GRIFFIN

The Griffin Insurance Association Limited

Report and Financial Statements Year Ended 30 September 2018

WEDNESDAY

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COMPANIES HOUSE

Companies House No. 2134231

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Board of Directors
M R W Warren (Chairman)
H A Armytage
W D Bloomer
A S Cross
M T Hazell
D A J McKechnie
S J Peat
A P Phillips
S C G Scriven
C K Shah
A J Sindall
J C Speers

Registered Office
Regis House
45 King William Street
London EC4R 9AN

Managers
Tindall Riley & Co Limited
trading as Griffin Managers
Regis House
45 King William Street
London EC4R 9AN

Auditors
Mazars LLP
Tower Bridge House
St Katharine's Way
London E1W 1DD

The Griffin Insurance Association Limited (Griffin or the Association) is a mutual insurance company which provides professional indemnity insurance to a select group of insurance broking firms (the Members). The Association was founded in 1988 and currently has 40 Members. During the course of the financial year, it celebrated 30 years of underwriting the professional indemnity insurance risks of insurance broking firms.

The main strategic objectives of the Association are to:

- Provide the Members with control over an important aspect of their business through the appropriate management of the Members' E&O risk,
- Secure the continuing availability and continuity of cover that meets the membership's requirements;
- Achieve stability in the cost of cover;
- Avoid the inherent conflict of interest in maintaining errors and omissions insurance in the same market in which the Members trade;
- Provide confidentiality in a sensitive area of business;
- Ensure that the relationship between the Members and the Association is based on a spirit of partnership and mutuality.

These objectives are reviewed regularly to ensure they remain valid and have stood the test of time, remaining largely unchanged over the past thirty years. A review of the Association's investment strategy is currently in progress and a wider review of the Association's strategy and objectives will take place in 2019.

Financial Review

The Association started the year in an exceptionally strong financial position, with capital resources well in excess of the target set by the board. This position allowed the board at its meeting in June 2018 to approve a return of call of over £6m for the second year running. With returns of call at such a high level, there is inevitably an impact on the financial performance of the Association. The overall deficit for the year of £4m reported in these accounts should therefore be understood in the context of the £6m return of call. The Association ended the year with capital of £87.6m, still in excess of the target, so despite some increase in the costs of claims during the year and a disappointing investment return, it remains in a very strong financial position.

Calls were lower compared with the prior year. This was the result of a good claims record allowing generally lower rates to be offered to the membership at renewal at 1 October 2017, and the loss of two larger Members towards the end of the year as a result of those Members being acquired by other firms. The Association did welcome three new Members during the year and therefore the membership itself was stable in terms of numbers. The return of call referred to above was made from the 2010/11 policy year and represented 55% of the advance call of that year.

The reinsurance premiums paid by the Association were down year on year by over 10%. This resulted from a further cut in the rate that the Association pays as well as the lower advance calls, to which reinsurance premiums are proportionate. The rate cut reflects the Association's continuing very good claims record.

The number of claims notified to the Association in the 2017/18 policy year was at a similar level to the prior year, although the value of those claims after 12 months was a little lower. However, significant contingency reserves have been retained in the 2017/18 in order to absorb any future deterioration. The claims position in older years generally showed the usual improvement but in the 2016/17 policy year, there were deteriorations in three large claims, of which one was settled in the year and the other two remaining open. The provision for outstanding claims rose by £5.2m. Overall, the level of claims incurred in the financial year was £8.6m. This contrasts with the credit last year of £3.5m, which was the result of an exceptionally large release of claims provisions in that year, but it serves to illustrate the volatility in claims to which the Association is exposed.

Operating expenses were a little higher than in the prior year, mainly the result of an increase in the management fee paid to the Managers. The balance on the technical account, which represents the underwriting result, was a deficit of £2.6m but, as noted above, this is after the impact of the £6m return of call.

Investment returns in the financial year were again disappointing, producing just over £2m, which is equivalent to around 1.7%. This was lower than the amount credited to the technical account, which is based on the longer term rate of return, and resulted in a transfer from the investment reserve of £1.4m. The Association's net deficit after tax for the financial year was £4.0m.

The Association's investment portfolio increased by £1m in the year, the result of the £2m growth in the invested assets less a £1m transfer from the portfolio to fund cash-flow. At 30 September 2018, the value of the portfolio stood at just over £123.7m. A detailed analysis of the investments held at the year end is shown in note 8 to the financial statements.

The free reserves of the Association at 30 September 2018 were £87.6m, which as noted above, is higher than the Board's capital target and the Association therefore remains financially very strong.

Investments

During the course of The Association's financial year, economic growth has been more resilient than many feared. In fact, the global economy has been in 'Goldilocks' mode, the 'not too hot, not too cold' scenario where growth is decent, inflation low, and central banks are treading cautiously. The much heralded Trump tax cuts certainly helped to provide additional stimulus in the US. Many would argue that the US economic cycle is too mature for additional stimulus, so interest rates being increased several times to help counter the inflation effects of the tax cuts was appropriate. As the year progressed, expectations for future growth fell not least because of the potentially damaging impact of the escalating trade war between the US and China.

Central banks have started to unwind the massive monetary stimulus that has been in place since the financial crisis. For some countries this involves increasing interest rates, albeit to still only modest levels, and for the countries not yet ready to increase rates it involves a reduction in the Quantitative Easing programme.

In the UK, the long hot summer had a positive impact on consumers' spending behaviour but for most of the year, growth was subdued, most likely because of the uncertainty of the Brexit negotiations. With the Brexit picture remaining as murky as ever, one must assume that the UK's growth rate will remain below that of the rest of the developed world. The Governor of the Bank of England has highlighted the need to increase interest rates further at this stage of the economic cycle, but has back-tracked on several occasions.

UK gilt yields rose modestly during the financial year. Corporate bond yields rose slightly having started the period with an unusually tight premium over government bonds.

Stock market volatility returned in February after a long period of calm. Having started 2018 very positively, investors became spooked by the prospect of higher US bond yields and interest rates. As it happened the volatility didn't last for long and, helped by good growth in corporate profits, stock markets recovered the ground lost in the first quarter of 2018.

Over the last 12 months, the portfolio returned +1.7% reflecting low interest rates and bond yields. The matching element of the portfolio produced small negative returns and the growth portfolios modest positive returns. Over the last 3 years, the portfolio returned an average of +4.6%, which exceeded the Association's long-term target rate of return.

Risk Management

The Association continues to monitor levels of risk throughout the membership by means of its risk management programme. This is based upon a structure of regular review visits and reports to Members. Planning meetings are held with Members before review visits to ensure that any particular areas of potential risk are considered during the review. After the visit a plan will be agreed at a summary meeting to address any issues identified. A variety of presentations and workshops are made available to Members as part of the follow up process, to ensure that any training needs identified during a visit are addressed.

A continued focus since last year has been the way in which Members have addressed any risks posed by the Insurance Act 2015. Full support has continued to be provided through the issue of bulletins and the provision of advice. Guidance has also been given to the membership based upon the findings of the thematic review of Appointed Representatives completed this year.

