MUNICIPAL MUTUAL INSURANCE LIMITED

(In Scheme of Arrangement)

Annual Report and Accounts

for the year ended
30 June 2014

Registered number: 76678 England

Website: www.mminsurance.co.uk

Municipal Mutual Insurance Limited

(In Scheme of Arrangement)

Annual Report and Accounts
for the year ended 30 June 2014

CONTENTS

Municipal Mutual Insurance Limited
(In Scheme of Arrangement)

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of the Company will be held at the Taj Hotel, Buckingham Gate, London SW1 on Tuesday, 7 October 2014 at 2.15pm for the following purposes:

Ordinary resolutions

1. To receive and adopt the Annual Report and Accounts for the year ended 30 June 2014.

2. To re-elect Mr I A Willett as a Director.

3. To re-appoint PricewaterhouseCoopers LLP as the auditors of the Company.

4. To authorise the Directors to fix the remuneration of the auditors.

Special resolution

5. That Article 1(B) of the Articles of Association of Municipal Mutual Insurance Limited ("the Company") be amended by deleting the word "two" and substituting the word "one".

By order of the Board
T C Groocock
Company Secretary
1 September 2014

Registered Office
29 Buckingham Gate
Westminster
London
SW1E 6NF

Note:

Any person entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his or her stead. A proxy must be a member of the Company. A form of proxy is enclosed. This form of proxy, duly completed, and the power of attorney (if any) under which it is signed, must reach the registered office of the Company not later than 2.15pm on 5 October 2014.

Municipal Mutual Insurance Limited
(In Scheme of Arrangement)

SCHEME ADMINISTRATOR

G H Hughes, FCA (Partner Ernst & Young LLP)

DEPUTY SCHEME ADMINISTRATOR

B Cairns, ACA (Partner Ernst & Young LLP)

BOARD OF DIRECTORS

T C Groocock, FCA
I A Willett (Claims Director)
R G Bax, FCA (Finance Director)

Company Secretary

T C Groocock, FCA

CREDITORS' COMMITTEE MEMBERS AND THEIR ORGANISATIONS

M B A Walker, Borough Solicitor and Assistant Director of Administration (Chairman)	London Borough of Wandsworth Council
J Butler	National Housing Federation
H Dunn, CPFA	City of Edinburgh Council
K Jefferies	Financial Services Compensation Scheme
J Jopling, CPFA	Gateshead Council
D J Marshall-Rowan, LLB(Hons)	Leicestershire County Council
A Prior, MA(Cantab)	Surrey County Council
Ms P Tinnelly	Hertfordshire County Council

SCHEME ADMINISTRATOR'S STRATEGIC REVIEW

Introduction

I was appointed Scheme Administrator under the Scheme of Arrangement ("the Scheme") entered into by the Company and 729 of its principal insurance creditors ("the Scheme Creditors") under section 425 of the Companies Act 1985 (now section 899 of the Companies Act 2006), which was approved by Order of the Court on 5 January 1994 and came into effect on 21 January 1994.

The Scheme was a contingent Scheme, being held in reserve until the occurrence of a Trigger Event. Until that time, the Directors continued to carry on the Company's business without interruption and I attended Board meetings as an observer only.

The Scheme was triggered by the Directors on 13 November 2012 (the "Trigger Date") because they could no longer foresee a solvent run-off with full payment of agreed claims. This was mainly attributable to the adverse effect on the Company of the judgement handed down by the Supreme Court on 28 March 2012 in the Employers' Liability Policy Trigger Litigation, which related to the interpretation of the wordings of the Company's EL policies in respect of mesothelioma claims.

Since the Trigger Date, I have exercised general powers of management and control of the business, affairs and assets of the Company, all of such powers being in substitution for, and to the exclusion of, the powers of the Directors.

The Trigger Event denoted the commencement of the Levy Period under the terms of the Scheme. During the Levy Period my responsibilities are to:

(a) manage the run-off of the Company's business;

(b) hold and, in due course, realise the assets of the Company and apply them for the benefit of the Scheme Creditors and the Financial Services Compensation Scheme (FSCS), and other creditors of the Company in accordance with the Scheme; and

(c) supervise and ensure the carrying out of the Scheme.

Results for the year

The loss of £47.4 million for the year is very disappointing. It is primarily due to a significant worsening in the estimated costs of future mesothelioma, deafness and abuse claims by the Company's actuarial advisers, KPMG LLP. The Company has followed a consistent policy by including 85% of the gross mid-range figure for IBNR (incurred but not reported) claims in its accounts, as calculated by KPMG.

Levy on Scheme Creditors

After the Trigger Event occurred, I reviewed the Company's financial position. As a result of my review and in accordance with Part 5 of the Scheme I signified my intention to impose a Levy of 15% on Scheme Creditors, based on claims payments made since 30 September 1993, after deduction in each case of the first £50,000. The percentage was agreed with the members of the Creditors Committee in February 2013.

The Levy Notices were issued in January 2014, after the detailed systems and procedures required to handle claims payments to Scheme Creditors at 85% of the agreed settlement value following the issue of the Levy Notices had been devised and tested.

