



MUNICIPAL MUTUAL INSURANCE LIMITED

(In Scheme of Arrangement)

Annual Report and Accounts

for the year ended
30 June 2016

Registered number: 76678 England

Website: www.mminsurace.co.uk

Municipal Mutual Insurance Limited
(In Scheme of Arrangement)
Annual Report and Accounts
for the year ended 30 June 2016

CONTENTS

	<i>Page</i>
Notice of meeting	2
Scheme Administrator and his Deputy, Director, Senior Management and Creditors' Committee	3
Scheme Administrator's strategic review	4
Report of the Directors	7
Directors' strategic report	10
Independent auditors' report	11
Statement of income and retained earnings	13
Statement of financial position	14
Statement of cash flows	15
Notes to the financial statements	16

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 3rd Floor, 23 College Hill, London EC4 on Thursday, 6 October 2016 at 12.30pm for the following purposes:

Ordinary resolutions

1. To receive and adopt the Annual Report and Accounts for the year ended 30 June 2016.
2. To re-elect Gareth Hughes as a Director.
3. To re-elect Benjamin Cairns as a Director.
3. To re-appoint PricewaterhouseCoopers LLP as the independent auditors of the Company.
4. To authorise the Directors to fix the remuneration of the auditors.

On behalf of the Board

I A Willett

Director

1 September 2016

Registered Office
23 College Hill
London
EC4R 2RP

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 12.30pm on 4 October 2016.

Municipal Mutual Insurance Limited

(In Scheme of Arrangement)

SCHEME ADMINISTRATOR AND HIS DEPUTY, DIRECTOR, SENIOR MANAGEMENT AND CREDITORS' COMMITTEE

SCHEME ADMINISTRATOR

G H Hughes, FCA (Partner Ernst & Young LLP)
appointed director 1 March 2016

DEPUTY SCHEME ADMINISTRATOR

B Cairns, ACA (Partner Ernst & Young LLP)
appointed director 1 March 2016

DIRECTOR

I A Willett

SENIOR MANAGEMENT

S Laird – Financial Controller

R Luck – Claims & Reinsurance Manager

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
P Towey	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.

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 profit of £108.8 million for the year (2015: loss of £38.4 million), which in combination with prior losses results in a balance sheet deficit of £5.8 million, arises principally from the requirement to raise an additional Levy of 10% from qualifying Scheme Creditors and the consequent reduction in the rate of the Company’s liability for future claims payments to those Scheme Creditors to 75%. However, it has also been necessary to substantially increase the provision for future abuse claims as projected by the Company’s actuarial advisers, KPMG LLP. An increase in the provision for mesothelioma claims has not been required this year as reporting patterns for new mesothelioma claims have stabilised. The Company has followed a consistent policy by including the gross mid-range figure for IBNR (incurred but not reported) claims in its accounts, as calculated by KPMG and reduced to the current payment percentage of 75%.

This is the first year that the Company has presented its results under FRS 102 ‘The Financial Reporting Standard, applicable in the UK and Republic of Ireland’. The last financial statements under previous UK GAAP were for the year ended 30 June 2015. The date of transition to FRS 102 was 1 July 2014. In accordance with FRS 102, the Company has identified its insurance contracts and accounted for them in accordance with FRS 103 ‘Insurance Contracts’. The impact of the transition to FRS 102 is set out in Note 24 ‘Transition to FRS 102’.

Levy on Scheme Creditors

Following my assumption of responsibilities for the management of the Company’s affairs, I undertook a review of the financial position of the Company. On 1 January 2014, I raised an initial Levy against qualifying Scheme Creditors of 15%. Following a further worsening in the estimated costs of future mesothelioma and abuse claims projected by the Company’s actuarial advisers, KPMG LLP, I increased this levy rate to 25% from 1 April 2016. This additional levy amounted to £72.6 million of which £70.1 million has been received to date.

Investment policy

The Company’s cash assets are invested by its investment managers, Aviva Investors Limited (“Aviva”), who continue to follow a risk-averse strategy on behalf of the Company. Following the levy raise, the company has accumulated cash balances of £86.1 million. The Company will work with its investment managers to invest these funds during the first half of 2016/17.

44.2% of the current investment portfolio is invested in gilts, conventional and index-linked, 32.7% is held as cash, with the balance remaining invested in corporate bonds and floating rate notes.

The outlook for investment in fixed rate products is extremely challenging, given the UK's current economic environment of historically low gilt yields. The Company is placing reduced reliance on investment returns to support any foreseeable changes in claims run-off projections.

Creditors Committee

Meetings of the Creditors' Committee were held on 8 October 2015 and 15 March 2016, at which Committee members were updated fully on all aspects of the progress of the run-off of the Company's business. I extend my thanks to the Committee for their continuing support in my role as Scheme Administrator, and in particular to Mr Martin Walker, the Chairman, who has served on the Committee since its inception.