The Managers create awareness of risk amongst the membership through a number of different avenues. Members have access to a broad training programme which includes presentations, workshops and a new training film. The Technical Forum is held quarterly with outside speakers being invited to address the membership on topical issues. Recent subjects have included the implications of Brexit for the insurance market, the Senior Managers and Certification Regime, the Insurance Distribution Directive and silent cyber in insurance policies. The Association's website also allows Members to have direct access to a considerable amount of material, including risk management guidelines and regularly published bulletins, produced in accordance with the Association's objective of developing risk awareness at all levels of the business.

Rules of the Association

A number of housekeeping amendments have been made to the Rules with effect from 1 October 2018 to reflect changes in data protection legislation. Strategic amendments have also been made to the Rules in response to the following matters discussed by the Board:

<u>Impact of Brexit</u>

The Association currently holds authorised permissions with a number of European Economic Area (EEA) territories, which allow it to provide insurance to a small number of Members and subsidiaries of UK Members located within the EEA. The Board has considered the potential impact on the Association of the United Kingdom's departure from the European Union, particularly the risk of the Association losing its ability to conduct business within the EEA, and has developed a contingency plan to enable it to continue to provide cover to the EEA Members and the EEA subsidiaries of UK Members. In accordance with this plan, a number of changes were made to the Rules for the 2018/2019 policy year which will enable the Association to reinsure a fronting arrangement provided by an EU registered insurer, should the Association lose its passporting rights in March 2019.

<u>"Silent" Cyber</u>

During the course of the 2017/18 policy year, the Board considered the issue of cyber risk. It was agreed that the Association had no appetite to provide broader cyber cover to its Members, but the Board recognised the need to manage the Association's residual exposure to those "silent" cyber risks not excluded under the Rules. In accordance with the Board's discussions, the wording of the cyber exclusion at Rule 7 has been updated to reflect the current broader nature of cyber risks, clarifying the Association's position in this area and reducing the extent of the "silent" cyber cover. A specialist firm has been appointed to provide an incident response service for the benefit of Members in the event of a cyber incident falling within the limited residual cyber cover provided by the Rules.

Principal Risks and Uncertainties

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. The Association is focussed on identification and management of potential risks. The key areas of risk to the Association are set out below:

- **Underwriting risk** - incorporating premium and reserving risk
- **Market risk** - incorporating interest rate risk, equity risk, spread risk and currency risk
- **Counterparty risk** - being the risk that a counterparty is unable to pay amounts in full when due
- **Operational risk** - being the risk of failure of internal processes or controls

The business risks and uncertainties are discussed further in note 9 to the financial statements.

Future Development

Prudent financial management and the absence of pressure from any outside interests seeking a short-term return ensure that the Association has the financial security and sustainability that allow it to continue to deliver the support and protection sought by its existing Members. The Managers welcome discussion with potential Member firms but terms are not offered unless specific approval to do so is obtained from the directors.

By order of the Board

S N Parramore
Secretary
13 December 2018

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 30 September 2018.

The principal activity of the Association is the insurance of the professional indemnity risks of a select group of insurance broking firms. The strategic report on the preceding pages provides a summary of the principal matters affecting the Association's business during the year.

The names of the directors are shown on page 2. At the Annual General Meeting on 5 July 2018, Messrs W D Bloomer and A P Phillips retired by rotation and were reappointed. Mr S J Nunn also retired by rotation but, having completed the agreed maximum number of continuous terms as a director, did not stand for re-election. Mr H Armytage was appointed to fill the vacancy resulting from Mr Nunn's retirement. Mr C M Spratt retired from the Board with effect from 1 July 2018 and, at its meeting on 4 October 2018, the Board agreed to appoint Ms M T Hazell to fill the interim vacancy on the Board. Ms Hazell will be subject to reappointment by the Members at the Annual General Meeting in 2019.

Mazars LLP were appointed as the Association's Auditor at the Annual General Meeting on 5 July 2018, replacing Grant Thornton UK LLP who resigned with effect from 2 July 2018. There were no matters connected to the outgoing auditor's ceasing to hold office which needed to be brought to the attention of the Members or the creditors of the Association.

The Board met four times during the year under review, in October, December, March and June. The list below details the more important matters considered at those meetings:

- Membership and Opportunities for Growth
- Investment Performance and Strategy
- Report and Financial Statements
- Call Rates
- Reinsurance Arrangements
- Claims and Claims Trends
- Risk Management of Members
- Risk and Compliance
- Corporate Governance
- Succession Plan
- Appointment and Retirement of Directors
- Regulatory Capital Requirements and Technical Provisions
- Rules of the Association
- Managers' and Directors' Remuneration
- Brexit
- Cyber cover

Financial Instruments

Information on the use of financial instruments by the Association and its management of financial risk is disclosed in note 9 to the financial statements. The Association's exposure to cash flow risk is addressed under the headings of Credit risk, Liquidity risk and Market risk.

Future Developments

Likely future developments of the Association are discussed in the strategic report.

Directors' Indemnity Insurance

The Association purchases directors' and officers' liability insurance in respect of all the Association's directors.

Audit

The directors have delegated day to day responsibility for the maintenance of the Association's accounting records and the preparation of the financial statements to the Managers. They have confirmed that they have provided the auditors with all relevant audit information of which they are aware.

The Audit Group has considered the financial statements with the Managers, met privately with the auditors, and reported to the Board.

So far as each person who is a director at the time of this report is aware, there is no relevant audit information of which the Association's auditors are unaware. The directors confirm that they have taken all steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Association's auditors are aware of that information.

Mazars LLP have expressed their willingness to be reappointed as auditors of the Association and, subject to no objections being received, will be deemed to be reappointed in accordance with Section 487 of the Companies Act 2006.

The directors confirm that, to the best of their knowledge, the Strategic Report on pages 3 to 6 includes a fair review of the development and performance of the business and the position of the Association, together with a description of the principal risks and uncertainties that it faces. The Association has considerable financial resources and the directors believe that it is well placed to manage its business risks successfully.

The directors have a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

By order of the Board

SParramore

S N Parramore
Secretary
13 December 2018

The directors are responsible for preparing the strategic report, the statutory directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Association and of the surplus or deficit of the Association for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements 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 Association will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Association's transactions and disclose with reasonable accuracy at any time the financial position of the Association and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Association and to prevent and detect fraud and other irregularities.

Opinion

We have audited the financial statements of The Griffin Insurance Association Limited ("the Association") for the year ended 30 September 2018 which comprise the Income and Expenditure Account, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity 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 FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Association's affairs as at 30 September 2018 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Key audit matters

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

Area of focus	How our audit addressed the area of focus
Valuation of technical provisions The valuation of technical provisions is a key area of judgement and management estimation. The Association underwrites professional indemnity insurance on a 'claims made' basis and recognises technical provisions made up of case reserves and a provision for 'Incurred But Not Enough Reported' ("IBNER"). The provision for IBNER is the most subjective and is based on the estimate of the ultimate cost to settle all claims including the related costs of handling the claims. Smaller claims are usually settled within a couple of years of notification but larger, more complex claims often take much longer. The long-tail claims settlement pattern and volatile nature of the Association's claims experience makes it more difficult to predict, with accuracy, the estimated total claims costs. The level of subjectivity and judgement means there is a risk that inappropriate reserve projections are made and we therefore identified the valuation of technical provisions as a significant risk.	We reviewed the year-end claims reserving position of the Association and, in conjunction with specialist team members from our actuarial team, we performed the following audit procedures: • We gained an understanding of the reserving process used by the actuaries of the Association and of the related controls; • We reviewed the Reserving Paper produced by the Head of Actuarial as at 30 September 2018; • We performed an independent reserve projection comparing our independent reserve projection to that derived by the actuaries of the Association; • We reviewed the data reconciliation performed by the actuaries of the Association to determine if the data used for reserving was reasonable; • We considered the appropriateness of the actuarial methodologies and assumptions applied; and • We compared the actual gross incurred position at 30 September 2018 with that expected at 30 September 2017 and considered the reasons for the differences.