The total amount of Levy raised was £104.5 million, of which £103.0 million has been collected to date, equivalent to 98.6%. Under the terms of the Scheme, I shall review the rate of Levy and payment percentage in each calendar year. At the present time, although the run-off projection shows an increased deficit at the conclusion of the run-off period, I am of the view that it is necessary to allow further time to elapse before I consider whether the Levy requires to be increased.

Investment policy

The proceeds of the Levy have been invested by the Company's investment managers, Aviva Investors, who continue to follow a risk-averse strategy on behalf of the Company. Over 76% of the portfolio is now invested in gilts, conventional and index-linked, with the balance remaining invested in corporate bonds and floating rate notes. Receipt of the Levy proceeds has enabled the Company's assets and liabilities to be fully matched until the year 2025.

Property

I have commenced a search for alternative premises for the Company. Its existing building is unsuitable for its future operations and in due course it is the intention to sell the freehold premises at 29 Buckingham Gate, which the Company has owned and occupied since December 2000. The intention is to relocate to serviced office accommodation in central London, which will be convenient for the carrying on of the Company's business, and on which a lease for an appropriate term will be negotiated.

Creditors Committee

Meetings of the Creditors Committee were held on 8 October 2013 and 18 March 2014, at which Committee members were updated fully on the progress of the run-off of the Company's business. In addition, I liaise from time to time with the Chairman of the Committee on a personal basis. My thanks are due to the Committee members for their continuing support in my role as Scheme Administrator, and in particular to The Rev W J ("Bill") Church, who was Chairman of the Committee since it was originally formed in 1994 until he retired after the meeting on 8 October 2013. I am fortunate that Mr Martin Walker has agreed to succeed Bill as Chairman of the Committee. He has also served as a member of the Committee since its inception.

The next meeting of the Creditors' Committee will take place on 7 October 2014, prior to the Annual General Meeting.

Principal risks and uncertainties

In my opinion the key business risks affecting the Company are as follows:

1. **Claims volatility**

   Claims volatility represents a continuing threat to the Company. Claims activity is continually monitored, with numbers and values both of newly reported claims and claims settlements being reported on a monthly basis. The provision for claims incurred but not reported is determined after careful consideration of the recommendations made by the Company's actuarial advisers, KPMG, at each year end. The uncertainty in this area is accentuated by changes in law and legal interpretation including notably those considered in the Employers' Liability Policy Trigger Litigation but any significant worsening in the estimated cost of claims can be covered by revising the original Levy percentage.

2. **Investments – market and counterparty risk**

   Throughout the run-off period the Company has followed a risk-averse investment strategy, as set out in the original discretionary management agreement with its fund managers Aviva Investors Limited. This strategy is "to acquire secure assets which will generate income and capital growth to meet as far as practicable the cost of current and future liabilities pursuant to the insurance business of the Company".

   I am in the process of discussing a new discretionary investment management agreement with Aviva Investors together with an agreement for a new custodian of the Company's securities in accordance with current regulatory requirements.

   As the Company has no premium income, the underlying security of the investment portfolio is paramount to ensure that the income generated is available to contribute towards payment of claims and operating expenses. The portfolio is invested in gilts, corporate bonds and floating rate notes, with the remainder in cash deposits.

   Counterparty risk is reduced by imposing a limit on deposits placed with any single institution, and by permitting deposits to be placed only with double-A and triple-A rated institutions. The assets of the Company are invested to match the estimated timing of the payment obligations. By so doing the investment risk is further reduced. Fluctuations in the value of longer dated securities will ultimately be eliminated as and when the stocks are redeemed at maturity.

3. **Outsourcing and business interruption**

   The Company has received assurances from third parties, in particular Zurich and Aviva Investors, that appropriate recovery plans are in existence in the event of unforeseen extended interruptions to the services which are provided to the Company.

4. **Staffing**

The Company takes action to ensure that staffing levels remain in line with its level of activity and to this end has appropriate terms and conditions of employment.

Key performance indicators (KPIs)

The following KPIs are relevant to the Company's performance following the Scheme trigger:

1. **Collection of Levy from Scheme Creditors**

   After Levy Notices were issued, collection of the outstanding amounts was closely monitored to ensure that as far as possible, Scheme Creditors remitted the amounts due in accordance with the terms of settlement. The sooner the Levy is received by the Company, the sooner the funds are invested and hence the greater will be the interest earned. Unless a Scheme Creditor has a genuine query in relation to the amount of Levy due, interest on outstanding amounts is charged in accordance with the terms of the Scheme at 4% per annum over Nat West base rate.

2. **Outstanding claims**

   A comparison of the number of outstanding claims at the beginning and end of the year, after allowing for newly reported claims in the year, gives an indication of the progress made towards completion of the run-off. At 30 June 2013, there were 2571 outstanding reported claims. In the year ended 30 June 2014, there were 1410 newly reported claims, and the number of outstanding reported claims at that date was 3252.