The next meeting of the Creditors' Committee will take place on 6 October 2016, 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 risk for the Company. The Employers Liability claims for mesothelioma have shown some stability in the past year compared with previous deteriorating trends but this account continues to hold great uncertainty due to the long latency period from exposure to asbestos fibres to the development of the mesothelioma cancer. In addition, the Company has experienced a significant increase in the numbers of new reports of abuse claims over prior years. The worsening of the abuse claims account is undoubtedly attributable to the growing public awareness arising from publicity surrounding high profile figures and the associated police and public body investigations, including the Independent Inquiry into Child Sexual Abuse now under the chairmanship of Professor Alexis Jay OBE. The Company anticipates there will be substantial numbers of future claims but the extent remains impossible to predict with any degree of certainty.

2. Investments – market and counterparty risk

On 1 December 2015 a revised discretionary management agreement was agreed with Aviva and at the same time custodianship of the investment assets was transferred from Aviva to State Street Bank under the terms of a new custodian agreement.

Throughout the run-off period the Company has followed a risk-averse investment strategy. 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".

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.

3. Outsourcing and business interruption

The Company has received assurances from third parties, in particular Zurich Insurance and Aviva, 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.

I would take this opportunity to express my sincere thanks to the management and staff of the Company for their support and efforts to achieve an efficient run-off of the Company's business.

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 in April 2016, 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. Allowing for claims payments falling for protection under the terms of the Financial Services Compensation Scheme, approximately £2.5 million remains outstanding. 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 NatWest base rate. Any unpaid Levy will be deducted from future claims payments.

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 2015, there were 3,308 outstanding reported claims. In the year ended 30 June 2016, there were 1,046 newly reported claims, and the number of outstanding reported claims at that date was 2,714.

3. Investment income

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

	Year ended 30 June 2016 £000	<i>Year ended 30 June 2015 £000</i>
Investment funds at beginning of period	196,129	194,338
Investment funds at end of period	177,213	196,129
Average	<u>186,671</u>	<u>195,234</u>
Investment income	<u>4,334</u>	<u>5,488</u>
Investment income as a percentage of average investment funds	<u>2.32%</u>	<u>2.81%</u>

Outlook

Following the updated Levy of 25% imposed on Scheme Creditors from 1 April 2016 in accordance with the Levy Notices, the Company will continue to pay claims at 75% of the agreed settlement amount for affected Scheme Creditors, and pay claims at 100% for non-Scheme Creditor policyholders. I anticipate that the current balance sheet deficit of £5.8 million will be eliminated by the end of the run-off period.

Solvency II came into force on 1 January 2016. The directors are confident that the Company will continue to meet its regulatory requirements in the future. On an annual basis the group will publish quantitative and qualitative information on Solvency II in a Solvency and Financial Condition Report (SFCR). The first SFCR will be prepared as at 30 June 2016.

Gareth Hughes

Scheme Administrator

1 September 2016

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 2016. 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. Future Company developments are presented in the Outlook section of the Scheme Administrator's Strategic Review.

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 2016

The results for the year ended 30 June 2016 are set out in the accounts on pages 13 to 25 and show a profit of £108.8 million (2015: loss of £38.4 million), which is primarily attributable to a levy raise of £72.6 million on 1 April 2016, as a result of increasing the levy percentage from 15% to 25%. In addition, the offsetting levy element of outstanding claims has increased by £37.2 million, solely as a result of this change in the levy percentage.

The underlying claims activity continues to present uncertainty as to the ultimate outcome of the Company's run-off. The Employers Liability mesothelioma account remained stable due to slightly less new claims being reported compared with the previous year, but the very nature of these claims makes future projection uncertain. By contrast, there was substantial deterioration on the Public Liability abuse account resulting from considerably increased numbers of new claims and the corresponding need to strengthen further the provision for future claims.

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 2016. This advice took into account all the relevant factors which affect MMI's liability in relation to abuse, asbestos related disease and other claims and the estimated future incidence thereof. The Scheme Administrator agreed with the decision taken with regard to the level of outstanding claims provisions to be included in the financial statements for the year ended 30 June 2016.

Claims handling responsibilities continue to be shared between the Company and Zurich Insurance (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 staff and the claims teams of Zurich to ensure that service standards are maintained.

The profit of £9.0 million on the non-technical account compares with a profit of £6.9 million for the previous year. The net improvement in profit is attributable to exceptional unrealised gains on investments in 2016. The 2015 balance includes a profit of £1.9 million relating to the sale of the Company's former freehold property, 29 Buckingham Gate.

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.