Our application of materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	Our overall materiality was £1,873,000
How we determined it	Approximately 2% of the net assets at the planning stage.
Rationale for benchmark applied	In determining our materiality, we considered financial metrics which we believed to be relevant, and concluded that net assets was the most relevant benchmark. We believe that the benchmark of net assets was the most appropriate benchmark as it best represents the financial stability and solvency of the Association.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. Performance materiality of £1,311,000 was applied in the audit.

Reporting threshold	We agreed with The Audit Group that we would report to them misstatements identified during our audit above £56,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

An overview of the scope of our audit

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements such as significant accounting estimates.

We gained an understanding of the legal and regulatory framework applicable to the Association and the industry in which it operates. We considered the risk of acts by the Association which were contrary to the applicable laws and regulations including fraud. We designed our audit procedures to respond to those identified risks, including non-compliance with laws and regulations (irregularities) that are material to the financial statements. We focused on laws and regulations that could give rise to a material misstatement in the financial statements, including, but not limited to, the Companies Act 2006.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of a risk assessment, our understanding of the Association, its accounting processes and controls and its environment and considered qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Our tests included, but were not limited to, obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by irregularities including fraud or error; review of minutes of directors' meetings in the year; and enquiries of management. As a result of our procedures, we did not identify any Key Audit Matters relating to irregularities, including fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are discussed under "Key audit matters" within this report.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Statutory 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 Statutory Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Association and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Statutory Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Association, or returns adequate for our audit have not been received from branches not visited by us; or
- the Association 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 9, 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 Association'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 Association or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Other matters which we are required to address

We were appointed by ordinary resolution at the Association's Annual General Meeting on 5 July 2018 to audit the financial statements for the year ended 30 September 2018 and subsequent financial periods. The period of total uninterrupted engagement is 1 year, covering the year ended 30 September 2018.

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

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

Use of the audit report

This report is made solely to the Association'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 Association'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 Association and the Association's members as a body for our audit work, for this report, or for the opinions we have formed.

Sam Porritt

Sam Porritt
Senior Statutory Auditor
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor

Tower Bridge House
St Katharine's Way
London E1W 1DD

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INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 30 SEPTEMBER 2018

Technical Account – General Business	Note		2018 £		2017 £
Earned premiums, net of reinsurance					
Calls and premiums	2	13,410,720		15,310,262	
Return calls	2	(6,004,632)		(6,057,016)	
			7,406,088		9,253,246
Reinsurance premiums			(2,156,124)		(2,431,998)
			5,249,964		6,821,248
Allocated investment return transferred from the *non-technical account*			3,461,983		3,625,055
			8,711,947		10,446,303
Claims paid					
Gross amount	3	(3,450,819)		(3,075,518)	
Reinsurers' share		-		-	
		(3,450,819)		(3,075,518)	
Change in the provision for claims					
Gross amount	3	(5,170,684)		6,619,105	
Reinsurers' share		-		-	
		(5,170,684)		6,619,105	
Claims incurred net of reinsurance			(8,621,503)		3,543,587
Net operating expenses	4		(2,652,965)		(2,498,305)
Balance on the technical account			(2,562,521)		11,491,585
Non-Technical Account					
Balance on the technical account			(2,562,521)		11,491,585
Investment income	5		3,656,632		3,615,422
Investment expenses			(532,505)		(504,791)
Unrealised loss on investments			(1,077,656)		(27,450)
Allocated investment return transferred to the general business technical account	6		(3,461,983)		(3,625,055)
Net (deficit)/surplus before taxation			(3,978,033)		10,949,711
Taxation	7		(41,961)		(341,124)
Net (deficit)/surplus and total comprehensive income after taxation			(4,019,994)		10,608,587

There are no recognised gains and losses other than those included in the Income and Expenditure Account. Therefore no statement of other comprehensive income has been prepared. All amounts are derived from continuing operations.

The notes on pages 19 to 33 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2018

Assets	Note	2018 £	2017 £
Financial investments	8	**123,729,233**	122,704,373
Reinsurers' share of technical provisions			
Claims outstanding		**-**	-
Debtors			
Direct insurance operations - Members		**38,108**	3,409
Reinsurance operations		**11,751**	21,403
Taxation		**53,074**	-
Cash at bank		**3,955,250**	4,018,093
Accrued income		**150,549**	149,516
		127,937,965	126,896,794
Equity and Liabilities			
Capital and reserves			
Investment reserve		**17,490,962**	18,877,450
General reserve		**20,000,000**	20,000,000
Reinsurance and Technical reserve		**10,000,000**	10,000,000
Income and expenditure account		**40,083,395**	42,716,901
		87,574,357	91,594,351
Technical provisions			
Gross outstanding claims	3	**33,858,462**	28,687,778
Creditors			
Direct insurance operations - Members		**6,004,632**	6,061,191
Taxation		**-**	40,991
Accruals		**500,514**	512,483
		40,363,608	35,302,443
		127,937,965	126,896,794

Approved by the Board on 13 December 2018:

M R W Warren
Director

S ~~C G~~ Scriven
Director

The notes on pages 19 to 33 form part of these financial statements.

Companies House Number 2134231

STATEMENT CHANGES IN EQUITY THE YEAR ENDED 30 SEPTEMBER 2018

	Investment Reserve	General Reserve	Reinsurance and Technical Reserve	Income and Expenditure	Total
	£	£	£	£	£
At 30 September 2016	**19,359,371**	**20,000,000**	**10,000,000**	**31,626,393**	**80,985,764**
Surplus for the financial year	-	-	-	10,608,587	10,608,587
Transfer from investment reserve	(481,921)	-	-	481,921	-
At 30 September 2017	**18,877,450**	**20,000,000**	**10,000,000**	**42,716,901**	**91,594,351**
Deficit for the financial year	-	-	-	(4,019,994)	(4,019,994)
Transfer from investment reserve	(1,386,488)	-	-	1,386,488	-
At 30 September 2018	**17,490,962**	**20,000,000**	**10,000,000**	**40,083,395**	**87,574,357**

The Association is incorporated as a company limited by guarantee and does not therefore have share capital.

The investment reserve comprises the cumulative net transfers from the income and expenditure account equivalent to the net unallocated return on the Association's investment portfolio.
The general reserve has been established in accordance with Rule 26 of the Association to provide for any unforeseen contingencies, claims, expenses, losses or other outgoings of the Association. Transfers to this reserve are considered upon closure of each policy year. To date the 1987/88 to 2009/10 policy years have been closed.

The reinsurance and technical reserve has been created by the transfer of £10m from the Association's income and expenditure account. The transfer was made from current surpluses in open years, apportioned between those years according to their level of surplus. The reserve is aimed primarily at providing the Association with the means to preserve stability in the cost of insurance to Members in the event that the costs of reinsurance increase; it will allow the Association to respond to any such increase in a number of ways, including increasing its retention, participating as a co-insurer, or contributing to the cost. However, should the Association consider it appropriate, the reserve may also be used for other purposes.