3. **Investment income**

   The statistics relating to the investment income for the past two years are as follows:

	2014 £000	2013 £000
Investment funds at 1 July	105,310	125,369
Investment funds at 30 June	196,931	105,310
Average	151,120	115,339
Investment income	4,287	3,957
Investment income as a percentage of average investment funds	2.84%	3.43%

Outlook

Further to the collection of the Levy of 15% imposed by me on Scheme Creditors in accordance with the Levy Notices the Company will continue to pay claims at 85% of the agreed settlement amount. This arrangement will continue until I deem necessary to revise the Levy percentage either upwards or downwards as required.

Staffing

I should like to take this opportunity of expressing my gratitude to all the Directors and staff for their efforts in what has been a difficult transitional period for the Company. My best wishes go to the former Chairman, Sir John Lovill, who left the Company on 31 August 2013, and to those who will be leaving the Company after the Annual General Meeting, all of whom have completed many years of long and loyal service to the Company. Efforts are being made to recruit new staff, and recently Mr Rod Luck has joined the Company from Zurich as Technical Claims and Reinsurance Manager.

Gareth Hughes
Scheme Administrator

1 September 2014

REPORT OF THE DIRECTORS

The Directors present their report and the audited accounts of the Company (registered number: 76678 England) for the year ended 30 June 2014.

The Company is a company limited by guarantee and has no share capital. It is owned by its members.

Activities

The principal activity of the Company during the year continued to be the run-off of its general insurance liabilities on policies issued up to 30 September 1992, the date on which the Company ceased to write general insurance business.

Scheme of Arrangement

The Company is subject to a Scheme of Arrangement ("the Scheme") under section 425 of the Companies Act 1985 (now section 899 of the Companies Act 2006) which became effective on 21 January 1994. The Scheme was held in reserve until 13 November 2012. On that date, the Directors resolved that a solvent run-off with full payment of agreed claims could no longer be foreseen and the Scheme was triggered, with responsibility for the Company's management passing to the Scheme Administrator, Mr Gareth Hughes of Ernst & Young LLP.

The Scheme trigger is irrevocable and the Directors undertook this course of action after concluding that it was in the best interests of Scheme Creditors, i.e. 729 of the largest insurance creditors who together formed the other party to the Scheme. In the opinion of the Directors, there were no viable alternatives to avoiding insolvent liquidation which might have been more advantageous to creditors.

The main consequences of triggering the Scheme of Arrangement are set out in the Scheme Administrator's Strategic Review on page 4.

Results for, and review of, the year to 30 June 2014

The results for the year ended 30 June 2014 are set out in the accounts on pages 12 to 21 and show a loss of £47.4 million. The loss on the technical account was £45.7 million which was attributable mainly to the Employers Liability class of business, the largest part of which is the mesothelioma account. Significant losses were also sustained on deafness claims. The Public Liability account also showed a loss for the year, mainly due to serious adverse development on the abuse account. The Company's outstanding book of business is comprised substantially of Employers' Liability and Public Liability claims, where the Company continues to have significant risk exposure under the categories referred to above.

In accordance with the Company's normal practice, the Directors received and accepted actuarial advice from KPMG LLP (KPMG) to assist in establishing the undiscounted claims provisions as at 30 June 2014. This advice took into account all the relevant factors which affect MMI's liability in relation to asbestos related disease and other claims and the estimated future incidence thereof. The Scheme Administrator agreed with the decision taken by the Board with regard to the level of outstanding claims provisions to be included in the accounts for the year ended 30 June 2014.

Claims handling responsibilities continue to be shared between the Company and Zurich under the 1995 agreement. This service is provided, free of charge to the Company, until the conclusion of the run-off, and close liaison is maintained between the Company's claims staff and the claims teams of Zurich to ensure that service standards are maintained.

Since the triggering of the Scheme, work has been completed, in conjunction with Zurich, to develop computer systems capable of handling the payment of future claims at 85% of the agreed settlement value.

The loss on the non-technical account was £1.7 million for the year ended 30 June 2014, compared to a profit of £15.4 million for the previous year. The profit for the previous year was largely due to the writing back of a provision of £15.5 million for run-off costs which was no longer required following the triggering of the Scheme.

No provision has been made for payment of any part of the £30 million commission for risk to Scheme Creditors as such a payment arises only in the event of a solvent run-off.

Consolidated accounts for the year ended 30 June 2014 have not been prepared. This is consistent with the accounting policy followed in previous accounting periods because the Company has no day to day control over the assets and management of its sole remaining subsidiary undertaking, Municipal General Insurance

Limited (MGI). MGI remains in provisional liquidation, which commenced on 9 March 1994 and is subject to a Scheme of Arrangement which was sanctioned by the Court under section 425 of the Companies Act 1985 (now section 899 of the Companies Act 2006) on 18 December 2003 and which became effective on 15 January 2004. The Company has no expectation of a distribution at the end of the liquidation process.

Directors

A list of the present Directors is shown on page 3, all of whom served throughout the year.

Mr T C Groocock retires by rotation in accordance with Article 34 of the Articles of Association, but is not seeking re-election.

Mr R G Bax is leaving the Company on 7 October 2014.

Mr I A Willett retires by rotation in accordance with Article 34 of the Articles of Association and, being eligible, is recommended for re-election.

In addition, Sir John Lovill, who served as Chairman of the Company with distinction since 1 December 1993, left on 31 August 2013.