The Company's former remaining subsidiary undertaking, Municipal General Insurance Limited (MGI) was placed into Compulsory Liquidation on 20 February 2015 with the Official Receiver being appointed as Liquidator. On 26 February 2016 MGI was dissolved. The Company received no financial benefit. In accordance with accounting policy followed in previous financial years because the Company has no day to day control over the assets and management of MGI, consolidated financial statements have not been prepared.

Financial Instruments

Information on the use of financial instruments by the Company and its management of financial risk is disclosed in Note 6 to the financial statements. In particular, the Company's exposures to price risk, credit risk and liquidity risk are separately disclosed in that note.

Directors

The present Directors are shown on page 3.

Mr G H Hughes and Mr B Cairns were appointed as Directors on 1 March 2016.

Mr G H Hughes retires by rotation in accordance with Article 39 of the Articles of Association and, being eligible, is recommended for re-election.

Mr B Cairns retires by rotation in accordance with Article 39 of the Articles of Association and, being eligible, is recommended for re-election.

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

Directors' interests

By virtue only of Article 4(d) of the Articles of Association, The Scheme Administrator and Deputy Scheme Administrator have agreed to become members of the Company for their respective periods of office but are not eligible for participation in any surplus funds falling for distribution to members at the conclusion of the Company's affairs. Mr I A Willett is not a member of the Company and no director has any other interests to declare.

Statement of Directors' responsibilities

Directors are responsible for preparing the Strategic Report, Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires Directors to prepare financial statements for each financial year. Under that law the Director has prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law Directors must not approve the financial statements unless 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 the financial statements 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 Company will continue in business.

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.

Statement of disclosure of information to auditors

In the case of the Directors at the date of this report:

- (a) so far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and
- (b) the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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 2016 and signed on its behalf.

I A Willett
Director

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 2016 and signed on its behalf.

I A Willett
Director

INDEPENDENT AUDITORS' REPORT

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

Report on the financial statements

In our opinion, Municipal Mutual Insurance Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 30 June 2016 and of its profit 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.

Emphasis of matter – Significant uncertainties in estimating the 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 6 to the financial statements. Note 6 to the financial statements concerns the significant uncertainties in estimating gross claims outstanding, in particular for mesothelioma and abuse claims. The ultimate cost of claims could vary materially from the amounts recorded in the financial statements.

What we have audited

The financial statements, included within the Annual Report and Accounts (the "Annual Report"), comprise:

- the Statement of Financial Position as at 30 June 2016;
- the Statement of Income and Retained Earnings for the year then ended;
- the Statement of Cash Flows 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 the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (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.

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 Statement of Directors' Responsibilities 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 International Standards on Auditing (UK and Ireland) ("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.

What an audit of financial statements involves

We conducted our audit in accordance with 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report 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.

Philip Watson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

8 September 2016

- (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)

STATEMENT OF INCOME AND RETAINED EARNINGS
for the year ended 30 June 2016

	Note	2016		2015	
		<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
<i>Technical account</i>					
Claims recovered/(paid)					
Gross amount		60,709		(11,701)	
Reinsurers' share		<u>432</u>		<u>2,842</u>	
Net claims recovered/(paid)			61,141		(8,859)
Change in provisions for claims					
Gross amount		39,290		(36,426)	
Reinsurers' share		<u>(700)</u>		<u>(50)</u>	
Change in net provisions for claims			<u>38,590</u>		<u>(36,476)</u>
Claims recovered/(incurred) net of reinsurance	7		<u>99,731</u>		<u>(45,335)</u>
Balance on technical account for general business			99,731		(45,335)
<i>Non-technical account</i>					
<i>Investment Income</i>					
Income from investments		4,334		5,488	
Gain on realisation of investments		<u>45</u>		<u>3,148</u>	
			4,379		8,636
Unrealised gain/(loss) on investments		7,809		(112)	
Investment expenses and charges		<u>(93)</u>		<u>(162)</u>	
			7,716		(274)
Other income	8	–		1,881	
Other charges	9	<u>(3,068)</u>		<u>(3,296)</u>	
			<u>(3,068)</u>		<u>(1,415)</u>
Profit/(loss) on ordinary activities before tax			108,758		(38,388)
Tax on profit/(loss) on ordinary activities	14		–		–
Profit/(loss) on ordinary activities after tax			<u>108,758</u>		<u>(38,388)</u>
<i>Total comprehensive income/(loss)</i>			<u>108,758</u>		<u>(38,388)</u>
<i>Retained earnings</i>					
Retained earnings brought forward			(114,569)		(76,181)
Profit/(loss) on ordinary activities after tax			<u>108,758</u>		<u>(38,388)</u>
Retained earnings carried forward			<u>(5,811)</u>		<u>(114,569)</u>

MUNICIPAL MUTUAL INSURANCE LIMITED
(In Scheme of Arrangement)