The notes on pages 19 to 33 form part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 SEPTEMBER 2018

	2018	2017
Cash flows from operating activities	**£**	£
Net (deficit)/surplus before taxation	**(3,978,033)**	10,949,711
Adjustments for:		
Change in provisions for claims	**5,170,684**	(6,619,105)
(Increase)/decrease in insurance and other debtors	**(25,047)**	151,239
(Decrease)/increase in insurance and other creditors	**(76,210)**	555,486
Investment income	**(3,124,127)**	(3,110,631)
Unrealised loss on investments	**1,077,656**	27,450
Net cash generated from operating activities	**(955,077)**	1,954,150
Cash flows from investing activities		
Purchase of equity shares	**(17,695,356)**	(19,230,674)
Purchase of fixed interest investments	**(14,656,110)**	(3,226,354)
Sale of equity shares	**17,497,371**	20,385,684
Sale of fixed interest investments	**10,399,207**	2,857,299
Net change to deposits with credit institutions	**3,129,953**	(4,225,740)
Dividends received	**844,990**	843,343
Fixed income interest received	**890,975**	962,835
Income from bank and other cash	**534,345**	498,767
Investment management expenses paid	**(524,823)**	(502,002)
Income taxes paid	**(136,026)**	(1,196,261)
Net cash from investing activities	**284,526**	(2,833,103)
Net decrease in cash at bank	**(670,551)**	(878,953)
Cash at bank at the beginning of the financial year	**4,018,093**	4,930,768
Exchange gain/(loss)	**607,708**	(33,722)
Cash at bank at the end of the financial year	**3,955,250**	4,018,093

The notes on pages 19 to 33 form part of these financial statements.

1. Accounting Policies

Basis of Accounting

These financial statements have been prepared under the historical cost convention as modified to include investments at market value, in compliance with Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI2008/410) under the Companies Act 2006 and in accordance with applicable accounting standards in the UK including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom ('FRS 102'). In accordance with Financial Reporting Standard 103, "Insurance Contracts" (FRS 103), the Association has applied existing accounting policies for insurance contracts. The Regulations require the use of the term "Profit and Loss Account" as a heading. The Statutory "Profit and Loss Account" is replaced by an "Income and Expenditure Account" in these financial statements, consistent with the mutual status of the Association.

Going Concern

The directors have a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future. They therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Statement of Compliance

These 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 Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103") and the Companies Act 2006.

Policy year accounting

The Association's business is accounted for on an annual basis. For the purposes of reporting to mutual Members, all transactions, including calls, reinsurance premiums payable, claims and reinsurance recoveries are allocated to the policy year to which they relate. In the case of claims and reinsurance recoveries, the appropriate year is decided by the date on which the claim or the incident giving rise to the potential claim is notified to the Association. Other income and expenditure is allocated to the current policy year except investment returns which are allocated to policy years on the same basis as they are credited to the technical account – general business.

Members remain liable for their rateable proportions of any excess of claims and expenses over income for any open policy year and may, at the discretion of the directors, have returned to them any balance not retained and applied for the purposes of the Association. Underwriting years are closed only when the directors are satisfied that the information on claims payable is sufficiently reliable to enable the outcome of that year to be determined with reasonable accuracy.

The income and expenditure account presents the aggregate of changes during the financial year on all policy years, both open and closed.

Calls and premiums

Calls and premiums are credited to the income and expenditure account as and when charged to Members. Return calls are accounted for when approved by the directors, but credited to the Members' account on renewal as at 1st October. Since all insurance policies are coterminous with the Association's financial year, there are no unearned premiums at the year-end date.

Outward reinsurance premiums are accounted for in the same period as calls and premiums for the related insurance.

Claims and reinsurance recoveries

Claims incurred include all claims and claims settlement expense payments made during the year and the movement in the provision for outstanding claims.

Reinsurance recoveries and reinstatement premiums are accrued to match the relevant claim amounts that have been charged to the income and expenditure account.

Rates of exchange

In preparing the financial statements, transactions in currencies other than the Association's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the date of the transaction. All assets and liabilities denominated in currencies other than Sterling are monetary items and translated into Sterling at the rates of exchange ruling at the statement of financial position date. Exchange differences are recognised in income and expenditure in the period in which they arise when they relate to items for which gains and losses are recognised in equity. The functional and presentational currencies are both Sterling.

Investment income

Investment income includes interest and dividends receivable for the year. Dividend income is recognised when the right to receive payment is established.

Net gains or losses on the disposal of investments (representing the difference between net proceeds and purchase cost) are credited or charged to the income and expenditure account as and when realised. Unrealised gains and losses represent the difference between the fair value of investments at the statement of financial position date and their purchase price or previous valuation. Unrealised gains and losses are recognised in the income and expenditure account.

The transfer to/from the investment reserve represents the difference (net of tax) between the actual investment income for the year and the investment return allocated to the technical account - general business.

Allocation of investment return

An allocation is made from the non-technical account to the technical account - general business in respect of the longer-term investment return on the total investment portfolio, since these investments relate wholly to the technical provisions and Members' funds held for mutually insured risks.

Claims outstanding

The Association underwrites professional liability risks on a "claims made" basis. Claims outstanding represent the directors' assessment of the ultimate cost of claims reported at the statement of financial position date.

The Association reserves individual notified claims on a "worst likely outcome" basis. Case estimates are set by legally qualified claims handlers who base their estimates on the information available about the individual claim and experience of similar cases. Where it is not yet possible to make an assessment of the likely outcome of a claim, a statistically derived reserve is applied based on the development of similar notifications in earlier policy years. In addition, contingency provisions are applied to aggregate outstanding estimates for each policy year using percentages that reflect the stage of development of the policy year.

In the case of policies incepting less than 12 months from the statement of financial position date, the information available is frequently inadequate to form a reliable basis for case by case estimates. Accordingly, the claims provision for this policy year is calculated using standard actuarial claims projection techniques and stochastic modelling based on historical claims patterns, adjusted for inflation and other variables, such as the volume of business transacted by the membership, to predict the likely cost of claims. The principal assumption underlying this approach is that past experience is a reliable basis for projecting the ultimate cost of claims for more recent years.

The Association reinsures the cost of claims per Member above £5m. This level of retention means that it is exposed to potentially substantial variations in the cost of claims from year to year.

The provision for outstanding claims is based on information available at the statement of financial position date. The majority of claims are settled only after extensive investigation and negotiation, which can take a number of years to complete. Accordingly, the ultimate cost of such claims cannot be known with certainty at the statement of financial position date. Subsequent information and events may result in the ultimate liability being greater or less than the amount provided. Any differences between provisions and subsequent settlements are dealt with in the technical account - general business in later years.

Investments

The Association has chosen to apply the recognition and measurement provision of IAS39 and the disclosure requirements of FRS102.

The Association reports its investments as financial assets at fair value, gains and losses are taken to the income and expenditure account, which reflects the management of the portfolio on a fair value basis. Fair values of investments traded in active markets are measured at bid price.