Directors' interests

Mr T C Groocock is a member of the Company and thus entitled to participate in any surplus upon the final winding-up of the Company after payment of up to £30 million to Scheme Creditors as a commission for risk, for which no provision has been made in the accounts at 30 June 2014 because such a payment only arises in the event of a solvent run-off.

Special resolution to be proposed to the Annual General Meeting

Members will note from the Notice of Meeting on page 2 that a special resolution is to be proposed at the Annual General Meeting to reduce the minimum number of Directors currently prescribed by Article 1 (B) of the Company's Articles of Association from two to one.

The purpose of this resolution is to simplify future administration of the Company during the Levy period.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements including a strategic report 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 prepared financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 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 judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of disclosure of information to auditors

In the case of each of the persons who is a Director at the date of approval of this report:

(a) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(b) the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as the auditors of the Company will be proposed at the Annual General Meeting.

Approved by the Board on 1 September 2014 and signed on its behalf.

T C Groocock
Company Secretary

DIRECTORS' STRATEGIC REPORT

Since the Scheme of Arrangement was triggered by the Directors on 13 November 2012 control of the Company passed to the Scheme Administrator who has exercised general powers of management and control of the business, affairs and assets of the Company, all of such powers being in substitution for, and to the exclusion of, the powers of the Directors. The Strategic Report with which the Directors fully concur is included in the Scheme Administrator's Strategic Review on page 4.

Approved by the Board on 1 September 2014 and signed on its behalf.

T C Groocock
Company Secretary

REPORT OF THE INDEPENDENT AUDITORS

Independent auditors' report to the members of Municipal Mutual Insurance Limited

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 30 June 2014 and of its loss and cash flows 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.

This opinion is to be read in the context of what we say in the remainder of this report.

Emphasis of matter – significant uncertainties in estimating gross claims outstanding

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in Note 13 to the financial statements. Note 13 to the financial statements concerns the significant uncertainties in estimating gross claims outstanding. The ultimate cost of claims could vary materially from the amounts recorded in the financial statements.

What we have audited

The financial statements, which are prepared by Municipal Mutual Insurance Limited, comprise:

- the balance sheet as at 30 June 2014;
- the profit and loss account for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves 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 fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Thomas Robb (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London

1 September 2014

(a) The maintenance and integrity of the Municipal Mutual Insurance Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

MUNICIPAL MUTUAL INSURANCE LIMITED
(In Scheme of Arrangement)

PROFIT AND LOSS ACCOUNT
TECHNICAL AND NON-TECHNICAL ACCOUNT
for the year ended 30 June 2014

	Note	2014		*2013*	
		£000	£000	*£000*	*£000*
Technical account					
Claims (paid)/recovered					
Gross amount		(7,834)		*82,457*	
Reinsurers' share		2,544		*424*	
Net claims (paid)/recovered		(5,290)		*82,881*	
Change in provision for claims					
Gross amount		(42,203)		*25,742*	
Reinsurers' share		1,750		*–*	
Change in net provision for claims		(40,453)		*25,742*	
Claims (incurred)/recovered net of reinsurance	3		(45,743)		*108,623*
Balance on the technical account for general business			(45,743)		*108,623*
Non-technical account					
Investment income					
Income from investments		4,287		*3,957*	
Loss on realisation of investments		(229)		*(91)*	
			4,058		*3,866*
Unrealised loss on investments			(2,626)		*(1,611)*
Investment expenses and charges			(86)		*(130)*
Other charges	4		(2,992)		*(2,230)*
Run-off provision			–		*15,523*
(Loss)/profit on ordinary activities before tax			(47,389)		*124,041*
Tax on (loss)/profit on ordinary activities	9		–		*–*
(Loss)/profit on ordinary activities after tax	16		(47,389)		*124,041*

All of the above items relate to discontinued activities.

The Company has no recognised gains and losses other than those included in the results above and therefore no separate statement of recognised gains and losses has been presented.

MUNICIPAL MUTUAL INSURANCE LIMITED
(In Scheme of Arrangement)

BALANCE SHEET
as at 30 June 2014

	Note	**2014**		*2013*	
		£000	**£000**	*£000*	*£000*
Fixed assets					
Land and buildings	10		**1,712**		*1,712*
Investments					
Other financial investments	11		**194,338**		*101,851*
			196,050		*103,563*
Reinsurers' share of technical provisions					
Claims outstanding	13		**14,000**		*12,250*
Debtors					
Direct insurance operations		**186**		*186*	
Reinsurance operations		**358**		*1,053*	
Other debtors	14	**3,621**		*101,644*	
			4,165		*102,883*
Other assets					
Cash at bank and in hand			**2,593**		*3,459*
Total assets			**216,808**		*222,155*
Technical provisions					
Gross claims outstanding	13	**(291,727)**		*(249,524)*	
Creditors					
Other creditors	15	**(1,262)**		*(1,423)*	
Total liabilities			**(292,989)**		*(250,947)*
Net liabilities			**(76,181)**		*(28,792)*
Accumulated loss	16		**(76,181)**		*(28,792)*

Gareth Hughes
Scheme Administrator

The financial statements on pages 12 to 21 were approved by the Board of Directors on 1 September 2014 and signed on its behalf by

