BAR MUTUAL INDEMNITY FUND LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

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 Thursday 7 October 2021 at 5.00pm for the following purposes:

To receive the Directors' Report and Financial Statements for the year ended 31 March 2021 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: 13 July 2021

Notes:

i) A Member is entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote on behalf of them. 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 available on the Bar Mutual web site prior to the meeting.

DIRECTORS

DIRECTORS OF BAR MUTUAL INDEMNITY FUND LIMITED

Colin Edelman QC	(Chair)
Michael Brindle QC	(Deputy Chair)
David Railton QC	(Deputy Chair)
Rebecca Sabben-Clare QC	(Deputy Chair)
Ahmed Salim	(Chief Executive Officer)
Rajiv A A Harnal	(Chief Financial Officer)
Thomas Coghlin QC	
Gregory Denton-Cox	Resigned 6 October 2020
Jasbir Dhillon QC	
Charles Dougherty QC	
Nina Goolamali QC	Resigned 6 October 2020
Michael Horne QC	
Christopher Pocock QC	
Nathaniel Rudolf QC	
Simon Salzedo QC	
David Scorey QC	
Sharif Shivji QC	
Fiona Sinclair QC	
Joanna Smith QC	Resigned 22 December 2020

CHAIR'S REPORT

Bar Mutual's Financial Position as at 31 March 2021

Operating Results

The rates for most classes of liability insurance have seen a marked increase in the last two years. The average rate increase for solicitors buying professional liability insurance, for example, was 30% in 2020, and the expectation for this year's renewal is that the rates will continue to harden. In many cases the level of rate increases was compounded by firms having to accept larger excesses.

The primary cause for the increase in the cost of liability insurance for professional services is of course the claims experience, and in recent years the claims experience in respect of providers of legal and other professional services has worsened considerably.

Bar Mutual is not immune to these trends. The 2019 policy year has been particularly punishing since my Interim Report of January 2021. It has the largest number of total notifications in Bar Mutual's 33 year history and is showing an unusually high number of claims above £100,000. This has had an impact on the total net claims incurred for the financial year of £16.6m (the amount paid in the financial year adjusted for any reinsurance recoveries and changes in the claims reserves), which is a considerable increase on the total of £12.6m incurred to 31 March 2020.

In my Chair's Interim Report of January 2021 I noted that the financial forecast for the year to 31 March 2021 was an operating deficit of £1.7m. In the event, driven mainly by the deterioration on the 2019 policy year, the operating result for the year to 31 March 2021 is a deficit of £3.0m. Providing some context to this result, a higher deficit of £4.0m was recorded in respect of the 2017/18 financial year, and the table below shows the operating results for the 2020/21 and previous five financial years.

Financial Year	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Result (£m)	4.498	4.182	(4.038)	0.342	(1.570)	(3.016)

A degree of volatility is to be expected in the results. They are driven primarily by the claims experience and investment performance but also, as I have previously reported, by measures taken by the Board through premium deferral levels to keep reserves within maximum and minimum targets. It should be noted that, this year, the deterioration in the claims has been partly offset by the performance of Bar Mutual's investments. Net investment income was £2.6m (a return of 3.66% of the total funds invested), which compares to an investment return last year of £0.6m (0.81%). Although the investment markets remain volatile, Bar Mutual's investment portfolio has this year produced a reasonable return. On behalf of the Board and Members I thank the Members of the Investment Committee, chaired by Jasbir Dhillon QC, and the Investment Managers, for what is a handsome investment income for the year, given the conservative nature of the investment policy, which is aimed at preserving the value of Bar Mutual's reserves, and the challenging market conditions.

Bar Mutual's capital position

Although Bar Mutual reported a large loss for the year to 31 March 2021, it remains the case that the company continues to be in a strong financial position. As at the year-end its Tier 1 regulatory capital stands at £33.9m against a Solvency Capital Requirement of £21.4m. Bar Mutual therefore exceeds its Solvency Capital Requirement by a total of £12.5m.

As noted in previous annual financial statements, Bar Mutual's Board has an agreed policy in relation to the amount of capital it should hold (the risk appetite), under which it aims to hold an amount in Tier 1 regulatory capital within a lower and upper target level. Applying this policy, as at 31 March 2021, the lower target level for regulatory capital was £34.0m and the upper target level was £46.6m. With Tier 1 regulatory capital of £33.9m Bar Mutual's regulatory capital is £67,000 below the lower target level, as expressed in its risk appetite.

Although the Tier 1 position will need to be addressed Bar Mutual has considerable headroom on its regulatory capital requirement. The Prudential Regulation Authority (the "**PRA**") has given its approval to Bar Mutual recognising a portion of the deferred premiums it may call upon for payment as additional Tier 2 regulatory capital. At the year-end the total Tier 2 regulatory capital deemed available to Bar Mutual was £15.4m, which can be used to meet up to 50% of the Solvency Capital Requirement of £21.4m (so £10.7m). This therefore results in total regulatory capital of £44.6m as at 31 March 2021, producing a surplus over Bar Mutual's Solvency Capital Requirement of £23.2m.

Implications of the operating results and the capital position on future premiums

One consequence of the claims experience on the 2019 policy year is that the premium Bar Mutual paid for its reinsurance programme to cover the period 1 April 2021 to 31 March 2022 was considerably greater than in previous years. This increased from £3.5m to approximately £5m for the period to 31 March 2022.

The existence of reinsurance operates to reduce Bar Mutual's total exposure to large claims by passing on some of the risk to reinsuring underwriters. The second material benefit of purchasing reinsurance is that it reduces Bar Mutual's Solvency Capital Requirement. Reducing the potential impact of claims in turn reduces the amount of regulatory capital Bar Mutual needs to hold to off-set against the risk.

As the cost of Bar Mutual's reinsurance is divided across the rated areas of practice, the increased costs of reinsurance is likely to be reflected in increased premiums for the 2022 renewal. In addition, application of Bar Mutual's risk appetite, which requires that its capital rests within a pre-determined capital range, suggests that the 7.5% premium deferral applied at the 2021 renewal may well be reduced to nil for the 2022 renewal.