Liability adequacy

At each reporting date the Association performs a liability adequacy test on its insurance liabilities to ensure the carrying value is adequate, using current estimates of future cash flows, taking into account the relevant investment return. If the assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognised as an expense to the income and expenditure account by recognising an additional liability for claims provisions.

Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Cash equivalents are investments with original maturity of three months or less from the date of acquisition.

Acquisition costs

Acquisition costs represent underwriting management costs, costs associated with renewal of existing Members, negotiation with potential Members, the processing of documentation and the renewal of the Association's reinsurance programme. As premiums are fully earned in the year, acquisition costs are debited to the Income and Expenditure account.

Creditors

Creditors relating to direct insurance operations are measured at the transaction amount.

Critical accounting judgements and estimation uncertainty

The Association makes estimates and assumptions that affect the reported amounts of assets and liabilities. The estimation of the ultimate liability arising from claims made under insurance contracts is the Association's most critical accounting estimate. 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. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. Further disclosure can be found in note 9.1.

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 Association's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the amount that the Association will ultimately pay for such claims. Estimates are made of the expected ultimate cost of claims, whether reported or unreported, at the end of the reporting period. The estimate of IBNER is generally subject to a greater degree of uncertainty than that for reported claims. In calculating the estimated liability, the Association uses a variety of estimation techniques based upon statistical analyses of historical experience which assumes that past trends can be used to project future developments.

2. Net calls and premiums

	2018 £	2017 £
Advance calls and premiums	**13,410,720**	15,310,262
Returns of call - 2011/12	-	(1,434,955)
Returns of call - 2010/11	**(6,004,632)**	(1,518,490)
Returns of call - 2009/10	-	(3,103,571)
	(6,004,632)	(6,057,016)

3. Technical provisions

Claims movement

	2018 £	2017 £
Net provision at beginning of year	**28,687,778**	35,306,883
Current year provision	**9,540,711**	10,100,000
Claims paid in year	**(3,450,819)**	(3,075,518)
Movement in prior years' claims provisions	**(2,636,608)**	(15,342,787)
Claims expenses	**1,717,400**	1,699,200
	33,858,462	28,687,778

Movement in prior years' claims provisions

Included within the change in provision for claims is a credit of £2,636,608 (2017 – £15,342,787) relating to prior years made up as follows:

	2018 £	2017 £
Net provision at beginning of year	**28,687,778**	35,306,883
Net payments during the year in respect of these provisions	**(1,659,256)**	(947,097)
Net provision carried forward in respect of claims provided for at the end of the previous year	**(24,391,914)**	(19,016,999)
	2,636,608	15,342,787

Development claim tables

The development of insurance liabilities provides a measure of the Association's ability to estimate the ultimate value of claims. The top half of the table below illustrates how the Association'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 appearing in the statement of financial position.

Insurance claims – gross
Estimate of ultimate cost attributable to the policy year

Reporting year	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	£	£	£	£	£	£	£	£	£	£
End of reporting year	11,300,000	8,817,856	9,860,000	10,325,000	16,000,000	14,280,000	13,790,000	11,595,000	10,100,000	9,540,711
One year later	11,383,778	11,087,381	9,960,986	6,808,649	14,691,639	5,374,669	7,428,000	6,647,000	14,945,975	
Two years later	13,703,653	9,519,487	7,125,078	3,832,834	13,125,752	4,107,000	4,087,000	3,786,999		
Three years later	12,546,811	7,878,797	3,867,196	2,639,286	7,915,000	2,400,000	1,142,167			
Four years later	13,069,326	6,555,903	2,383,590	2,777,000	6,358,000	2,350,114				
Five years later	11,940,601	5,377,020	2,541,000	1,354,000	6,124,201					
Six years later	9,282,064	5,947,000	1,249,000	1,326,491						
Seven years later	9,358,000	5,585,000	708,995							
Eight years later	9,215,000	5,272,704								
Nine years later	8,714,684									
Current estimate of ultimate claims	8,714,684	5,272,704	708,995	1,326,491	6,124,201	2,350,114	1,142,167	3,786,999	14,945,975	9,540,711
Cumulative payments to date	8,714,684	5,144,281	608,306	906,653	5,564,879	540,984	321,523	356,053	1,726,374	74,163
Liability recognised at the end of the year	-	128,423	100,689	419,838	559,322	1,809,130	820,644	3,430,946	13,219,601	9,466,548
Total liability relating to the last ten policy years										29,955,141
Prior year movements and claim handling costs										3,903,321
Total reserve included in the Statement of Financial Position										**33,858,462**

Insurance claims – net
Estimate of ultimate cost attributable to the policy year

Reporting year	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	£	£	£	£	£	£	£	£	£	£
End of reporting year	11,300,000	8,817,856	9,860,000	10,325,000	16,000,000	14,280,000	13,790,000	11,595,000	10,100,000	9,540,711
One year later	11,383,778	11,087,381	9,960,986	6,808,649	14,691,639	5,374,669	7,428,000	6,647,000	14,945,975	
Two years later	13,703,653	9,519,487	7,125,078	3,832,834	13,125,752	4,107,000	4,087,000	3,786,999		
Three years later	12,546,811	7,878,797	3,867,196	2,639,286	7,915,000	2,400,000	1,142,167			
Four years later	13,069,326	6,555,903	2,383,590	2,777,000	6,358,000	2,350,114				
Five years later	11,940,601	5,377,020	2,541,000	1,354,000	6,124,201					
Six years later	9,358,000	5,947,000	1,249,000	1,326,491						
Seven years later	9,358,000	5,585,000	708,995							
Eight years later	9,215,000	5,272,704								
Nine years later	8,714,684									
Current estimate of ultimate claims	8,714,684	5,272,704	708,995	1,326,491	6,124,201	2,350,114	1,142,167	3,786,999	14,945,975	9,540,711
Cumulative payments to date	8,714,684	5,144,281	608,306	906,653	5,564,879	540,984	321,523	356,053	1,726,374	74,163
Liability recognised at the end of the year	-	128,423	100,689	419,838	559,322	1,809,130	820,644	3,430,946	13,219,601	9,466,548
Total liability relating to the last ten policy years										29,955,141
Prior year movements and claim handling costs										3,903,321
Total reserve included in the Statement of Financial Position										**33,858,462**

4. Operating expenses

	2018	2017
	£	£
Acquisition costs	**698,600**	677,900
Administrative expenses	**1,954,365**	1,820,405
	2,652,965	2,498,305

Included in administrative expenses are:

(i) Risk management fees of £985,000 (2017 - £967,000) payable to the Managers in respect of the conduct of the Association's risk-management programme.

(ii) Directors' remuneration of £87,018 (2017 - £94,957).

(iii) Auditor's remuneration of £35,000 is payable for the audit of the Association (2017 - £32,250) Additional fees of £15,000 (2017- £15,000) are payable for audit-related assurance services.

The Association has no employees. Management services are provided by Tindall Riley & Co Limited (trading as Griffin Managers). See note 10.