T C Groocock
Director & Company Secretary

R G Bax
Finance Director

MUNICIPAL MUTUAL INSURANCE LIMITED
(In Scheme of Arrangement)

CASH FLOW STATEMENT
for the year ended 30 June 2014

	Note	2014 £000	2014 £000	2013 £000	2013 £000
Net cash inflow/(outflow) from operating activities	17(i)		**90,934**		*(22,500)*
Return on investments and servicing of finance					
Interest received	17(ii)		**3,542**		*4,143*
Net cash inflow/(outflow)			**94,476**		*(18,357)*
Cash flows were applied as follows:					
Decrease in cash holdings			**(866)**		*(3,327)*
Net portfolio investments	17(ii)				
UK Gilts and debentures and floating rate notes			**95,342**		*(15,030)*
Net application of cash flows			**94,476**		*(18,357)*
Movement in opening and closing portfolio investments net of financing	17(iii)				
Net cash (outflow) for year		**(866)**		*(3,327)*	
Cash flow					
Portfolio investments		**95,342**		*(15,030)*	
Movement arising from cash flows		**94,476**		*(18,357)*	
Changes in market value and exchange rates		**(2,855)**		*(1,702)*	
Total movement in portfolio investments net of financing			**91,621**		*(20,059)*
Portfolio investments net of financing at 1 July			**105,310**		*125,369*
Portfolio investments net of financing at 30 June			**196,931**		*105,310*

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

1 Accounting policies

The financial statements have been prepared in accordance with:

(i) the provisions of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance companies, and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers dated December 2005 as amended in December 2006; and

(ii) applicable accounting standards together with the historical cost accounting rules modified to include the revaluation of certain assets.

A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of preparation

(a) Going concern

The Company ceased writing insurance business on 30 September 1992. In order to ensure an orderly run-off, a contingent Scheme of Arrangement (the "Scheme") under section 425 of the Companies Act 1985 (now section 899 of the Companies Act 2006) was put in place and became effective on 21 January 1994. Under the terms of the Scheme, the Directors continued to pay all creditors in full until they resolved on 13 November 2012 that a solvent run-off with full payment of agreed claims could no longer be foreseen. On that date, the Scheme was triggered and responsibility for the Company's management passed to the Scheme Administrator, Mr Gareth Hughes of Ernst & Young LLP.

The Scheme trigger is irrevocable and the Directors undertook this course of action only after concluding that there were no viable alternatives to avoiding insolvent liquidation which might have been more advantageous to creditors than triggering the Scheme.

As a consequence of triggering the Scheme, up to 729 of the largest insurance creditors, the Scheme Creditors, of the Company have undertaken to accept partial payment of agreed claims, i.e. at less than 100% of the full settlement amount. Recoveries in respect of past claims paid since 30 September 1993 will be achieved by means of one or more percentage Levies imposed by the Scheme Administrator on Scheme Creditors after having undertaken a review of the Company's assets and liabilities as at the trigger date of 13 November 2012 and subsequently in each calendar year. The first £50,000 of claims payments to each Scheme Creditor is exempt from Levy. Future claims payments will be reduced by equivalent percentages. Creditors other than Scheme Creditors will continue to be paid in full throughout the run-off period.

The Scheme Administrator has imposed an initial Levy on Scheme Creditors of 15% based on claims payments since 30 September 1993, and this Levy has raised £104.5 million. The provision for outstanding claims (including claims incurred but not reported) has also been reduced by 15%, equivalent to £49.2 million.

Because of the need to ensure that the computer systems both of the Company and Zurich, who continue to be responsible for claims handling free of charge on the Company's behalf pursuant to the agreement concluded in 1995, are able to handle claims payments at less than 100%, the Levy Notices were not issued to Scheme Creditors until 1 January 2014.

In arriving at the Levy percentage of 15%, assumptions have been made with regard to the level of provision made for outstanding claims, future investment income and operating costs, all of which factors are subject to varying degrees of uncertainty. In the event of a deterioration in the Company's financial position in the future it may become necessary for a further Levy on Scheme Creditors to be raised by the Scheme Administrator.

The Directors are of the opinion that the balance sheet deficit at 30 June 2014 will be eliminated by the end of the run-off period and that it is therefore appropriate for the financial statements to continue to be prepared on the going concern basis.

(b) Non-consolidation of Municipal General Insurance Limited

As in prior years the Company's wholly-owned subsidiary Municipal General Insurance Limited (MGI) has not been consolidated because of severe long-term restrictions which substantially hinder the exercise of the parent undertaking's rights over MGI's assets and management. These restrictions arose upon the appointment of joint provisional liquidators to MGI on 9 March 1994. MGI is now subject to a Scheme of Arrangement under section 425 of the Companies Act 1985 (now section 899 of the Companies Act 2006) which, pursuant to an order of the High Court dated 18 December 2003, became effective on 15 January 2004.

The most recent published accounts for MGI for the year to 31 December 2013 showed zero net worth. The Company has no obligation to support or fund MGI and therefore its investment in MGI is valued at nil at 30 June 2014 (2013: nil).