Board of Directors

Bar Mutual's non-executive Directors receive no remuneration by virtue of their office as Directors. At formation Bar Mutual's Memorandum and Articles of Association expressly prohibited the remuneration of Directors and, in the best tradition of the Bar, at no time since have previous or current Directors expressed a desire to amend this provision.

As is the case with any company, Bar Mutual's success is underpinned by the commitment of its Board of Directors to its business. Given the call on their time and the duties of company directors, it behoves me to record my gratitude - and that of the self-employed Bar - for the Directors' indefatigable commitment to Bar Mutual's business. I have taken the opportunity to record this in previous Chair's reports and do so again this year for two reasons. The first is to report that in the course of the year Bar Mutual engaged with its regulator, the PRA, on the issue of whether, given the size of the Board and the tenure limits, it operated effectively. The discussion with the PRA was part of the PRA's periodic review of insurance firms and, having operated for over 30 years without attracting the PRA's attention, it was in many ways inevitable that Bar Mutual would eventually fall under the PRA's gaze. The regulatory scaffolding governing Bar Mutual's operations is not limited to meeting the Solvency Capital Requirement but extends to corporate governance. I am very pleased to report that, at the conclusion of this process, the PRA confirmed in early 2021 that, as a result of the engagement, it had a better understanding of and was reassured by Bar Mutual's governance arrangements

The second reason for mentioning the Board in this report is to announce that Michael Brindle QC, a Director of Bar Mutual since January 2009, will be retiring as a Director at the Annual General Meeting of the company (the "**AGM**") on 7 October 2021. Mr Brindle is currently a Deputy Chair of the Board, the Chair of the Reserves Committee and sits on four additional committees: Claims, Legal Services, Nominations and Rules and Cover. One of the measures the Board implemented as part of its own review of its effectiveness ("**the Review**") was to introduce a standard maximum tenure for non-executive Directors of nine years, extendable to 12 years (previously 15 years) if a Director chairs the Board or a Committee of the Board, subject to succession planning for the implementation of this change. Having served for just over 12 years Mr Brindle agreed, at the invitation of the Nominations Committee, to continue on the Board to October 2021 in order to facilitate an orderly succession to the Committees on which he serves and chairs. Mr Brindle's record of service to Bar Mutual is exemplary and the company owes him a huge debt of gratitude. In his time on the Board he contributed to the formulation of Bar Mutual's risk appetite, one of the critical tools the Board deploys in setting Bar Mutual's capital requirements. The number of Committees on which he has served, and therefore his workload, has been comparable to mine as Chair. His contribution to the business of Bar Mutual has therefore been immense and, on behalf of the Board, I offer our heartfelt thanks.

Statutory Auditors

Bar Mutual has benefited from its statutory audits being conducted by the same firm, Moore Stephens, who were acquired by BDO in 2019. In their time as statutory auditors they demonstrated a thorough understanding of Bar Mutual's business and the vicissitudes that apply to it. They also built a constructive relationship with Bar Mutual's Audit and Risk Committee and its past and present Chairs.

However, following a regulatory change introduced in 2016 placing a ceiling on the tenure of statutory auditors to a maximum of 20 years (increasing to 23 years in certain circumstances), Bar Mutual is obliged to replace BDO as its statutory auditors. On behalf of the Board I would like to express our gratitude to BDO for all the many years of service as our auditors and for all the support that has been provided.

Following a tender for the position the Board has accepted the recommendation of the Audit and Risk Committee that Mazars be appointed to replace BDO. Accordingly, at the AGM scheduled for 7 October 2021 the Board will be recommending to the Members that they approve the appointment of Mazars as Bar Mutual's statutory auditors.

Finally, I would like to record the gratitude of the Board for the continued excellent service and support provided by the Managers of Bar Mutual, Bar Mutual Management Company, a member of the Thomas Miller group.

Colin Edelman QC
Chair
13 July 2021

STRATEGIC REPORT

Review of the Year

The Directors present their Strategic Report on the Company for the year ended 31 March 2021.

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 £3.015m (2020 deficit £1.570m) and this was transferred from reserves. The reserves now amount to £33.301m (2020 - £36.316m) 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.

The principal movements of note are those relating to gross written premiums, gross claims paid and the investment return. Gross Written Premium has increased during the year due to the decrease in the deferral rate as further explained in note 5. The principal movements relating to gross claims paid and investment returns are detailed in the Chair's Report.

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 2021, about 50.45% of the reinsurance contract was placed at Lloyd's (2020: 50%) 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.

Key Performance Indicators

The Company's objective is to benefit its Members through the provision of professional indemnity insurance on a mutual basis, and its ability to continue do so is partly measured by its solvency position. The key performance indicator is considered to be the amount by which the Company's capital resource exceed the Company's regulatory capital requirement, its Solvency Capital Requirement, with reference to a target range, as explained in note 4.7.

STRATEGIC REPORT (continued)

Financial results

The Statement of Income and Movement in Reserves (on page 20) and the Statement of Financial Position (on page 21) 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 2021 and 31 March 2020.

	2021	2020
	£'000	£'000
Premium Written	16,670	15,853
Reinsurance Premium	(3,588)	(3,504)
Change in net provision for unearned premium	6	(166)
Net claims incurred	(16,627)	(12,582)
Operating expenses	(1,654)	(1,744)
Surplus/(deficit) on technical account	(5,192)	(2,143)
Investment Income	2,646	620
Surplus/(deficit) before tax	(5,546)	(1,523)
Tax	(469)	(47)
Surplus/(deficit) for the financial year	(3,015)	(1,570)
Free Reserves at 31 March	33,301	36,316

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 a five year period.

The investment return for the year under review was 3.66% (2020: 0.81%).

The 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

Company's Current and Future Plans (continued)

The Company has a target range in excess of its regulatory capital requirement, with upper and lower target levels within which its free reserves for regulatory purposes should sit. The Company bases its target ranges on its Tier 1 Regulatory Capital.

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:

	£'000
Regulatory Capital Reserves as at 31 March 2021	
Tier 1 Basic Own Funds	33,901
Tier 2 Ancillary Own Funds	10,693
Total Regulatory Capital	44,594
Solvency Capital Requirement	21,385
Lower capital target	33,968
Upper capital target	46,550

At the year end the Company had met its objectives of being in a strong financial position with Tier 1 reserves for regulatory purposes at £33.901m, which is within its defined target limits.