STATEMENT OF FINANCIAL POSITION
as at 30 June 2016

	Note	2016		2015	
		£000	£000	£000	£000
<i>Investments</i>					
Other financial Investments	15		177,213		196,129
<i>Reinsurers' share of technical provisions</i>					
Claims outstanding	3(iv)		13,250		13,950
<i>Debtors</i>					
Debtors arising out of reinsurance operations		687		511	
Other debtors	16	6,511		2,115	
			7,198		2,626
<i>Other assets</i>					
Tangible fixed assets	17	229		284	
Cash at bank and in hand		86,069		1,244	
			86,298		1,528
<i>Total Assets</i>			283,959		214,233
<i>Technical provisions</i>					
Gross amount of claims outstanding	6(i)	(288,863)		(328,153)	
<i>Creditors</i>					
Other creditors including taxation and social security	18	(907)		(649)	
<i>Total liabilities</i>			(289,770)		(328,802)
<i>Net liabilities</i>			(5,811)		(114,569)
Retained earnings brought forward			(114,569)		(76,181)
Profit/(loss) on ordinary activities after tax			108,758		(38,388)
<i>Profit and loss account</i>			(5,811)		(114,569)

Gareth Hughes
Scheme Administrator

The financial statements on pages 13 to 25 were approved by the Board of Directors on 1 September 2016 and signed on its behalf by

I A Willett
Director

MUNICIPAL MUTUAL INSURANCE LIMITED
(In Scheme of Arrangement)

STATEMENT OF CASH FLOWS
for the year ended 30 June 2016

	Note	2016	2015
		£000	£000
<i>Net cash inflow/(outflow) from operating activities</i>	19	53,174	(11,879)
<i>Investing activities</i>			
Interest received		4,887	5,992
Payments to acquire tangible fixed assets		(6)	(299)
Receipts from sales of tangible fixed assets		–	3,592
Payments to acquire investments: UK gilts, debentures and floating rate notes		–	(161,329)
Receipts from sales of investments: UK gilts, debentures and floating rate notes		26,770	162,574
Net cash flow from investing activities		31,651	10,530
<i>Increase/(decrease) in cash and cash equivalents</i>		84,825	(1,349)
<i>Cash and cash equivalents at 1 July</i>		1,244	2,593
Increase/(decrease) in cash and cash equivalents in period		84,825	(1,349)
<i>Cash and cash equivalents at 30 June</i>	19	86,069	1,244

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

1 General information

Municipal Mutual Insurance Limited is a limited liability company, limited by guarantee and incorporated in England. The Registered Office is 23 College Hill, London EC4R 2RP.

2 Statement of compliance

The financial statements of Municipal Mutual Insurance Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103") and the Companies Act 2006. They have also been prepared in compliance with the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

3 Summary of significant accounting policies

(i) 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 a Levy on Scheme Creditors of 25% based on claims payments since 30 September 1993.

In arriving at the Levy percentage of 25%, 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. The provision for outstanding claims (including claims incurred but not reported) is reported net of this 25%, equivalent to £93.1 million.

The Directors are of the opinion that the balance sheet deficit at 30 June 2016 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 the going concern basis.

(ii) 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 hindered 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 was placed into Compulsory Liquidation on 20 February 2015 with the Official Receiver acting as Liquidator. On 26 February 2016 MGI was dissolved. The Company received no financial benefit.

(iii) 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 6 gives further details of the basis on which provision is made.

(iv) Reinsurance

Reinsurers' share of technical provisions are estimates based upon gross provisions for outstanding claims, having due regard to collectability (note 6). 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

3 Summary of significant accounting policies continued

(v) Tangible fixed assets

Tangible fixed assets are capitalised and depreciated by equal annual instalments over their estimated useful lives. The principal estimates used are as follows:

Office equipment	3 to 5 years
Fixtures and fittings	lesser of: – 10 years, and, where leasehold property – the unexpired minimum lease term

(vi) Financial assets

Financial assets represent debt and other fixed income securities held in the form of gilts, debentures and floating rate notes. In accordance with the provisions of FRS102, Sch 11, these assets are classified as fair value through the profit or loss.

(a) Investment income

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

(b) 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.

(vii) 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.

(viii) Operating Leases

The company has a sole operating lease, being the leasehold agreement for part of the Third Floor, 23 College Hill. This lease commenced on 11 February 2015 and has a 10 year term with a mutual break at 19 May 2020. From 20 Nov 2019 to 19 May 2020 there is a rent free period. The benefit of this rent free period is incurred evenly over the initial rental term, 11 February 2015 to 19 May 2020. In the event of the mutual break not being exercised the Company is entitled to a further 3 months rent free period from the date of the break.

4 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. The Levy has been accounted for through claims (paid)/recovered in the Statement of Income and retained earnings. From 1 April 2016 this levy percentage was raised from 15% to 25% and additional levy notices issued amounting to £72.6 million. The balance of this second levy still outstanding at 30 June 2016 was £4.9 million. The provision for outstanding claims, including claims incurred but not reported, has been reduced in line with the Levy percentage.