Basis of accounting

The technical result is determined on an annual basis and represents the incurred cost of claims, commissions and related expenses, less the Levy imposed on Scheme Creditors by the Scheme Administrator.

1. Accounting policies *continued*

Claims (incurred)/recovered

Claims (incurred)/recovered comprise claims and related expenses paid in the year and changes in provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses. Claims recovered include the amount receivable from Scheme Creditors in respect of the Levy imposed by the Scheme Administrator. Outstanding claims, including provisions for claims incurred but not reported have been reduced to reflect the effect of the Levy. Where applicable, deductions are made for recoveries.

The provision for outstanding claims comprises the estimated cost of claims notified but not settled at the date of the balance sheet together with the estimated cost of claims incurred but not reported at that date, after reduction to reflect the effect of the Levy. Claims provisions are calculated gross of any reinsurance recoveries and are not discounted. Independent actuarial advice has been received to assist the Directors in establishing the provision for claims incurred but not yet reported at the date of the balance sheet. Note 13 gives further details of the basis on which provision is made.

Reinsurance

Reinsurers' share of technical provisions are estimates based upon gross provisions for outstanding claims, having due regard to collectability (note 13). Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of claims reported to date, adjusted to reflect changes in the nature and extent of the Company's reinsurance programme over time. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each of the reinsurance companies. The reinsurers' share of claims incurred, in the profit and loss technical account, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the period.

Provision for commission for risk payable to Scheme Creditors

Under the terms of the Scheme of Arrangement, which was sanctioned by the Court in January 1994, the commission for risk of up to £30 million due to Scheme Creditors is payable at the conclusion of the run-off, when all other liabilities have been met in full. The commission represents compensation to the Scheme Creditors for assuming the risk under the Scheme of having to make payments to the Company in order to satisfy the imposition of a Levy by the Scheme Administrator, or of having insurance claims payments reduced. In the opinion of the Directors the provision for commission for risk payable to Scheme Creditors is a liability in accordance with Financial Reporting Standard 25. The liability is recognised to the extent that net assets are available to pay the commission after all other liabilities of the Company have been met.

Deferred taxation

In accordance with Financial Reporting Standard 19 deferred tax has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation, or a right to pay less taxation, in the future. An asset is not recognised to the extent that the transfer of economic benefits in the future is uncertain. Deferred tax assets and liabilities are not discounted.

Land and buildings

Land and buildings are valued by the Directors with the assistance of independent advice.

Investments

Listed investments are stated at market value at the balance sheet date.

Investment income

Interest is included in the profit and loss non-technical account on an accruals basis.

Investment gains and losses

Realised gains and losses on investments are calculated as the difference between sales proceeds and the cost of acquisition, together with any diminution in the value of the Company's assets which is considered to be permanent.

The movement in unrealised gains and losses on investments represents the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current year. The aggregate realised and unrealised surplus or deficit is taken to the profit and loss non-technical account.

Pensions

The Company operates a Group Personal Pension Plan, a defined contribution scheme. Contributions to the Group Personal Pension Plan are made by the Company based upon amounts of salary sacrificed by each employee at the employee's sole discretion and are charged to the profit and loss non-technical account as incurred.

2. Effects of Triggering the Scheme of Arrangement

After carrying out a review of the Company's assets and liabilities as at the trigger date of 13 November 2012, in January 2014 the Scheme Administrator imposed an initial Levy on Scheme Creditors amounting to £104.5 million being 15% of aggregate claims payments made since 30 September 1993, after deduction of the first £50,000 of such payments to each Scheme Creditor which is free of Levy. An estimate of £100 million was included in the accounts for the year ended 30 June 2013. The Levy has been accounted for through claims (paid)/recovered on the profit and loss account, with the balance of Levy outstanding of £1.2 million recognised in other debtors on the balance sheet. The provision for outstanding claims, including claims incurred but not reported, was reduced in line with the Levy and the Company's liabilities fell by £9.0 million (2013: £40.2 million). This has been accounted for through the gross change in provision for claims on the profit and loss account, with the reduction in liabilities being recognised within gross claims outstanding on the balance sheet.

3. Segmental information

		2014			*2013*	
		Reinsurance			*Reinsurance*	
(Incurred)/recovered claims	**Gross**	**ceded**	**Net**	*Gross*	*ceded*	*Net*
	£000	**£000**	**£000**	*£000*	*£000*	*£000*
Third party liability	**(64,147)**	**4,294**	**(59,853)**	*(32,035)*	*424*	*(31,611)*
Other direct	**(26)**	**–**	**(26)**	*19*	*–*	*19*
Levy adjustment	**14,136**	**–**	**14,136**	*140,215*	*–*	*140,215*
	(50,037)	**4,294**	**(45,743)**	*108,199*	*424*	*108,623*

No note on movement in prior years' claims provisions has been presented because the Company is in run-off and therefore such information is represented by the profit and loss account shown on page 12. All business results from contracts concluded in the UK.

4. Other charges

	2014	*2013*
	£000	*£000*
Administration costs	**2,992**	*2,764*
Employers Liability Policy Trigger Litigation costs	**–**	*(534)*
Total other charges	**2,992**	*2,230*

Claims handling for the Company is undertaken by Zurich at no charge and therefore all expenses have been included in the profit and loss non-technical account.