IMPACT OF COVID-19

The Directors have been monitoring the on-going Covid 19 pandemic and have determined that it has not had a material effect on its business.

COMPANIES ACT SECTION 172(1)

Section 172(1) of the Companies Act 2006 provides that a Director of a Company must act in a way that is considered to be in good faith, would most likely promote the success of the Company and benefit the Members as a whole; and in doing so to have regard to various other stakeholder interests, including the Managers, regulators, brokers and reinsurers.

As a mutual insurer, Bar Mutual exists for the benefit of its Members, who are also the insureds of the Company. The key decisions made in the year are the continuance of the reinsurance programme and the pricing of member premiums. The key factors under section 172(1) are considered further below:

1. The likely consequences of any long-term decision.

Bar Mutual operates in a stable business environment. It has an annual business plan and, as a result, any decisions taken by the Board that produce an adverse financial result can quickly be identified and corrected. The Board's scope for making adjustments is assisted by regulatory approval for the Company to utilise notional capital (Tier 2 capital) in order to meet any short-term reductions in its capital resources.

2. The interests of the Company's employees

The Company has no employees. It has outsourced its day-to-day operations to the Managers. Two employees of the Managers have been appointed to the Company's Board as executive directors.

3. The need to foster the Company's business relationships with suppliers, customers and others.

The Company's primary focus, as a mutual insurer, is the provision of insurance to its Members at rates that are fair and reasonable and ensuring that its Members are provided with an outstanding claims handling service.

COMPANIES ACT SECTION 172(1) (continued)

3. The need to foster the Company's business relationships with suppliers, customers and others. (continued)

The Managers report to the Company on the performance of suppliers and its relationship with others, including insurance and professional regulators

4. The impact of the Company's operations on the community and the environment.

The Company considers the best interests of its Members as a priority. This has included donating £100,000 to the Barristers Benevolent Fund to help those of its Members suffering financial hardship because of covid-19, it also donated £8,000 to Wellbeing at the Bar, which is a charity set up to support the challenges facing Barristers on a daily basis. It acts as a sounding board on behalf of its Members on legal issues and either makes or assists in making representations to protect its Members' interests to regulators as well as governmental bodies.

As a service orientated organisation, the Company does not have a material impact on the environment. The Board has established a policy on climate change, which is owned by the Company's Risk Officer. The policy considers the risk of climate change associated with the Company. The Board bears ultimate responsibility for managing the financial risks arising from climate change. Their responsibilities include:

- Understanding and assessing the risks to which Bar Mutual is exposed; their effect on solvency, liquidity and the ability to pay claims, together with their potential to cause reputational risk;
- Setting the tone by exercising effective oversight of risk management and controls and ensuring that adequate resources and sufficient skills and expertise are devoted to managing the financial risks from climate change; and
- Reviewing Bar Mutual's investment portfolio to determine climate-related risk factors.

Bar Mutual has no direct exposure to climate change risks but will continually analyse its exposure as regards the risks to which its Members might be exposed. Consideration of indirect climate change related financial risks such as the impact on its investment portfolio following unanticipated or premature write-downs or devaluation will also be monitored.

Bar Mutual does not falls under the scope of the streamlined Energy and Carbon reporting (SECR) requirements .The Directors have determined that Bar Mutual is a low energy user, using less than 40,000 kwh per year. As noted earlier, the Company's core management and business activities are outsourced to Thomas Miller. For these reasons the Directors have not included information in relation to Bar Mutual's energy and carbon usage.

5. The desirability of the Company maintaining a reputation for high standards of business conduct.

The Board has in place a conduct risk policy that applies to both the Board and the Managers. The policy is intended to ensure that the Company has due regard to the interest of its Members whilst keeping them, and the integrity of the markets in which they operate, at the heart of everything it does.

6. The need to act fairly between Members of the Company.

The Company's conduct risk policy ensures that Members are treated fairly. In addition, the Board has established a conflicts of interest policy which ensures that any Director's conflict of interest is appropriately disclosed and dealt with at Board level.

The Directors therefore consider that the requirements of Section 172(1) are appropriately addressed by the Company's policies and procedures.

Colin Edelman

Colin Edelman QC
Chair
Date: 13 July 2021

DIRECTORS' REPORT

The Directors have pleasure in presenting their Report and the Financial Statements for the year ended 31 March 2021.

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 Company. 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 Company, Thomas Coghlin QC, Colin Edelman QC, Christopher Pocock QC, Sharif Shivji QC and Fiona Sinclair QC retire by rotation and, being eligible, will seek reappointment at the Annual General Meeting on 7 October 2021.

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 four formal meetings in the financial year: in April 2020, July 2020 December 2020 and March 2021.

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 2020 were approved by the Board in July 2020 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 (Chair), Christopher Pocock QC, Nathaniel Rudolf 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 (Chair), Michael Brindle QC, David Railton QC and Rebecca Sabben-Clare 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 (Chair), Thomas Coghlin QC, Charles Dougherty QC, Michael Horne QC and Sharif Shivji QC 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 (Chair), Colin Edelman QC, Sharif Shivji QC and Rebecca Sabben-Clare 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 once during the year.

The Nominations Committee comprising Colin Edelman QC (Chair), Michael Brindle QC, Rebecca Sabben-Clare QC and Sharif Shivji QC assists the Board in complying with the Company's and its Committees' Fit and Proper Policy. It also assists the Board on the policy it should adopt for the appointment of Directors and in identifying suitable potential candidates for appointment as Directors for the Board to consider. The Committee met once during the year.

Board Committees (continued)

The Reserves Committee comprising Michael Brindle QC (Chair), Jasbir Dhillon QC, Simon Salzedo QC, Sharif Shivji QC and Nathaniel Rudolf QC assists the Board in reviewing in detail the Company's claims reserves, capital resources policy and regulatory capital position. 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 (Chair), Charles Dougherty QC, Christopher Pocock QC, David Railton QC, Rebecca Sabben-Clare QC and David Scorey 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 (Chair), Michael Brindle QC, Thomas Coghlin QC, Rebecca Sabben-Clare QC and Fiona Sinclair QC reviews the basis on which Bar Mutual provides insurance cover to Members. The Committee met once during the year.