5 Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Significant judgements in applying the accounting policies

Estimates of insurance liabilities for claims received but not settled are subject to the professional judgement of the claims handler assigned to handle the claim. Initial estimates are set with due regard to Company guidelines based upon claims settlement history and these estimates are subject to on-going review and refinement as further details of the claims emerge. Claims handling is further discussed in note 6.

(ii) Sources of estimation uncertainty

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

5 Critical accounting judgements and estimation uncertainty *continued*

(a) The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. The carrying amount of the liability is £288.9 million (2015: £328.2 million). The most significant assumptions made relate to the level of future claims and the level of future claims settlements. Whilst the directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amount provided. Adjustments to the amounts of provision are reflected in the financial statements for the period in which the adjustments are made.

(b) Fair value of financial instruments

The Company holds financial investments comprising of UK gilts, debentures and floating rate notes with a carrying value of £177.2 million (2015: £196.1 million). Valuation of these assets at the year end is based on quoted market prices.

6 Management of Insurance and financial risk

The Company ceased underwriting insurance business on 30 September 1992, but is exposed to insurance risk from claims arising on policies underwritten prior to this date. The company is also exposed to a range of financial risks through its financial assets, reinsurance assets and policyholder liabilities. This section summarises these risks and the way the Company manages them.

(i) Insurance risk

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 4).

Claims provisions have been made with appropriate prudence, having regard to past claims experience, current judicial interpretations of the law and other relevant information. 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. 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. 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. Asbestos related claims can be subject to very 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; in cases of mesothelioma this latency period can be anything between 10 and 40 years. The major risk classes of claims identified by the business are therefore child abuse and mesothelioma.

Each year-end, the Directors instruct their actuarial advisors, KPMG LLP, to produce three range estimates of claims outstanding corresponding to a high, mid and low forecast of potential future claims liabilities. These estimates do not represent the minimum and maximum estimates of future liability, but provide a range of outcomes in which the ultimate liability may reasonably fall. In producing their estimates, the actuaries make use of a range of data sources including historical company information, industry-wide reports and relevant supplementary population data.

Child abuse claims are outsourced to Zurich and are handled in the Zurich Farnborough office by members of the Complex Claims Team (CCT), a dedicated team dealing with high profile, complex and high value claims for Zurich and MMI. MMI has retained a small portfolio of high profile and complex claims in-house. All new child abuse claims are reported to MMI, enabling MMI to review policy cover and provide input into specific issues identified. Following a significant increase in child abuse claim notifications in recent years MMI has undertaken a process to broaden the provision of claims data made available to the actuaries, allowing them to further stratify their claims forecasts.

MMI manages mesothelioma claims through Zurich's dedicated disease claims handling team in Birmingham, which has in excess of 20 years' experience underwriting and claims handling Local Authority business. Claims handlers of mesothelioma claims at Zurich are senior claims handlers with high levels of experience needed to meet the complexity and financial value of these cases. Zurich has a specific Mesothelioma Claims Handling Guide setting out information and procedures on all aspects of mesothelioma claims handling. MMI monitors progress of all mesothelioma claims, controlled by the Claims and Reinsurance Manager. In addition, files representing between 25%-30% of settled claims are fully reviewed by MMI. Mesothelioma claims are partly mitigated by a reinsurance recovery program.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

6 Management of Insurance and financial risk continued

(a) Sensitivity analysis of claims estimation

Sensitivity analysis is provided by the actuarial forecasts, whereby each low, mid and high forecast provides differing assumptions as to the number of future claims notified, the average settlement amount and the rate of claims inflation. MMI has adopted the mid-case for these financial accounts. The claims estimates under the low, mid and high assumptions along with the variable assumptions for the mesothelioma and abuse classes are given below:

	Gross claims Outstanding £000	<u>Mesothelioma Assumptions</u>			<u>Abuse Assumptions (non-institutional)</u>		
		<i>MSO claims inflation p.a.</i>	<i>Average Settlement 2016 (£)*</i>	<i>No of Future Claims</i>	<i>ABU claims inflation p.a.</i>	<i>Average Settlement 2016 (£)</i>	<i>No of Future Claims</i>
LOW	218,995	3.00%	Base	1,334	3.00%	Base	1,671
MID	288,863	4.00%	Base	1,584	3.00%	Base	2,142
HIGH	422,638	5.00%	Base	1,917	3.00%	Base+13.7%	3,147

* A base settlement for claims is calculated on the basis of recent claims settlement history and includes all legal and other sundry associated costs of settlement.