5. Employee information

The monthly average number of persons (including executive Directors) employed by the Company during the year was 6 (2013: 6). All staff were employed in the run-off administration of the Company.

Staff costs for the above persons were:

	2014	*2013*
	£000	*£000*
Salaries, including amounts sacrificed as pension contributions (Note 7)	**593**	*746*
Social security costs	**66**	*74*
	659	*820*

6. Directors' emoluments

	2014	*2013*
	£000	*£000*
The aggregate emoluments paid to Directors in respect of qualifying services were	**704**	*765*
The amount included above in respect of the highest paid Director was	**299**	*260*
	Number	*Number*
The number of Directors who were accruing benefits under the defined contribution pension scheme was:	**2**	*3*

The emoluments of Directors are subject to the approval of the Scheme Administrator from 13 November 2012. At 30 June 2014, the Board comprised 3 executive Directors (2013: 3).

An analysis of the remuneration package of each executive Director is set out below:

	Salary £000	**Benefits in kind £000**	**Total 2014 £000**	*Total 2013 £000*
A C D Castle (Left 31 May 2013)	–	–	–	*260*
R G Bax (Appointed 1 June 2013)	**140**	**3**	**143**	*12*
T C Groocock	**53**	**7**	**60**	*64*
I A Willett	**199**	**3**	**202**	*221*
	392	**13**	**405**	*557*

Non-executive Directors

The Company has had no non-executive Directors since 31 August 2013.

The charge in the accounts for individual non-executive Directors is set out below:

	Salary £000	**Compensation for loss of office £000**	**Total 2014 £000**	*Total 2013 £000*
Sir John Lovill (Chairman, left 31 August 2013)	**20**	**273**	**293**	*118*
C J Winslet (Left 31 December 2012)	–	–	–	*82*
	20	**273**	**293**	*200*

In addition to their fees, non-executive Directors were eligible for reimbursement of expenditure incurred on the provision of private medical insurance and in attendance at Board meetings.

7. Pensions

The Company operates a Group Personal Pension Plan, a defined contributions scheme. Contributions to the Group Personal Pension Plan are made by the Company based upon amounts of salary sacrificed by each employee at the employee's sole discretion. Amounts shown in Note 6 above in respect of executive Directors are the gross salaries to which executive Directors are entitled before deductions by way of salary sacrifice. Contributions made for death in service benefits for both executive Directors and staff during the year amounted to £16,000 (2013: £18,000).

8. Auditors' remuneration

	2014	*2013*
	£000	*£000*
Fees payable to the Company's auditor for the audit of the Company	**153**	*136*
Audit related assurance services	**78**	*63*
Tax advisory services	**27**	*35*
Insolvency services	–	*8*
	258	*242*

9. Tax on (loss)/profit on ordinary activities

The standard rate of Corporation Tax in the UK changed from 23% to 21% with effect from 1 April 2014. The relevant deferred tax balances have been recalculated at 21%. The differences are explained below:

	2014 £000	*2013 £000*
(Loss)/profit on ordinary activities before tax	(47,389)	*124,041*
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 22.50% (2013: 23.75%)	(10,660)	*29,460*
Unrecognised deferred tax on trading losses carried forward/(utilised)	10,660	*(29,460)*
Tax charge in non-technical account	–	*–*

There is deferred tax not provided on tax losses of £28.6 million (2013: £20.4 million), which will be recovered if the Company makes future trading profits.

By agreement with the Inspector of Taxes, the Company has been treated as wholly non-mutual for tax purposes from 1993 onwards.

10. Fixed assets

Land and buildings

	£000
Directors' valuation at 1 July 2013 and 30 June 2014	1,712

This represents the Company's sole property, which is freehold, and is occupied by the Company for its own activities.

11. Investments

Other financial investments

	2014 Market Value £000	2014 Cost £000	*2013 Market Value £000*	*2013 Cost £000*
UK Gilts and debentures and floating rate notes	194,338	192,814	*101,851*	*97,701*

UK Gilts and debentures and floating rate notes are listed on a recognised investment exchange.

12. Subsidiary company

The Company's interest in its sole subsidiary company, Municipal General Insurance Limited (in provisional liquidation), comprises shares, the estimated realisable value of which is nil (2013: nil). The subsidiary has not been consolidated for the reason given in note 1(b).

The subsidiary is wholly and directly owned by the Company, and incorporated in Great Britain. No value is included in the accounts for this investment for the reason given in note 1(b).

13. Outstanding claims

	2014 £000	*2013 £000*
Gross claims outstanding	**291,727**	*249,524*

Provision is made in the accounts for the estimated cost of claims notified but not settled at the date of the balance sheet and for the estimated cost of claims incurred but not reported at that date. Claims provisions are not discounted for inclusion in the accounts, but are reduced to reflect the effect of the Levy (note 2). Independent actuarial advice has been received to assist the Directors in establishing the undiscounted claims provisions for all classes of business of the Company as at 30 June 2014. A number of different estimation techniques, generally based upon statistical analyses of historical experience and particular claim characteristics including appropriate industry benchmarks, are used to calculate the estimated cost of unpaid claims. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year. Large claims impacting each business class are generally assessed separately on a case by case basis.

