,850 | 13,039 | 12,819 | 7,443 | | | | | |
| 6 years later | 8,062 | 14,565 | 11,545 | | | | | | |
| 7 years later | 7,635 | 14,486 | | | | | | | |
| 8 years later | 7,630 | | | | | | | | |
| Estimate of ultimate claims | 7,630 | 14,486 | 11,545 | 7,443 | 7,729 | 13,860 | 16,941 | 18,354 | 16,566 |
| Cumulative payments to date | 7,618 | 14,324 | 11,070 | 5,969 | 5,299 | 9,297 | 8,821 | 4,715 | 981 |
| Liability recognised in statement of financial position | 12 | 162 | 475 | 1,475 | 2,430 | 4,563 | 8,121 | 13,639 | 15,585 |

| | |
|---|---|
| Total liability relating to last nine policy years | 46,463 |
| Other claims liabilities | 3,528 |
| Total gross technical provisions included in the statement of financial position | 49,991 |

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** | **2019 £'000** |
|---|---|---|---|---|---|---|---|---|---|
| At the end of the reporting year | 9,100 | 11,200 | 9,400 | 10,700 | 10,700 | 11,000 | 11,600 | 12,976 | 12,867 |
| 1 year later | 9,100 | 11,308 | 9,800 | 10,300 | 9,500 | 9,600 | 13,042 | 12,596 | |
| 2 years later | 8,300 | 11,308 | 11,100 | 8,900 | 8,500 | 9,434 | 12,930 | | |
| 3 years later | 7,900 | 10,500 | 10,600 | 8,250 | 7,391 | 9,313 | | | |
| 4 year later | 7,600 | 9,900 | 10,100 | 8,467 | 7,543 | | | | |
| 5 years later | 7,850 | 10,100 | 9,851 | 7,222 | | | | | |
| 6 years later | 7,750 | 12,250 | 9,171 | | | | | | |
| 7 years later | 7,604 | 10,514 | | | | | | | |
| 8 years later | 7,621 | | | | | | | | |
| Estimate of ultimate claims | 7,621 | 10,514 | 9,171 | 7,222 | 7,543 | 9,313 | 12,930 | 12,596 | 12,867 |
| Cumulative payments to date | 7,618 | 10,417 | 8,795 | 5,829 | 5,299 | 6,381 | 7,989 | 4,715 | 981 |
| Liability recognised in statement of financial position | 3 | 97 | 377 | 1,393 | 2,244 | 2,932 | 4,941 | 7,881 | 11,886 |

| | |
|---|---|
| Total liability relating to last nine policy years | 31,754 |
| Other claims liabilities | 3,504 |
| Total net technical provisions included in the statement of financial position | 35,258 |

**7. Claims and technical provisions (continued)**

**Change in reinsurers' share of technical provisions**

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Reinsurers' share of claims outstanding at end of year | 14,732,995 | 15,564,443 |
| Reinsurers' share of claims outstanding at beginning of year | 15,564,443 | 3,836,746 |
| Increase/(decrease) in reinsurers' share of claims outstanding | (831,448) | 11,727,697 |

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.

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Acquisition costs (note 9) | 754,137 | 711,450 |
| Claims handling (note 7) | 1,602,215 | 1,511,524 |
| Administration expenses (note 9) | 384,711 | 362,935 |
| | 2,741,063 | 2,585,909 |
| A separate fee is paid to the Investment Managers and included in investment expenses and charges (note 10) | | |
| Investment management expenses | 64,118 | 60,489 |
| Management fees | 2,805,181 | 2,646,398 |

## 9. Net operating expenses

| | | 2019 | 2018 |
|---|---|---|---|
| | | £ | £ |
| a) | Acquisition costs | 754,137 | 711,450 |
| b) | Administration expenses | | |
| | Legal and professional fees | 61,176 | 16,994 |
| | Directors' & Officers' Liability insurance | 68,395 | 68,485 |
| | AGM & printing costs | 9,679 | 27,375 |
| | Charitable donations – Law Care | (15,000) | - |
| | Regulatory fees | 62,215 | 36,601 |
| | Auditors' remuneration - Audit | 77,808 | 102,260 |
| | Management administration expenses | 384,711 | 362,935 |
| | Other expenses | 3,225 | - |
| | | 1,406,346 | 1,326,100 |

There were no Directors' emoluments during the year.