The Legal Services Act Committee comprises Colin Edelman QC (Chair), Michael Brindle QC, Michael Horne QC and Christopher Pocock 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 Chair's report 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. The Directors will continue to monitor the impact of covid-19 on its business.

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

At the AGM scheduled for 7 October 2021 the Board will be recommending to the Members that they approve the appointment of Mazars as Bar Mutual's statutory auditors and to authorise the Directors to fix their remuneration will be submitted to the forthcoming Annual General Meeting.

Colin Edelman

Colin Edelman QC
Chair

Date: 13 July 2021

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

Opinion on the financial statements

In our opinion, the Company's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2021 and of the Company's 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.

We have audited the financial statements of Bar Mutual Indemnity Fund Limited ("the Company") for the year ended 31 March 2021 which comprise the statement of income and movement in reserves, the statement of financial position, the statement of cash flows, 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).

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our opinion is consistent with the additional report to the Audit Committee.

Independence

Following the recommendation of the Audit and Risk Committee, we were reappointed by the Members at the Annual General Meeting on 12 September 2020 to audit the financial statements for the year ending 31 March 2021. The period of total uninterrupted engagement, including previous renewals and reappointments is 32 years.

We remain 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. The non-audit services prohibited by that standard were not provided to the Company.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Review and challenge of the Company's current plans and budget forecasts with reference to member renewal information, challenging growth assertions and checking that movements were in line with justifiable assumptions and movements;
- Checked the basis of solvency projections for the next 12 months, considering whether an appropriate mechanism for calculating solvency had been applied; and
- Challenge and discussion around the latest Own risk and Solvency Assessment to check the Company has sufficient capital to meet its solvency requirements.

Conclusions relating to going concern (continued)

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

		2021	2020
Key audit matters	Valuation of technical Provisions	✔	✔
Materiality	*Financial Statements as a whole* £700,000 (2020: £725,000) based on 2.1% of net assets (2020: 2% net assets).		

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company and its environment, including the Company's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

All audit work was performed by the audit engagement team.

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) that 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. This matter was 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 this matter.

<table>
<tr><th colspan="2">Description of Key Audit Matter</th><th>Procedures performed to address this risk</th></tr>
<tr><td>Valuation of technical provisions
Note 7 and 2.3</td><td>).

Case estimates rely on:

The correct and timely entry of claims information onto the claims system before the year end; and

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; and
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.

The provision is calculated by an independent actuarial expert appointed by management utilising policy data and assumptions applied to the valuation calculations.

We have assessed this area as being of significant risk to the audit due to the significance of these</td><td>In assessing the valuation of the technical provision, we performed the following procedures:
We used internal independent actuarial experts to consider the appropriateness of the methodology and assumptions underpinning the calculation of the provision and the accuracy of the calculation itself;
We have checked and agreed the independence and relevant expertise of both our and the Company's actuarial experts including review of the service agreement between management and Management's expert.
We have obtained and reviewed the actuarial reports prepared by the Company's actuary and used our actuarial expert to check that all relevant judgements and estimates in the Company's calculation have been considered and appropriately challenged. Meetings were held between management's actuaries and our actuarial expert to appropriately challenge the assumptions and methodology in the formation of our opinion;
We have reviewed and assessed changes to the assumptions used in the technical provisions compared to previous years to check these are reasonable and in line with acceptable parameters based on our actuarial expert's assessment;
We have reconciled and agreed a sample of the source data provided to management's actuary and to our actuarial expert to the underlying policy data to check that calculations are based on accurate information;
We have agreed all case estimates above our performance materiality level and a sample of other case estimates to supporting documentation to check that any adjustments were accounted for in the correct period;
We have calculated the reinsurance recoveries to assess whether the reinsurers' share of large claims have been correctly recognised;
We have reviewed the outturn of prior years' estimates against the previous year's position to assess the accuracy of previous estimates and the appropriateness of the methodology; and
We have tested claim adjustments and payments after year end that are greater than performance materiality through agreement to supporting documentation to check that these adjustments and payments were accounted for in the correct period.
Key observations:</td></tr>
</table>

	amounts in deriving the Company's results and because of the assumptions underpinning the calculation, which can be highly subjective.	• Based on the procedures performed we consider the technical provisions asset recognised by the Company within its financial statements and the assumptions and methodology used to calculate this at 31 March 2021 to be reasonable.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Company financial statements	
	2021 £000's	2020 £000's
Materiality	700	725
Basis for determining materiality	2.1% of Net assets	2% of Net assets
Performance materiality	525	543.75
Basis for determining performance materiality	75% of Materiality	75% of Materiality
Rationale for the benchmarks applied	Net assets is considered to be the most appropriate measure for a mutual insurer, reflecting the ability of the Company to pay claims and indemnify its Members. This represents the metric of primary interest to users of the financial statements. Performance materiality has been set at 75% of financial statement materiality, reflecting the low inherent risk associated with the aggregation of misstatements within the financial statements.	

Reporting threshold

We agreed with the Board of Directors that we would report to them any misstatements in excess of £14,000 (2020: £14,500) that we identified through the course of our audit, together with any qualitative matters that warrant reporting.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	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. 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.
Matters on which we are required to report by exception	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 by the Company, or returns adequate for our audit have not been received from branches not visited by us; or • the Company's financial statements are not in agreement with the accounting records and returns; or • certain disclosures of Directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 12 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 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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- obtaining an understanding of the legal and regulatory frameworks that the Company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. We considered the significant laws and regulations to be the applicable accounting standards, Prudential Regulatory Authority ('PRA'), Financial Conduct Authority ('FCA'), Company Law and the Bribery Act 2010;
- agreement of the financial statement disclosures to underlying supporting documentation;
- assessed the susceptibility of the financial statement to material misstatement including fraud and identified the fraud risk areas to be the valuation of technical provisions (Refer to the Key Audit Matters section above) and management override of controls;
- In response to the risk of management override of controls, assessed the appropriateness of journal entries which met specific risk criteria by agreeing them to appropriate supporting documentation.
- enquiring of management, the Audit Committee and those charged with Governance, including obtaining and reviewing supporting documentation, concerning the Company's policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- review of minutes of Board meetings throughout the period;

- review of correspondence with the Prudential Regulation Authority and Financial Conduct Authority; and
- review of the Company's Own Risk and Solvency Assessment (ORSA).