The provisions have been made with appropriate prudence having regard to past claims experience, current judicial interpretations of the law and other relevant information including views as to the rate of inflation. However, no allowance has been made for any new categories of claim not so far reflected in the experience seen. Furthermore, the inherent uncertainty of the insurance process makes it likely that historical data will not be wholly predictive of the actual future emergence and development of claims. In addition, a substantial measure of judgement is involved in both establishing the individual claims provisions and in interpreting past claims experience as part of the process of establishing the total claims provision. By their nature certain classes of business, such as Employers Liability and Public Liability are inherently more uncertain than others and the ultimate cost of such claims is more likely to vary as a result of subsequent developments. Provisions on these classes include substantial amounts for asbestos related and abuse claims.

A significant issue for asbestos claims is the long delay in reporting losses, since the onset of illness and disability arising from the exposure to harmful conditions may only become apparent many years later. For example cases of mesothelioma usually have a latency period of between 10 and 40 years. There is substantial actuarial sensitivity in the claims assumptions. For example if numbers of future reported claims were increased by 10%, the initial average cost of claims were to increase by £3,000 and long run claims inflation were to increase by 1.0% per annum, there would be a need to add almost £70 million to mesothelioma claims provisions. In addition, the rate of future notification of abuse claims may vary significantly depending upon the incidence of any as yet unnotified major cases and the ultimate cost will also depend on judicial rulings as to the common law level of damages.

For these and other reasons the ultimate cost of claims could vary, perhaps materially, from the provisions established and therefore affect the financial position disclosed in these financial statements.

Provisions are calculated gross of any reinsurance recoveries. Amounts recoverable from reinsurers are estimated separately, based upon the gross provisions and on a prudent basis having due regard to inherent uncertainties over the amounts and the collectability thereof.

14. Other debtors

Other debtors include £1.2 million (2013: £100 million) regarding the Levy of 15% imposed by the Scheme Administrator on Scheme Creditors.

15. Other creditors

	2014 £000	*2013 £000*
Other creditors including taxation and social security	**1,262**	*1,423*

16. Accumulated loss

	£000
At 1 July 2013	28,792
Loss for the year	47,389
At 30 June 2014	**76,181**

As explained in Note 1(a) Basis of preparation, Going concern, the Scheme Administrator and Directors are of the opinion that the accumulated loss of £76.2 million at 30 June 2014 will be eliminated by the end of the run-off period by adjusting the Levy on Scheme Creditors as appropriate, and that it is therefore appropriate for the financial statements to continue to be prepared on a going concern basis.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

17. Notes to cash flow statement

(i) (Loss)/profit on operating activities:

	2014 £000	*2013* *£000*
(Loss)/profit on ordinary activities after taxation	**(47,389)**	*124,041*
Investment return	**(1,432)**	*(2,255)*
Increase/(decrease) in gross claims provision	**42,203**	*(25,742)*
(Decrease) in run-off provision	**–**	*(15,523)*
(Increase) in reinsurers' share of claims provision	**(1,750)**	*–*
(Decrease) in other creditors	**(161)**	*(3,430)*
Decrease in amounts due from reinsurers	**695**	*408*
Decrease/(increase) in debtors	**98,768**	*(99,999)*
Net cash inflow/(outflow) from operating activities	**90,934**	*(22,500)*

(ii) Analysis of cash flows for headings netted in the cash flow statement:

	2014 £000	*2013* *£000*
Interest received	**3,542**	*4,143*

	2014 £000	*2013* *£000*
Net portfolio investments		
Purchase of UK Gilts and debentures and floating rate notes	**145,647**	*–*
Sale of UK Gilts and debentures and floating rate notes	**(50,305)**	*(15,030)*
Net cash inflow/(outflow) on portfolio investments	**95,342**	*(15,030)*

(iii) Movement in cash, portfolio investments and financing:

	At 1 July 2013 £000	Cash flow £000	Changes to market value and currencies £000	At 30 June 2014 £000
Cash in hand and at bank and deposits with credit institutions	3,459	(866)	–	2,593
UK Gilts and debentures and floating rate notes	101,851	95,342	(2,855)	194,338
Total	**105,310**	**94,476**	**(2,855)**	**196,931**

18. Transactions with related parties

There are no further disclosures required under Financial Reporting Standard 8 in respect of transactions with related parties.

19. Contingent liabilities

As a result of the triggering of the Scheme of Arrangement the Scheme Administrator has imposed an initial Levy on Scheme Creditors of 15% (note 2). The liabilities of the Company have consequently been reduced by £153 million (2013: 140 million) which could be repayable to Scheme Creditors in whole or in part on a reduction of the Levy. The Company has no other material contingent liabilities at 30 June 2014 (2013: Nil).

20. Ultimate controlling party

The Company is a company limited by guarantee and does not have a share capital. It is owned by its members. In accordance with Article IV (a) and (c) of the Company's Articles of Association, since the triggering of the Scheme of Arrangement the voting rights exercisable by the Scheme Administrator at general meetings give him effectively overall control of the Company.

Perivan Financial Print 232975