## 10. Investment income

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Interest on listed investments | 1,002,947 | 1,022,527 |
| Gain on foreign exchange | (115) | - |
| Bank deposit interest | 5,024 | 2,185 |
| Dividends on equities | 530,631 | 552,702 |
| | 1,538,487 | 1,577,414 |
| Gains on realisation of investments | 981,059 | 533,698 |
| | 2,519,546 | 2,111,112 |

**Investment expenses and charges**

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Bank, custodial and other charges | 60,390 | 73,993 |
| Investment management expenses (see note 8) | 64,118 | 60,489 |
| | 124,508 | 134,482 |

**Unrealised gains/ (loss) on investments**

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Cost (see note 12) | 78,321,622 | 77,309,322 |
| Market value (see note 12) | 77,554,963 | 76,264,059 |
| Unrealised gains/(loss) at year end | (766,659) | (1,045,263) |
| Unrealised gains/(loss) movement for the year | 278,604 | (2,464,509) |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 11. Taxation

(a) By virtue of its mutual status, the Company is not liable to tax on its insurance operations. However, it is liable to tax on its investment income and net gains. The charge in the statement of income and movement in reserves represents:

| **Statement of income and movement in reserves** | **2019** | **2018** |
|---|---|---|
| | **£** | **£** |
| UK corporation tax (Note 11c) | 198,850 | - |
| (Over)/under provision prior year & interest on tax | - | (231,975) |
| | 198,850 | (231,975) |

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

| | **2019** | **2018** |
|---|---|---|
| | **£** | **£** |
| Surplus/(deficit) on ordinary activities before tax | 772,475 | (4,270,413) |
| Surplus on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018: 19%) | 146,770 | (811,379) |
| *Effects of :* | | |
| Non-taxable mutual insurance operations | 361,222 | 718,681 |
| Non-taxable dividend distribution | (71,890) | (127,678) |
| Utilisation of losses, differences due to tax rates | - | (11,599) |
| Income tax expensed | (5,277) | - |
| Current year tax charge/(rebate) | 430,825 | (231,975) |

(c) Statement of financial position

| | **2019** | **2018** |
|---|---|---|
| | **£** | **£** |
| <u>Taxation creditor</u> | | |
| Taxation (debtor)/creditor brought forward | (231,975) | 422,514 |
| (Recovery)/payment of corporation tax | - | 422,514 |
| | (231,975) | - |
| UK corporation tax for the current year | 430,825 | (231,975) |
| Creditor/(debtor) as at 31 March | 198,850 | (231,975) |

## 12. Other financial investments

| | Market Value 2019 £ | Market Value 2018 £ | Cost 2019 £ | Cost 2018 £ |
|---|---|---|---|---|
| Other financial Investments comprise: | | | | |
| Equities & Alternatives | 16,683,834 | 13,333,549 | 16,654,712 | 13,357,803 |
| UCITS | 8,396,360 | 8,837,578 | 8,396,360 | 8,837,578 |
| Fixed interest securities | 52,474,769 | 54,092,932 | 53,270,550 | 55,113,941 |
| | 77,554,963 | 76,264,059 | 78,321,622 | 77,309,322 |

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 equivalents.

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

| | 2019 £ | 2018 £ |
|---|---|---|
| Debts due from Members (Premiums) | 39,852 | 48,737 |
| Provision for doubtful debts | (19,520) | (20,547) |
| Debtors arising out of direct insurance | 20,332 | 28,190 |

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 £92,727 (2018: £1,771,643) are reinsurance recoveries which are due from reinsurers.

## 15. Other Debtors

| | 2019 £ | 2018 £ |
|---|---|---|
| Sundry debtors | 2,148 | 147,917 |
| Claim recoveries due from third parties | 158,650 | 223,850 |
| Taxation repayment | - | 231,975 |
| Debtors arising out of direct insurance | 160,798 | 603,742 |

## 16. Cash and cash equivalents

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Cash at Bank | 7,753,524 | 8,024,274 |
| Cash with Financial institutions | - | 43,506 |
| Cash at hand and in bank | 7,753,524 | 8,067,780 |

## 17. Creditors arising out of reinsurance operations

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Reinsurance creditor | 754,229 | 2,946,668 |

## 18. Other creditors including taxation

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Insurance Premium tax | 1,488 | 4,997 |
| Taxation (note 11(c)) | 198,850 | - |
| Investments awaiting settlement | 668,812 | - |
| | 869,150 | 4,997 |

## 19. Accruals and deferred income

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Accrued expenses | 124,881 | 135,807 |
| Deferred income –premiums received in advance | 10,865,552 | 9,772,807 |
| | 10,990,433 | 9,908,614 |

## 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. There were two related party transactions during the year. The Company paid Joanna Smith QC £209,360 and Thomas Coghlin QC £6,395 to defend claims made against its members.

Bar Mutual Management Company received £2,805,181 (2018: £2,646,398) from the Company in respect of management fees for the year.

## 21. Location and nature of business

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

**MANAGERS AND OFFICERS**

**MANAGERS**

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

**DIRECTORS OF BAR MUTUAL MANAGEMENT COMPANY:**

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

**SECRETARY**

K. Halpenny

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

Registered in England and Wales No. 2182018

**REGISTERED OFFICE**

90 Fenchurch Street
London, EC3M 4ST

**AUDITORS**

**BDO LLP**
150 Aldersgate Street
London
EC1A 4AB