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, 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, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

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.

DocuSigned by:

Tom Reed

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Thomas Reed, Senior Statutory Auditor
For and on behalf of BDO LLP, Statutory Auditor
London, UK
22 July 2021

BDO LLP is a limited liability partnership registered in England and Wales (with the registered number OC305127)

STATEMENT OF INCOME AND MOVEMENT IN RESERVES
For the year ended 31 March 2021

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TECHNICAL ACCOUNT GENERAL BUSINESS	Note	2021 £	2020 £
Earned premiums, net of reinsurance			
Gross Premiums written	5	16,670,268	15,852,890
Reinsurance premiums	6	(3,587,559)	(3,503,537)
Change in net provision for unearned premium		5,948	(166,151)
Earned premiums, net of reinsurance		13,088,657	12,183,202
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	7	(18,734,545)	(13,547,110)
Reinsurers' share	7	3,576,414	3,598,799
Net claims paid	A	(15,158,131)	(9,948,311)
Change in the provision for claims			
Gross amount	7	(3,866,262)	(695,733)
Reinsurers' share	7	2,397,807	(1,937,943)
Change in the net provision for claims	B	(1,468,455)	(2,633,676)
Claims incurred, net of reinsurance	A+B	(16,626,586)	(12,581,987)
Net operating expenses	9	(1,654,313)	(1,744,323)
Balance on the technical account	C	(5,192,243)	(2,143,108)

NON-TECHNICAL ACCOUNT	Note	2021 £	2020 £
Balance on the technical account		(5,192,242)	(2,143,108
Investment income	10	180,393	1,986,838
Unrealised gains/(losses) on investments	10	2,605,212	(1,230,788)
Investment expenses and charges	10	(139,759)	(135,754)
	D	2,645,846	620,296
Surplus/(losses) before tax	C+D	(2,546,396)	(1,522,812)
Tax charge	11	(469,408)	(46,791)
Surplus/(deficit) for the financial year		(3,015,804)	(1,569,603)
Reserves at 31 March, 2020		36,316,325	37,885,928
Reserves at 31 March, 2021		33,300,521	36,316,325

All income and expenses relate to continuing operations.

The notes on pages 25 to 44 form an integral part of these Financial Statements.

Company number 218 2018

STATEMENT OF FINANCIAL POSITION

As at 31 March 2021

	Note	2021	2020
ASSETS		£	£
Investments			
Other financial investments	12	80,384,546	77,059,150
Reinsurers' share of gross technical provisions			
Claims outstanding	7	15,192,859	12,795,052
Debtors			
Debtors arising out of direct insurance operations	13	22,869	26,440
Debtors arising out of reinsurance operations	14	1,390,486	1,883,013
Other debtors	15	71,282	1,932,060
		1,484,637	3,841,513
Other assets			
Cash at bank	16	6,411,618	4,258,234
Prepayments and accrued income			
Accrued interest-interest earned but not yet received on fixed interest securities		106,322	152,542
Other prepayments and accrued income		29,857	24,667
TOTAL ASSETS		103,609,839	98,131,158
LIABILITIES AND RESERVES			
Reserves			
Free reserves		33,300,521	36,316,325
Technical provisions			
Provision for unearned premiums		160,203	166,151
Gross Claims outstanding	7	54,552,882	50,686,619
Creditors			
Creditor arising out of direct insurance operations		27,731	26,814
Creditors arising out of reinsurance operations	17	715,315	693,630
Other creditors including taxation	18	239,643	2,645
		982,689	723,089
Accruals and deferred income	19	14,613,544	10,238,974
TOTAL LIABILITIES AND RESERVES		103,609,839	98,131,158

The notes on pages 25 to 44 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: 13 July 2021 by:

Colin Edelman QC (Chair)

David Railton QC (Deputy Chair)

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

STATEMENT OF CASH FLOWS
For the year ended 31 March 2021

Operating activities

	Note	2021	2020
		£	£
Premiums received		21,145,871	15,004,519
Reinsurance premium paid		(3,565,874)	(3,564,136)
Claims paid		(17,075,636)	(15,103,188)
Reinsurance recoveries received		4,068,941	1,808,513
Operating expenses paid		(1,737,351)	(1,687,921)
Taxation paid		(46,791)	(430,825)
Net cash provided/(used) by operating activities		2,789,160	(3,973,038)

Cash flows from investment activities

	Note	2021	2020
Purchase of investments		(90,431,489)	(107,436,983)
Sale of investments		88,929,469	106,344,430
Interest received		547,343	937,667
Dividends received		318,901	632,634
Net cash flow from investment activities		(635,776)	477,748
Net increase/(decrease) in cash and cash equivalents		2,153,384	(3,495,290)
Cash and cash equivalents at the beginning of the year		4,258,234	7,753,524
Cash and cash equivalents at the end of the year	16	6,411,618	4,258,234

NOTES TO THE FINANCIAL STATEMENTS

1. Constitution and ownership

The Company provides professional indemnity insurance to self-employed barristers and Entities authorised by the Bar Standards Board in England and Wales and is incorporated in England as a company limited by guarantee and not having a share capital .Its registered office is 90 Fenchurch Street, London, EC3M 4ST.

In pursuance of its business and in accordance with its Memorandum, Articles of Company 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. Significant 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.

The significant accounting policies are summarised below. They have all been applied consistently throughout the year and in the preceding year.’

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.

Unearned premium reserve

Cessation premium is received by retiring Members to obtain cover for six years. This premium is deferred over the period of cover and accounted for as an unearned premium reserve.

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. Claims are recorded on a claims made basis and therefore there is no IBNR, (incurred but not reported)

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.

2. Accounting policies (continued)

2.3 Claims (continued)

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

(i) Estimated claims and settlement costs as at 31 March 2021, 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 2021

(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

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 Chapter 11 and Chapter 12 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.