(b) Claims development table

All outstanding claims liabilities relate to claims underwritten prior to 30 September 1992. The following table reflects the development of claims paid and outstanding over the previous five financial years:

<i>financial year ended 30 June</i>	<u>Claims Outstanding – £000</u>			<u>Claims Paid – £000</u>		
	<i>Gross claims outstanding</i>	<i>Levy recoverable</i>	Claims outstanding net of levy	<i>Gross paid net of recoveries</i>	<i>Levy recoverable*</i>	Net paid claims
2012	275,266	–	275,266	14,933	–	14,933
2013	289,739	(40,215)	249,524	17,543	(100,000)	(82,457)
2014	340,899	(49,172)	291,727	13,013	(5,179)	7,834
2015	383,533	(55,380)	328,153	13,892	(2,191)	11,701
2016	381,928	(93,065)	288,863	14,328	(75,037)	(60,709)

* Following the triggering of the Scheme of arrangement on 13 November 2012, the accounts for the year ended 30 June 2013 included a debtor balance for estimated levy recoveries of £100 million in respect prior years' paid claims. The Levy Notices were issued in January 2014 and the total levy actually raised was £104.5 million. From 1 April 2016, the levy rate was increased from 15% to 25% and additional levy notices issued for £72.6 million.

The company can mitigate its insurance risk through the Scheme of Arrangement levy mechanism, whereby a percentage of future claims settlements, and prior claims settled since the inception of the scheme can be recovered from policyholders. This levy recovery rate is currently set at 25%.

(ii) Financial Risk and management objectives

The Company's primary financial risk is that proceeds from financial assets are not sufficient to meet its claims settlement obligations due under the run-off its insurance business. The main components of this risk are market risk, credit risk and liquidity risk.

Throughout the run-off period the Company has followed a risk-averse investment strategy. 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".

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.

(a) Interest Rate Risk

Interest rate risk arises primarily from investments in fixed interest securities. In addition, to the extent that claims inflation is correlated with interest rates, liabilities to policyholders are exposed to interest rate risk. The Company seeks to mitigate this risk, by matching, as far as is practical, the maturity of fixed interest investments to the forecast settlement profile of outstanding claims.

The sensitivity of interest rate risk illustrates how the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reported date.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

6 Management of Insurance and financial risk continued

	2016	Change	<i>2015</i>	<i>Change</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Financial assets at fair value through the profit and loss	<u>177,213</u>		<u>196,129</u>	
<i>Sensitivities:</i>				
Fair value following 100bps increase in interest yields	168,604	(8,909)	<i>186,654</i>	<i>(9,475)</i>
Fair value following 100bps decrease in interest yields	186,586	9,373	<i>206,479</i>	<i>10,350</i>

The increase/ (decrease) in valuation would be accounted for through the profit and loss for the period. The financial assets are held as UK gilts, debentures and floating rate notes, and with the exception of the floating rate notes, the interest received on the assets held would not change in response to a change in interest rates. The redemption values would likewise be unchanged – thereby gains or losses arising from the interest rate change would unwind as the asset reached maturity.

(b) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- amounts due from issuers of corporate bonds and similar fixed income products;
- reinsurers' share of insurance liabilities
- amounts due from reinsurers in respect of claims already paid

The Company's Investment Management agreement sets limits on the range of investments the Company's investment managers can make on its behalf, specifically all investments must be AAA or AA rated. Except for UK gilts and supranational bonds, the maximum exposure to any counterparty is limited to the lesser of 5% of the portfolio valuation or £10 million.

The assets bearing credit risk are summarised below, together with and analysis by credit rating

	2016	<i>2015</i>
	£000	<i>£000</i>
Gilts, debentures and similar debt securities	177,213	<i>196,129</i>
Reinsurers' claims outstanding	13,250	<i>13,950</i>
Total assets bearing credit risk	<u>190,463</u>	<u><i>210,079</i></u>
AAA	21,253	<i>29,691</i>
AA	166,256	<i>177,164</i>
A	1,066	<i>1,202</i>
BBB	140	<i>157</i>
Not Rated	1,748	<i>1,865</i>
Total assets bearing credit risk	<u>190,463</u>	<u><i>210,079</i></u>

(c) Liquidity Risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The primary liquidity risk of the Company is the obligation to pay claims to policy holders as they fall due. These claims are projected to remain payable for in excess of 30 years. Any long term shortfall in claims coverage identified by the annual actuarial forecast can be met through the Scheme of Arrangement levy mechanism.