5. Investment income (net of expenses)

	2018	2017
	£	£
Income from fixed interest investments	**880,821**	889,760
Dividends receivable from equities	**856,177**	919,373
Bank and other interest	**534,345**	498,767
Gains on the realisation of investments	**777,581**	1,341,244
Exchange gain/(loss)	**607,708**	(33,722)
Investment management expenses	**(532,505)**	(504,791)
Investment income (net of expenses)	**3,124,127**	3,110,631

6. Allocated investment return

	2018	2017
	£	£
Allocated Investment return	**3,461,983**	3,625,055

Investment income is allocated to the technical account - general business on the basis of longer-term rates of investment return. The longer-term return is based on historical real rates of return and current inflation expectations adjusted for consensus economic and investment forecasts. The return is calculated by applying these rates to the investible assets held during the period on a monthly basis. The following average rates have been used:

	2018 UK£	2017 UK£	**2018 US$**	2017 US$	**2018 Euro**	2017 Euro
Government bonds	**1.25%**	1.40%	-	-	**1.25%**	1.40%
Corporate bonds	**4.50%**	5.00%	**4.00%**	4.00%	-	-
Equities	**6.25%**	5.50%	-	-	-	-
Cash	**1.25%**	0.90%	**1.00%**	0.90%	**0.00%**	0.00%

A transfer of £1,386,488 (2017- £481,921) has been made from the investment reserve equivalent to the deficit of actual return against the longer-term return for the year (net of tax) during the current year.

Comparison of longer-term investment return with actual returns over 10 years:

	2018	2017
	£	£
Actual net investment return	**45,478,349**	45,757,539
Longer-term rate of return	**32,649,686**	32,455,122
Surplus of actual return above allocated return	**12,828,663**	13,302,417

7. Taxation

By virtue of its mutual status the Association is not liable to tax on its insurance operations. It is liable to tax on its income and net gains from investments. The charge in the income and expenditure account represents:

Analysis of charge in period	2018 £	2017 £
UK Corporation tax	**44,901**	341,010
(Over)/under provision in previous years	**(2,940)**	114
Total tax charge	**41,961**	341,124

Factors affecting tax charge for period

The tax assessed for the period is different from the standard rate of corporation tax in the UK 19% (2017 – 19.5%). The differences are explained below:

	2018 £	2017 £
Net (deficit)/surplus before tax	**(3,978,033)**	10,949,711
(Deficit)/surplus on ordinary activities multiplied by standard rate of corporation tax in the UK	**(755,826)**	2,189,942
Effects of:		
Non-taxable mutual insurance operations	**1,058,340**	(1,692,755)
UK dividends not taxable	**(257,613)**	(156,177)
(Over)/under provision in previous years	**(2,940)**	114
Total tax charge - see above	**41,961**	341,124

8. Investments

Investments comprise fixed interest investments (UK & EU government securities), UK and US corporate bonds, equities and other investments, and deposits with credit institutions and are carried through to the income and expenditure account using the fair value methodology.

All fixed interest investments and equities are listed.

	Deposits with credit institutions £	Corporate bond investments £	Fixed interest investments £	Equity and other investments £	Total £
Purchase of investments	55,428,510	-	14,656,110	17,695,356	87,779,976
Sale of Investments	(58,558,463)	-	(10,399,207)	(17,497,371)	(86,455,041)
Realised (loss)/gain	-	-	(237,685)	1,015,266	777,581
Net portfolio investment	(3,129,953)	-	4,019,218	1,213,251	2,102,516
Unrealised (loss)/gain	(72,921)	599,830	(668,682)	(935,883)	(1,077,656)
Change in value of portfolio	(3,202,874)	599,830	3,350,536	277,368	1,024,860
Market value at 30 Sept 2017	26,422,399	33,779,679	24,159,780	38,342,515	122,704,373
Market value at 30 Sept 2018	23,219,525	34,379,509	27,510,316	38,619,883	123,729,233
Cost at 30 Sept 2017	26,345,628	29,362,650	23,377,185	34,774,016	113,859,479
Cost at 30 Sept 2018	23,215,675	29,362,650	27,396,403	35,987,267	115,961,995

9. Risk Management

The Association is governed by a Board comprising a non-executive Chairman, nine non-executive directors and two executive directors, who are also directors of the Managers. There are three sub-committees of the Board, the Audit Group, the Remuneration Group and the Nomination Sub-Committee.

The Audit Group is responsible for reviewing the Association's annual Report and Financial Statements, Solvency and Financial Condition Report and Regulatory Supervisory Report. The Audit Group receives regular reports from the Association's internal and external auditors and is responsible for approving the audit plan for each year.

The Remuneration Group is responsible for making recommendations to the Board on remuneration of the Managers and the directors.

The Nomination Sub-Committee consists of the Chairman of the Association, two elected Member directors and one of the Manager directors. The Group meets at least twice a year and is responsible for making recommendations to the Board in respect of suitable candidates for appointment or reappointment as directors of the Association, the performance of directors retiring by rotation and of the Board as a whole, and the appointment and retirement of the Chairman.

Each Member firm is entitled to nominate one of its partners or directors to sit on the Association's Committee. Members of the Committee meet twice each year. The first meeting is held in February. The second, to which Representative Members are also invited, is held in conjunction with the Association's Annual General Meeting in July. Directors of the Association are also Members of the Committee. Firms represented on the Association's Board are entitled to nominate a second Committee Representative, should they wish to do so. At each meeting, reports are given on major decisions made by the Board. The Committee Meetings provide an opportunity to exchange views concerning matters relating to the running of the Association as well as on matters of general commercial interest.

The Association is managed on a day-to-day basis by Tindall Riley & Co Limited (Griffin Managers). Tindall Riley & Co Limited is a private company owned principally by its directors.

The Association has in place a robust risk management framework that is the responsibility of the Board. The Risk Register sets out in detail the risks faced by the Association and the internal controls that mitigate those risks. It is reviewed and updated in April and October to consider the risk profile and any identified Risk Incidents (adverse events outside expectation) or Emerging Risks (changes in the internal or external environment that change the nature of the Association's risk profile).

The key areas of risk to the Association are set out below:

- Underwriting risk - incorporating premium and reserving risk;
- Market risk - incorporating interest rate risk, equity risk, spread risk and currency risk;
- Counterparty risk - being the risk that a counterparty is unable to pay amounts in full when due;
- Operational risk - being the risk of failure of internal processes or controls.

The Association assesses a wider set of risks, including Reputational and Strategic Risk, and higher levels of risk capital in excess of regulatory minimum, through the Own Risk and Solvency Assessment (ORSA) process.

The Board monitors the development and operation of the risk management framework through the establishment of Risk Appetite Statements that set the amount of risk exposure that is acceptable and the expectation of key control performance. These are given further clarity through policies and procedures, including controls, which are then independently assessed and tested by the Risk, Compliance and Internal Audit functions.

The Association manages the risks relating to the operations of the Association through the Risk Register, which analyses exposures by degree and magnitude of risk. There have been no changes in the methods or assumptions used to calculate these risks. The Association uses 5% (0.5% interest rates) as a reasonable benchmark to measure the impact of market risk.

9.1 Underwriting risk

The Association adopts a conservative approach to underwriting, characterised by selectivity of membership and prudent rating, allied to commercial awareness.

The terms of cover provided by the Association for professional indemnity risks are fixed by the Rules and therefore individual underwriters have no discretion to vary terms or to breach maximum limits of cover.