Financial assets being debtors, cash and prepayments are measured each year at amortised cost. The valuation of the other financial investments are discussed in Note 2.7.

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 which is the functional and presentational currency. 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).

2.13 Going Concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue operations for the foreseeable future. For this reason, the going concern basis has been adopted in preparing the accounts.

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).

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:

Insurance risk – incorporating underwriting and reserving risk;

Market risk – incorporating investment risk, and interest rate risk;

Credit risk –the risk that a counterparty is unable to pay amounts in full when due;

Liquidity risk –the risk that cash may not be available to pay obligations as they fall due; and

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.

<u>Underwriting process</u>

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 based on earnings and so the underwriting parameters are fixed with no discretion.

<u>Reinsurance</u>

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 2021, about 50.45% of the reinsurance contract was placed at Lloyd's and the remaining 49.55% 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.

	2021	**2020**
	£	**£**
Increase in loss ratio by 5 percentage points		
Gross	(833,513)	(792,645)
Net	(654,433)	(609,160)

A 5 per cent decrease in loss ratios would have an equal and opposite effect.

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).

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.

Currency exchange risk management

The currency risk exposure in the investment portfolio for Bar Mutual is trivial.

4 Management of Risk (continued)

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 £475k (March 2020 : £469k) 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 14.85% of the investment portfolio (2020: 11.5%).

A 1% increase in equity values would be estimated to have increased the surplus before tax at the year-end by £120k. (March 2020: £89k) A 1% fall in equity values would have an equal and opposite effect. This analysis assumes that all other variables remain constant.

In accordance with section 11 of FRS 102, as a financial institution, the Company applies the requirements of FRS 102- Appendix to Section 2, paragraph 2A.1.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 2021	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Assets				
Fixed interest - Government	-	42,229	-	42,229
Fixed interest – Corporate	-	5,232	-	5,232
Equities & Alternatives	11,369	2,438	-	13,807
UCITS	18,698	-	-	18,698
Other-cash with financial institutions	418	-	-	418
	30,485	49,899	-	80,384

4 Management of Risk (continued)

4.2 Market Risk (continued)

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

As at 31 March 2020	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Assets				
Fixed interest - Government	-	40,234	-	40,234
Fixed interest – Corporate	-	6,660	-	6,660
Equities & Alternatives	8,207	3,487	-	11,694
UCITS	17,465	-	-	17,465
Other-cash with financial institutions	1,006	-	-	1,006
	26,678	50,381	-	77,059

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Management of Risk (continued)

4.3 Credit Risk (continued)

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 2021	**AAA/AA**	**A**	**BBB or less or not rated**	**Total**
	£'000	£'000	£'000	£'000
Fixed interest-Government	42,229	-	-	42,229
Fixed interest-Corporate	4,477	755	-	5,232
Equities & Alternatives	9,251	-	4,557	13,808
UCITS	18,698	-	-	18,698
Other-cash with financial institutions	-	-	418	418
Assets arising from reinsurance contracts	-	15,193	-	15,193
Reinsurance debtors	-	1,390	-	1,390
Cash at bank	-	-	6,412	6,412
Other	106	-	124	230
	74,761	17,338	11,511	103,610

As at 31 March 2020	**AAA/AA**	**A**	**BBB or less or not rated**	**Total**
	£'000	£'000	£'000	£'000
Fixed interest-Government	40,234	-	-	40,234
Fixed interest-Corporate	4,225	2,435	-	6,660
Equities & Alternatives	8,207	-	3,487	11,694
UCITS	17,465	-	-	17,465
Other-cash with financial institutions	-	-	1,006	1,006
Assets arising from reinsurance contracts	-	12,795	-	12,795
Reinsurance debtors	-	1,883	-	1,883
Cash at bank	-	-	4,258	4,258
Other	153	-	1,983	2,136
	70,284	17,113	10,734	98,131

There were £18k of assets past due or impaired (2020: £22k) and further information is included in note 13.

4. Management of Risk (continued)

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 2021, the Company's short term deposits (including cash and UCITs) amounted to £25.528m (2020: £22.729m). The Company has sufficient liquid assets to meet its liabilities as they fall due.

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

As at 31 March 2021	**Short term liabilities**	**More than 1 year**	**2-5 years**	**Total**
	£'000	£'000	£'000	£'000
Technical provisions- UPR	83	41	36	160
Technical provisions- claims	18,870	14,296	21,387	54,553
Creditors arising out of direct insurance operations	28	-	-	28
Creditors arising out of reinsurance operations	715	-	-	715
	19,696	14,337	21,423	55,456

As at 31 March 2020	**Short term liabilities**	**More than 1 year**	**2-5 years**	**Total**
	£'000	£'000	£'000	£'000
Technical provisions- UPR	86	43	37	166
Technical provisions- claims	16,434	13,694	20,559	50,687
Creditors arising out of direct insurance operations	27	-	-	27
Creditors arising out of reinsurance operations	694	-	-	694
	17,241	13,737	20,596	51,574

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 2021	Short term assets	After 1 year	2-5 years	Total
	£'000	£'000	£'000	£'000
Fixed interest-Government	-	32,187	10,042	42,229
Fixed interest-Corporate	-	5,232	-	5,232
Equities & Alternatives	13,808	-	-	13,808
UCITS	18,698	-	-	18,698
Other-cash with financial institutions	418	-	-	418
Debtors arising from reinsurance contracts	5,255	3,982	5,956	15,193
Debtors arising out of direct insurance	1,390	-	-	1,390
Cash at bank	6,412	-	-	6,412
Other	230	-	-	230
	46,210	41,401	15,998	103,610

As at 31 March 2020	Short term assets	After 1 year	2-5 years	Total
	£'000	£'000	£'000	£'000
Fixed interest-Government	-	3,508	36,726	40,234
Fixed interest-Corporate	-	3,437	3,223	6,660
Equities & Alternatives	11,694	-	-	11,694
UCITS	17,465	-	-	17,465
Other-cash with financial institutions	1,006	-	-	1,006
Debtors arising from reinsurance contracts	4,149	3,457	5,189	12,795
Debtors arising out of direct insurance	1,883	-	-	1,883
Cash at bank	4,258	-	-	4,258
Other	2,136	-	-	2,136
	42,591	10,402	45,138	98,131