Short term liquidity requirements are met by transfers of funds from investments to cash. Under the Company's Investment Management Agreement, £1.0 million must always be available for same day transfer and £10 million of funds must be made available within 5 working days on request.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

6 Management of Insurance and financial risk continued

The projected settlement of the Company's liabilities are given below:

Financial Liabilities and outstanding claims	<1 year	Between	Between	>10 years	Total £000
		1 year and 5 years	5 years and 10 years		
At 30 June 2016:					
Outstanding claims	11,522	61,352	74,667	141,322	288,863
Other Creditors	907	–	–	–	907
	<u>12,429</u>	<u>61,352</u>	<u>74,667</u>	<u>141,322</u>	<u>289,770</u>
		<i>Between</i>	<i>Between</i>		
		<i>1 year</i>	<i>5 years</i>		<i>Total</i>
<i>Financial Liabilities and outstanding claims</i>	<i><1 year</i>	<i>and 5 years</i>	<i>and 10 years</i>	<i>>10 years</i>	<i>£000</i>
At 30 June 2015:					
Outstanding claims	15,925	72,415	85,946	153,867	328,153
Other Creditors	649	–	–	–	649
	<u>16,574</u>	<u>72,415</u>	<u>85,946</u>	<u>153,867</u>	<u>328,802</u>

(d) Fair value estimation

Financial instruments carried at fair value can be categorised by the following valuation methods:

Level 1 Quoted prices in an active market

Level 2 Recent transactions in an identical asset if there is an unavailability of quoted prices

Level 3 Use of a valuation technique if there is no active market or other transactions which are a good estimate of fair value.

The Company's financial investments of £177.2 million (2015 £196.1 million) comprise of UK Gilts, debentures and similar debt securities. They are all categorised as level 1.

7 Segmental Information

Incurred claims	2016			2015		
	Gross £000	Reinsurance ceded £000	Net £000	Gross £000	Reinsurance ceded £000	Net £000
Third party liability	(12,683)	(268)	(12,951)	(56,508)	2,792	(53,716)
Other direct	(40)	–	(40)	(19)	–	(19)
Levy adjustment	112,722	–	112,722	8,400	–	8,400
	<u>99,999</u>	<u>(268)</u>	<u>99,731</u>	<u>(48,127)</u>	<u>2,792</u>	<u>(45,335)</u>

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 Statement of Income and Retained Earning shown on page 12. All business results from contracts concluded in the UK.

8 Other Income

	2016 £000	2015 £000
Profit on disposal of fixed assets	–	1,881

Prior year's profit on disposal represents the sale of the Company's sole freehold property, 29 Buckingham Gate. On 12 May 2015 this property was sold for net proceeds of £3.59 million.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

9 Other charges

	2016	<i>2015</i>
	£000	<i>£000</i>
Operating lease rentals – leasehold property	149	<i>58</i>
Other administration costs	2,919	<i>3,238</i>
Total other charges	<u>3,068</u>	<i><u>3,296</u></i>

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.

10 Employee information

The monthly average number of persons (including executive Directors) employed by the Company during the year was 5 (2015: 5). All staff are employed in the run-off administration of the Company.

Staff costs for the above persons were:

	2016	<i>2015</i>
	£000	<i>£000</i>
Wages and salaries, including amounts sacrificed as pension contributions (Note 12)	574	<i>1,082</i>
Social security costs	61	<i>62</i>
.....	<u>635</u>	<i><u>1,144</u></i>

11 Directors' emoluments

	2016	<i>2015</i>
	£000	<i>£000</i>
The aggregate emoluments paid to Directors in respect of qualifying services were	248	<i>666</i>
The amount included above in respect of the highest paid Director was	248	<i>269</i>
The number of Directors who were accruing benefits under the defined contribution pension scheme was	1	<i>2</i>

The emoluments of Directors are subject to the approval of the Scheme Administrator from 13 November 2012.

At 30 June 2016, the Company had 3 Directors (2015: 1).

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

	Salary	Benefits	Total	<i>Total</i>
	£000	In kind	2016	<i>2015</i>
	£000	£000	£000	<i>£000</i>
R G Bax (Left 7 October 2014)	–	–	–	<i>269</i>
T C Grocock (Left 31 October 2014)	–	–	–	<i>154</i>
I A Willett	241	3	244	<i>243</i>
.....	<u>241</u>	<u>3</u>	<u>244</u>	<i><u>666</u></i>

On 1 March 2016 Gareth Hughes and Benjamin Cairns were appointed as non-executive directors. Neither of these directors received any remuneration in respect of their directorship of Municipal Mutual Insurance Limited.

12 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 11 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 £13,000 (2015: £21,000).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

13 Auditors' remuneration

	2016	<i>2015</i>
	£000	<i>£000</i>
Fees payable to the Company's auditors for the audit of the Company	167	<i>131</i>
Audit related assurance and advisory services	37	<i>32</i>
Actuarial advisory services	8	<i>35</i>
Tax advisory services	21	<i>16</i>
	233	<i>214</i>
	233	<i>214</i>

14 Tax on profit/(loss) on ordinary activities

The standard rate of Corporation Tax in the UK changed from 21% to 20% with effect from 1 April 2015. The relevant deferred tax balances have been calculated at this 20%.