There are detailed procedures, documented in the Griffin Procedures Manual, for the selection of new Members, which reinforce the risk tolerances in terms of the types of broker firms the Association wishes to attract, and their size, type and nature of business undertaken. This maintains an appropriate mix and balance of Members. There are also procedures for renewing Members. The marketing of the Association consists of a targeted approach to certain firms identified as potential Members. These firms are identified from the Managers' and/or the Members' knowledge of the insurance industry together with introductions made on a personal basis by existing Members and/or other contacts.

Monitoring of compliance with the risk tolerances within underwriting is undertaken by the Senior Underwriting Director, the Chairman of Griffin Managers, the directors of Griffin Managers and the Board of the Association, supported by analysis from the Chief Actuary and the wider actuarial function.

Due to the nature of the Association's business, insurance risk is wholly concentrated on professional indemnity risks. The business is all written in the UK but the Association has exposure to claims liabilities in currencies other than Sterling.

Reinsurance

The reinsurance programme reduces the impact of individual large losses on the Association. The Association retains the first £5m per Member (the Association's retention), above which the market reinsurance arrangements respond up to the £30m maximum limit of cover any one claim. These risk tolerances are set by the Board.

Claims reserves

The Association's risk appetite in respect of claims reserves is low, characterised by prudent estimation of individual claims (on a "worst likely outcome basis") and IBNER reserves set so that the aggregate level of confidence in the adequacy of reserves is in excess of 99.5%.

Beneath the aggregate confidence level, there are informal "targets" for confidence levels by Policy Year. The usual pattern is for the most recent years to be reserved at a higher level, while more developed years may be reserved at lower levels. These reserving percentiles are monitored each quarter and in particular at each year end and where existing reserves fall short of the level acceptable to the Board, additional IBNER provisions are made.

Prudence is monitored over time by measuring the aggregate surplus of actual technical provisions against the average – this figure should be more or less constant over time. Prudence is also monitored by analysing the release of redundancy from technical provisions in respect of claims from prior years. Any significant variation in the figure year on year is investigated.

The adequacy of reserves is monitored by senior management quarterly; by the directors of Griffin Managers, the Audit Group and the Board of the Association at each year end, when a formal report is prepared by the Actuarial Department, setting out the reserves for each policy year and the percentage of confidence for each policy year and an explanation as to how these have moved since the last formal review.

Sensitivity

The Association carries out sensitivity testing on its claim reserves. The results of sensitivity testing are set out below, showing the impact on the surplus/(deficit) before tax, gross and net of reinsurance and equity. The sensitivity analysis assumes that a change in loss ratio is driven by a change in claims incurred and that there are no reinsurance recoveries, and has been calculated excluding the impact of return calls.

	2018	2017
	£	£
Increase in loss ratio by 5 percentage points		
Gross	670,536	765,513
Net	670,536	765,513

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

9.2 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 equity price changes. Market risk arises due to fluctuations in the value of both assets and liabilities.

The investment strategy, which is reviewed periodically, is set by the Board with the assistance of external investment consultants. The strategy reflects the risk appetite of the Association and is designed to maximise return whilst holding a risk level deemed acceptable. The policy allows the investment managers to invest a proportion of the portfolio in assets which carry a greater risk but potentially higher return, such as equities, with the majority in investments such as government bonds, corporate bonds and cash.

The asset allocation of the investment portfolio is monitored by the Managers. Where an asset class exceeds its permitted range, the investment managers will be instructed to carry out a rebalancing exercise, in order to restore the allocation to the correct position.

The Association is exposed to currency risk in respect of liabilities under insurance denominated in currencies other than Sterling. The most significant currencies to which the Association is exposed are Sterling, Euro and US dollars. In order to manage this risk, the Association holds a proportion of its investments in each currency at a level to match expected future claim payments in those currencies.

The table below shows the effects of a 5% increase or decrease in foreign exchange rates on the surplus/(deficit) before tax and equity:

	2018		2017	
	USD	**Euro**	USD	Euro
5% increase in foreign currency bond holding	1,134,465	126,406	656,064	70,306
5% decrease in foreign currency bond holding	(1,134,465)	(126,406)	(656,064)	(70,306)
5% increase in foreign currency cash holding	254,224	244,538	416,897	21,267
5% decrease in foreign currency cash holding	(254,224)	(244,538)	(416,897)	(21,267)

Interest rate risk management

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market rates. Interest rate risk arises primarily from the nature and term of investments held and is managed through the buying and selling of appropriate fixed interest securities of different durations.

The table below shows the effects of a 0.5% increase or decrease in interest on earnings from debt securities:

	2018	2017
	£	£
0.5% increase in interest rates	41,552	39,543
0.5% decrease in interest rates	(41,552)	(39,543)

Equity price sensitivity analysis

The Association is exposed to price risk through its holding of equities. The exposure through equities is limited to a controlled proportion of the overall portfolio. At the year end the holding in equities was 31% (2017 - 31%) of the investment portfolio.

The value of the equity holding at the year end amounted to £38.6m (2017 - £38.3m).

The table below shows the anticipated change in investment market values from a 5% increase or decrease in price:

	2018	2017
	£	£
5% increase in equity price	1,930,994	1,917,126
5% decrease in equity price	(1,930,994)	(1,917,126)
5% increase in corporate bond price	1,718,975	1,688,984
5% decrease in corporate bond price	(1,718,975)	(1,688,984)
5% increase in fixed interest price	1,375,516	1,207,989
5% decrease in fixed interest price	(1,375,516)	(1,207,989)

9.3 Counterparty risks

9.3.1 Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Association.

The key areas where the Association is exposed to credit risk are:

- Amounts recoverable from reinsurance contracts
- Amounts due from Members
- Counterparty risk with respect to cash and investments

The Association is exposed to credit risk from a counterparty failing to comply with its obligations under a contract of reinsurance. The excess of loss reinsurance programme is placed through BMS Group Limited, a Lloyd's broker. The Association has set selection criteria whereby each reinsurer is required to hold a credit rating of at least "A-" at the time the contract is made. The reinsurance is also placed with Lloyd's underwriters (A rated). This is monitored by the Board.

Amounts due from Members represents calls owing to the Association in respect of insurance business written. The Association manages the risk of Member default through a screening process to ensure the quality of new entrants to the Association and the ability to suspend cover and outstanding claims recoveries to Members that fail to settle amounts payable. The Association's policy is that Members should have paid all outstanding calls within 30 days. Amounts written off as bad debts have been minimal over recent years. The Association has no debtor balances that are past due.

The investment policy manages the risk of default by limiting investment in instruments with a credit rating below "A" whilst also ensuring a diversification of the portfolio by asset, market and counterparty. The policy allows for investment in equities, fixed interest securities, corporate bonds and cash. Within these, materially all investments are at least A rated with many relating to government or supranational bodies.

The following tables provide information regarding credit risk exposure for financial assets with external credit ratings (S&P or equivalent).

	2018	2017
	£	£
Debt securities	61,889,825	57,939,459
Reinsurance debtors	11,751	21,403
Taxation	53,074	-
Member and other debtors	38,108	3,409
Deposits with credit institutions	23,219,525	26,422,399
Accrued interest	150,549	149,516
Cash at bank	3,955,250	4,018,093
Total financial assets bearing risk	**89,318,082**	**88,554,279**

An analysis of this exposure by credit rating is shown below		
AAA	21,929,537	11,663,342
AA	16,244,720	22,903,176
A	33,357,523	38,863,073
BBB+ and below	17,748,194	15,121,279
No rating	38,108	3,409
Total financial assets bearing risk	**89,318,082**	**88,554,279**

9.3.2 Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations as they fall due at a reasonable cost. The Association has adopted an investment policy which requires the maintenance of significant holdings in cash funds and short-term deposits to ensure sufficient funds are available to cover anticipated liabilities and unexpected levels of demand. Short-term cash needs are monitored to ensure the most efficient investment of cash balances.