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 is subject to the Solvency II insurance regulatory regime, under which the Company's regulatory capital requirement, the Solvency Capital Requirement, has been assessed to be £21.385m as at 31 March 2021. Under the Company's risk appetite, the Company aims to maintain regulatory capital above its regulatory capital requirement and within a target range of capital defined by lower and upper levels. The value of the lower target level has been set as a 1 in 20 year capital loss in excess of the regulatory capital requirement. This capital loss is assessed to be £12.582 m as at 31 March 2021. The value of the upper target level has been set as a 1 in 20 year capital loss on top of the lower target level. This capital loss is therefore also £12.582 m. This therefore gives a lower target level of regulatory capital of £33.968m and an upper target level of regulatory capital of £46.550 m as at 31 March 2021

The Company manages its regulatory capital position with reference to Tier 1 regulatory capital only, which at the year-end has been assessed to be £33.901m. This therefore exceeds the Company's regulatory capital requirement by £12.516 m and falls marginally below within the target range of capital under the Company's risk appetite. However, the Prudential Regulation Authority has also approved the Company's application to recognise a portion of the deferred premiums that the Company may call upon for payment as additional Tier 2 regulatory capital, which at the year-end has been assessed to be £10.693m. This therefore results in total regulatory capital of £44.594m as at 31 March 2021, which exceeds the Company's regulatory capital requirement by £23.209m

5. Gross premiums written

Premiums written are in relation to one class of insurance business, namely professional indemnity. In accordance with a practice the Company introduced in 1999 of providing, where appropriate given the financial circumstances of the Company, an annual premium deferral, the Company provided a deferral of 15% on premiums for the year ended 31 March 2021 (2020: 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.

	2021	2020
	£	£
Gross premium written	16,670,268	15,852,890

	2021	2020
	£	£
Unearned provision brought forward	166,151	
Movement in the year	(5,948)	166,151
Unearned provision carried forward	160,203	166,151

6. Reinsurance premiums

In respect of the year ended 31 March 2021, 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.

	2021	2020
	£	£
Treaty reinsurance	3,587,559	3,503,317
Reinstatement premium	-	220
	3,587,559	3,503,537

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

	2021	2020
	£	£
Gross claims paid	17,014,443	11,876,459
Claims handling (note 8)	1,720,102	1,670,651
	18,734,545	13,547,110

Insurance contract liabilities and assets

	2021	2020
	£	£
Gross technical provisions at the beginning of the year	50,686,619	49,990,887
Claims paid	(17,014,443)	(11,876,459)
Claims incurred	20,880,706	12,572,191
Change in gross technical provisions	3,866,263	695,732
Gross technical provision at the end of the year	54,552,882	50,686,619
Gross Reinsurance share of technical provision at the beginning of the year	12,795,052	14,732,995
Reinsurance share of paid claims	(3,576,414)	(3,598,799)
Reinsurance share of incurred claims	5,974,221	1,660,856
Change in gross reinsurance provisions	2,397,807	(1,937,943)
Reinsurers share of technical provisions at the end of the year	15,192,859	12,795,052
Net technical provisions	39,360,023	37,891,567

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 2020/2021 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	**2012 £'000**	**2013 £'000**	**2014 £'000**	**2015 £'000**	**2016 £'000**	**2017 £'000**	**2018 £'000**	**2019 £'000**	**2020 £'000**	**2021 £'000**
At the end of the reporting year	11,200	9,400	10,700	10,700	11,000	12,703	17,144	16,566	20,686	15,862
1 year later	11,868	10,202	10,487	9,500	10,607	16,469	18,354	14,374	27,965	
2 years later	12,149	12,350	8,900	8,500	16,220	16,941	18,497	14,702		
3 years later	10,550	11,369	8,250	7,528	13,860	15,036	15,029			
4 year later	10,126	13,040	8,611	7,729	12,509	13,998				
5 years later	13,039	12,819	7,443	7,297	12,842					
6 years later	14,565	11,545	6,805	6,800						
7 years later	14,486	11,153	7,429							
8 years later	14,395	11,089								
9 years later	14,390									
Estimate of ultimate claims	14,390	11,089	7,429	6,800	12,842	13,998	15,029	14,702	27,965	15,862
Cumulative payments to date	14,390	11,085	6,880	6,559	11,066	12,343	10,451	6,233	9,327	941
Liability recognised in statement of financial position	-	4	549	241	1,775	1,655	4,579	8,470	18,638	14,921

Total liability relating to last nine policy years	50,831
Other claims liabilities	3,721
Total gross technical provisions included in the statement of financial position	54,553

Net estimate of ultimate claims costs attributable to policy year

Reporting Year	**2012 £'000**	**2013 £'000**	**2014 £'000**	**2015 £'000**	**2016 £'000**	**2017 £'000**	**2018 £'000**	**2019 £'000**	**2020 £'000**	**2021 £'000**
At the end of the reporting year	11,200	9,400	10,700	10,700	11,000	11,600	12,976	12,867	14,671	13,249
1 year later	11,308	9,800	10,300	9,500	9,600	13,042	12,596	12,405	17,343	
2 years later	11,308	11,100	8,900	8,500	9,434	12,930	14,967	12,521		
3 years later	10,500	10,600	8,250	7,391	9,313	12,064	11,976			
4 year later	9,900	10,100	8,467	7,543	8,715	11,646				
5 years later	10,100	9,851	7,222	7,200	8,911					
6 years later	12,250	9,171	6,700	6,800						
7 years later	10,514	8,871	7,300							
8 years later	10,488	8,740								
9 years later	10,484									
Estimate of ultimate claims	10,484	8,740	7,300	6,800	8,911	11,646	11,976	12,521	17,343	13,249
Cumulative payments to date	10,484	8,736	6,740	6,559	7,552	10,348	8,483	6,233	7,256	941
Liability recognised in statement of financial position	-	4	560	241	1,359	1,298	3,493	6,288	10,086	12,308

Total liability relating to last nine policy years	35,638
Other claims liabilities	3,721
Total net technical provisions included in the statement of financial position	39,360

7. Claims and technical provisions (continued)

Change in reinsurers' share of technical provisions

	2021	2020
	£	£
Reinsurers' share of claims outstanding at end of year	15,192,859	12,795,052
Reinsurers' share of claims outstanding at beginning of year	12,795,052	14,732,995
Increase/(decrease) in reinsurers' share of claims outstanding	2,397,807	(1,937,943)

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 35 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 (i) acquisition costs, which in the case of the Company has been interpreted by the Directors and Managers as the cost of underwriting, processing renewals, premium adjustments and credit control; (ii) claims handling costs; and (iii) investment management expenses and administration expenses, which includes regulatory compliance, the preparation of accounts and general management.