	2016	<i>2015</i>
	£000	<i>£000</i>
Profit/(loss) on ordinary activities before tax	108,758	<i>(38,388)</i>
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015: 20.75%)	21,752	<i>(7,966)</i>
Unrecognised deferred tax on trading losses (utilised)/carried forward	(21,752)	<i>7,966</i>
Tax charge in non-technical account	–	<i>–</i>
	–	<i>–</i>
	–	<i>–</i>

There is deferred tax not provided on tax losses of £13.5 million (2015: £34.9 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.

15 Investments

Financial investments comprise of the following:

	2016		<i>2015</i>	
	Cost	Market	<i>Cost</i>	<i>Market</i>
	£000	Value	<i>£000</i>	<i>Value</i>
Financial assets at fair value through the profit or loss	167,992	177,213	<i>194,717</i>	<i>196,129</i>
	167,992	177,213	<i>194,717</i>	<i>196,129</i>
	167,992	177,213	<i>194,717</i>	<i>196,129</i>

These investments comprise of UK Gilts, debentures and floating rate notes.

16 Other debtors

Other debtors include £4.9 million (2015: £28,000) regarding the Levy of 25% imposed by the Scheme Administrator and other unpaid Scheme Creditor balances due.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

17 Tangible fixed assets

	Fixtures, fittings and office equipment £000
Book Cost	
At 1 July 2015	299
Additions	6
Disposals	–
At 30 June 2016	305
Accumulative depreciation	
At 1 July 2015	15
Charge for the year	61
Eliminations in respect of disposals	–
At 30 June 2016	76
Net book value	
30 June 2016	229
30 June 2015	284

The charge for depreciation for the year ended 30 June 2015 was £15,000.

18 Other creditors including taxation and social security

	2016 £000	2015 £000
Other creditors including taxation and social security	907	649

19 Notes to the statement of cash flows

(i) Profit/(loss) on operating activities

	2016 £000	2015 £000
Profit/(loss) for the financial year	108,758	(38,388)
Depreciation charges	61	15
Investment return	(12,188)	(8,524)
Increase in gross claims provision	(39,290)	36,426
Profit on sale of fixed assets	–	(1,881)
Decrease in reinsurers' share of claims provision	700	50
Increase/(decrease) in other creditors	258	(613)
(Increase)/decrease in amounts due from reinsurers	(176)	(153)
Decrease/(increase) in debtors	(4,949)	1,189
Net cash inflow/(outflow) from operating activities	53,174	(11,879)

(ii) Movement in cash, portfolio investments and financing

	<i>At 1 July 2015 £000</i>	Cash flow £000	Changes to market value £000	At 30 June 2016 £000
Cash in hand and at bank and deposits with credit institutions	1,244	84,825	–	86,069
UK Gilts, debentures and floating rate notes	196,129	(26,770)	7,854	177,213
	<u>197,373</u>	<u>58,055</u>	<u>7,854</u>	<u>263,282</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

20 Transactions with related parties

As Scheme Administrator, Gareth Hughes exercises general powers of management and control of the business. Mr Hughes is a partner of Ernst and Young LLP. During the year, the Company incurred costs of £242,000 (2015: £243,000) in respect of services provided by Ernst and Young LLP in administering the Scheme of Arrangement and a further £195,000 (2015: Nil) in respect of Solvency II compliance support. As at 30 June 2016, the balance outstanding in respect of these services was £157,000 (30 June 2015: £98,000).

21 Obligations under leases

Future minimum rentals payable under non-cancellable operating leases are as follows:

	Land and buildings 2016 £000	<i>Land and buildings 2015 £000</i>
Payable within one year	164	164
Payable between two and five years	394	558
	558	<i>722</i>

22 Contingent liabilities

Upon the triggering of the Scheme of Arrangement the Scheme Administrator imposed an initial Levy on Scheme Creditors of 15%, this levy was increased to 25% from 1 April 2016 and another levy raised (note 4). The liabilities of the Company have consequently been reduced by £275.5 million (2015: £162.8 million) which could be repayable to Scheme Creditors in whole or in part on a reduction of the Levy.

Under the terms of the Scheme of Arrangement, Scheme Creditors would also be entitled to additional payments of up to £30 million at the conclusion of the run-off, from any surplus reserves once all other settlements have been made, including the refunding of any levy balances paid. This 'Commission for Risk' 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.

The Company has no other material contingent liabilities at 30 June 2016 (2015: Nil).

23 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.

24 Transition to FRS 102

This is the first year that the Company has presented the results under FRS 102 and FRS103. The previous financial statements under old UK GAAP were for the year ended 30 June 2015. The date of transition to FRS 102 was 1 July 2014. There were no changes to the Statement of Income and Retained Earnings, Statement of Financial Position and Statement of Cash Flows for the financial year ended 30 June 2015 as a result of the adoption of FRS 102 and as such these financial statements have not required restatement.