The following table provides a maturity analysis of the Association's financial assets representing the date that a contract will mature, amounts are due for payment or the asset could be realised without significant additional cost, there is no maturity date for equities:

At 30 September 2018	**Short term assets £**	**Within 1 year £**	**1-2 years £**	**2-5 years £**	**Over 5 years £**	**Total £**
Equities and other investments	38,619,883	-	-	-	-	38,619,883
Debt securities and other fixed income securities	35,729,693	2,534,042	4,822,911	12,891,394	5,911,785	61,889,825
Deposits with credit institutions	23,219,525	-	-	-	-	23,219,525
Direct insurance operations - Members	38,108	-	-	-	-	38,108
Other debtors	64,825	-	-	-	-	64,825
Cash at bank	3,955,250	-	-	-	-	3,955,250
Accrued interest	150,549	-	-	-	-	150,549
Total assets	**101,777,833**	**2,534,042**	**4,822,911**	**12,891,394**	**5,911,785**	**127,937,965**

At 30 September 2017	Short term assets £	Within 1 year £	1-2 years £	2-5 years £	Over 5 years £	Total £
Equities and other investments	38,342,515	-	-	-	-	38,342,515
Debt securities and other fixed income securities	36,524,084	1,364,562	2,500,746	9,261,287	8,288,780	57,939,459
Deposits with credit institutions	26,422,399	-	-	-	-	26,422,399
Direct insurance operations – Members	3,409	-	-	-	-	3,409
Other debtors	21,403	-	-	-	-	21,403
Cash at bank	4,018,093	-	-	-	-	4,018,093
Accrued interest	149,516	-	-	-	-	149,516
Total assets	**105,481,419**	**1,364,562**	**2,500,746**	**9,261,287**	**8,288,780**	**126,896,794**

The following is an analysis of the estimated timings of net cash flows by financial liability. The timing of cash flows is based on current estimates and historic trends. The actual timing of cash flows may be materially different from those disclosed below:

At 30 September 2018	Short term liabilities £	Within 1 year £	1-2 years £	2-5 years £	Over 5 years £	Total £
Gross outstanding claims		3,210,004	3,622,157	18,112,987	8,913,314	33,858,462
Direct insurance operations – Members	6,004,632	-	-	-	-	6,004,632
Other creditors	500,514	-	-	-	-	500,514
Total liabilities	**6,505,146**	**3,210,004**	**3,622,157**	**18,112,987**	**8,913,314**	**40,363,608**

At 30 September 2017	Short term *liabilities* £	Within 1 year £	1-2 years £	2-5 years £	Over 5 years £	Total £
Gross outstanding claims		2,690,083	2,926,076	15,432,635	7,638,984	28,687,778
Direct insurance operations – Members	6,061,191	-	-	-	-	6,061,191
Other creditors	512,483	-	-	-	-	512,483
Total liabilities	**6,573,674**	**2,690,083**	**2,926,076**	**15,432,635**	**7,638,984**	**35,261,452**

9.4 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 Association documents all key processes and controls in a procedures manual. This manual is embedded into the organisation, updated on a continuous basis by senior staff 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 Tindall Riley & Co Limited and the Audit Group. A staff handbook contains all key policies that have also been documented.

9.5 Limitation of the sensitivity analyses

The sensitivity analyses in the section above show 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.

9.6 Capital risk management

In order to monitor capital requirements, the Board reviews the capital position on a quarterly basis and the Managers review performance monthly.

The Association maintains an efficient capital structure, consistent with the Association's risk profile. The Association's capital is represented by net assets. The Association's objective is to maintain sufficient capital to ensure it is able to continue as a going concern and meet regulatory requirements.

The Board's policy is to develop and maintain a strong and flexible capital base in order to meet the capital requirements of the Prudential Regulation Authority ('PRA'). The Solvency Capital Requirement ('SCR') is monitored and updated annually, although if anything significant (such as a large claim or investment movement) occurs in the year, it is updated immediately. Other capital measures used by the Board include an Economic Capital Benchmark, which is also monitored against actual capital resources.

The Association is regulated by the PRA and Financial Conduct Authority ('FCA'). Throughout the period the Association complied with the regulators' capital requirements.

The Solvency II regime has been effective from 1 January 2016 and establishes a new set of EU-wide capital requirements, risk management and disclosure standards. The Association is subject to these regulations. The Association is required to meet a SCR which is calibrated to seek to ensure a 99.5% confidence of the ability to meet obligations over a 12 month time horizon. The Association calculates its SCR in accordance with the standard formula prescribed in the Solvency II regulations as the assumptions underlying the standard formula are considered to be a good fit for the Association's risk profile. In the period leading up to Solvency II's implementation, the Association managed its capital having regard to Solvency II's capital requirements and definition of capital.

9.7 Fair value hierarchy

Fair value is the amount for which an asset or liability could be exchanged between willing parties in an arm's length transaction. Fair values are determined at prices quoted in active markets. In some instances, such price information is not available for all instruments and the Association applies valuation techniques to measure such instruments. These valuation techniques make maximum use of market observable data but in some cases the Managers estimate unobservable market inputs within the valuation model. There is no standard model and different assumptions would generate different results.

Fair values are subject to a control framework designed to ensure that input variables and output are assessed independently of the risk taker. These inputs and outputs are reviewed and approved by the Managers. The Association has minimal exposure to financial assets or liabilities which are valued at other than quoted prices in an active market.

The classification criteria and their application to the Association can be summarised as follows:

- The unadjusted quoted price in an active market for identical assets or liabilities that the Association can access at the measurement date (Level 1)
- Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly (Level 2)
- Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability (Level 3)

	Deposits with credit institutions		**Corporate bonds**		**Fixed Interest**		**Equity and other investments**	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Group	**£**	£	**£**	£	**£**	£	**£**	£
Level 1	**23,219,525**	26,422,399	**-**	-	**-**	-	**38,619,883**	38,342,515
Level 2		-	**34,379,509**	33,779,680	**27,510,316**	24,159,778	**-**	-
Level 3	**-**	-	**-**	-	**-**	-	**-**	-
	23,219,525	26,422,399	**34,379,509**	33,779,680	**27,510,316**	24,159,778	**38,619,883**	38,342,515

10. Related party transactions

The Board, comprising up to 13 representatives of the membership of the Association and two Manager nominees, is appointed to oversee the management of the Association on behalf of the Members. However, because of the mutual nature of the Association, all Members, being both insurer and insured, are in effect related parties.

The aggregate of transactions with Members is disclosed in the financial statements and these are the only transactions between the Association and the Members.

Tindall Riley & Co Limited (trading as Griffin Managers) manages the Association and received £3,755,000 (2017 - £3,622,000) in respect of management fees and risk management services.

11. Subsequent events

There are no subsequent events which require adjustment or disclosure in the financial statements. The financial statements were authorised for issue by the Board on 13 December 2018.