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

	2021	2020
	£	£
Acquisition costs (note 9)	809,624	786,349
Claims handling (note 7)	1,720,102	1,670,651
Administration expenses (note 9)	413,017	401,143
	2,942,743	2,858,143
A separate fee is paid to the Investment Managers and included in investment expenses and charges (note 10)		
Investment management expenses	68,836	66,857
Management fees	3,011,579	2,925,000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Net operating expenses

		2021	2020
		£	£
a)	Acquisition costs	809,624	786,349
b)	<u>Administration expenses</u>		
	Legal and professional fees	57,150	282,655
	Directors' & Officers' Liability insurance	58,343	60,448
	AGM & printing costs	24,581	30,185
	Charitable donations	108,000	15,000
	Regulatory fees	85,991	86,051
	Auditors' remuneration - Audit	97,607	81,012
	Management administration expenses	413,017	401,143
	Other expenses	-	1,480
		1,654,313	1,744,323

There were no Directors' emoluments during the year.

10. Investment income

	2021	2020
	£	£
Interest on listed investments	426,334	709,503
Gain on foreign exchange	6,647	(2,663)
Bank deposit interest	4,232	8,025
Dividends on equities	435,678	852,773
	872,891	1,567,638
Gains on realisation of investments	(692,498)	419,200
	180,393	1,986,838

Investment expenses and charges	**2021**	**2020**
	£	**£**
Bank, custodial and other charges	70,923	68,897
Investment management expenses (see note 8)	68,836	66,857
	139,759	135,754

Unrealised gains/ (loss) on investments

	2021	2020
	£	£
Cost (see note 12)	79,817,375	79,053,505
Market value (see note 12)	80,384,547	77,059,153
Unrealised gains/(loss) at year end	567,172	(1,994,352)
Unrealised gains/(loss) movement for the year	2,605,212	(1,230,788)

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	**2021**	**2020**
	£	**£**
UK corporation tax (Note 11c)	469,408	46,791
(Over)/under provision prior year & interest on tax	-	-
	469,408	46,791

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

	2021	**2020**
	£	**£**
Surplus/(deficit) on ordinary activities before tax	(2,546,396)	(1,522,812)
Surplus on ordinary activities multiplied by standard		
Rate of corporation tax in the UK of 19% (2020: 19%)	(483,815)	(289,334)
Effects of :		
Non-taxable mutual insurance operations	999,604	419,893
Non-taxable dividend distribution	(33,744)	(71,893)
Utilisation of losses, differences due to tax rates	-	-
Income tax expensed	(12,637)	(11,875)
Current year tax charge/(rebate)	469,408	46,791

(c) Statement of financial position

	2021	**2020**
	£	**£**
<u>Taxation creditor</u>		
Taxation creditor/(debtor) brought forward	(185,184)	198,850
Payment /(recovery) corporation tax	(46,791)	(430,825)
	(231,975)	(231,975)
UK corporation tax for the current year	469,408	46,791
Creditor/(debtor) as at 31 March	237,433	(185,184)

12. Other financial investments

	Market Value 2021 £	Market Value 2020 £	Cost 2021 £	Cost 2020 £
Other financial Investments comprise:				
Equities & Alternatives	13,807,450	11,694,516	13,161,256	12,965,123
UCITS	19,115,843	18,470,748	19,115,843	18,470,748
Fixed interest securities	47,461,254	46,893,886	47,540,276	47,617,632
	80,384,547	77,059,150	79,817,375	79,053,503

All holdings in fixed income securities are in securities traded on recognised exchanges. “Undertakings for Collective Investment in Transferable Securities” (“UCITS") are funds held for the short term.

The Companies Act 2006 identifies the categories of investment income to be disclosed in the Financial Statements. The investments are classified as financial assets measured at fair value through profit or loss (as per FRS 102 11.41) 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

	2021 £	2020 £
Debts due from Members (Premiums)	41,303	48,236
Provision for doubtful debts	(18,434)	(21,796)
Debtors arising out of direct insurance	22,869	26,440

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 £1,390,486 (2020: £1,883,0133) are reinsurance recoveries which are due from reinsurers.

15. Other Debtors

	2021 £	2020 £
Sundry debtors	15,463	32,148
Claim recoveries due from third parties	55,819	1,714,728
Taxation repayment (note 11 c)	-	185,184
Debtors arising out of direct insurance	71,282	1,932,060

16. Cash and cash equivalents

	2021	2020
	£	£
Cash at hand and in bank	6,411,618	4,258,234

17. Creditors arising out of reinsurance operations

	2021	2020
	£	£
Reinsurance creditor	715,315	693,630

18. Other creditors including taxation

	2021	2020
	£	£
Insurance Premium tax	2,210	2,645
Taxation (note 11(c))	237,433	-
Investments awaiting settlement	-	-
	239,643	2,645

19. Accruals and deferred income

	2021	2020
	£	£
Accrued expenses	118,222	215,685
Deferred income –premiums received in advance	14,495,321	10,023,289
	14,613,543	10,238,974

Premiums received in advance relate to premiums invoiced for the 2021 policy year and received prior to the year end.

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 the Managers. Save for their own insurance, the Directors have no financial interests in the Company, other than where Directors may have been instructed to act for a Member of the Company in a case funded by the Company. There was one material related party transaction during the year: the Company paid Joanna Smith QC £111,025 to defend a large claim made against a Member.

Bar Mutual Management Company received £3,011,579 (2020: £2,925,000) 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

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W1U 7EU