



MUNICIPAL MUTUAL INSURANCE LIMITED

(In Scheme of Arrangement)

Annual Report and Accounts

for the year ended
30 June 2022

Registered number: 00076678 England

Website: www.mminsurace.co.uk

Municipal Mutual Insurance Limited
(In Scheme of Arrangement)
Annual Report and Accounts
for the year ended 30 June 2022

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Municipal Mutual Insurance Limited

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NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of the Company will be held online using Microsoft Teams on Tuesday, 22 November 2022 at 12:30 for the following purposes:

Ordinary resolutions

1. To receive and adopt the Annual Report and Accounts for the year ended 30 June 2022.
2. To re-appoint Grant Thornton UK LLP as the independent auditors of the Company.
3. To authorise the Directors to fix the remuneration of the auditors.
4. To appoint Shaun Laird as a Director.

On behalf of the Board

G H Hughes

Director

29 September 2022

Registered Office
23 College Hill
London
EC4R 2RP

Notes:

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 12:30 p.m. on 21 November 2022.

To receive an electronic invitation to join the meeting any person entitled to attend and vote at the meeting, or an appointed proxy, should email their contact details to members@mminsurace.co.uk no later than 12.30 p.m. on 21 November 2022.

Municipal Mutual Insurance Limited

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

SCHEME ADMINISTRATOR

R Barker, FCCA

DEPUTY SCHEME ADMINISTRATOR

S Edel

BOARD OF DIRECTORS

S J Ellis, ACA

K Gill, ACA, ACII

M B A Walker

G H Hughes, FCA

S Laird, ACA (Appointed 01 January 2022)

COMPANY SECRETARY

S J Ellis, ACA

SENIOR MANAGEMENT

R Luck, ACII – Claims Technical Director

CREDITORS' COMMITTEE MEMBERS AND THEIR REPRESENTATIVES

Hertfordshire County Council	F Timms
City of Edinburgh Council	H Dunn
Richmond Upon Thames Council and Wandsworth Council	G Martinez (appointed 23 November 2021)
Financial Services Compensation Scheme	J Roach (appointed 23 November 2021)
Gateshead Council	J Shiel
Leicestershire County Council	A Rowlinson
Surrey County Council, East Sussex County Council and Brighton and Hove City Council	R Phillips (Chair)

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SCHEME ADMINISTRATOR'S STRATEGIC REVIEW

The Scheme Administrator presents his strategic report on the Company for the year ended 30 June 2022.

Review of the business

The Company is an insurance company limited by guarantee which wrote commercial and personal lines of business until September 1993 when it was placed in run-off. On 5 January 1994, a Scheme of Arrangement (the 'Scheme') under section 425 of the Companies Act 1985 (now section 899 of the Companies Act 2006) was approved by Order of the Court. The Scheme came into effect on 21 January 1994 and Gareth Hughes, a licenced insolvency practitioner and a Partner of Ernst & Young LLP, was appointed Scheme Administrator. The Scheme was a contingent Scheme which was held in reserve until the occurrence of a Trigger Event.

The Scheme was triggered by the Directors on 13 November 2012 (the 'Trigger Date') because, in the light of information provided by the Company's actuaries at that time, the Directors concluded that a solvent run-off could no longer be foreseen. 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. In the opinion of the Directors, there were no viable alternatives to avoiding insolvent liquidation which might have been more advantageous to creditors.

The Trigger Date denoted the commencement of the Levy Period under the terms of the Scheme. During the Levy Period, the Scheme Administrator's function is 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.

During the Levy Period the Scheme Administrator's specific duty is to:

- (a) within 90 days of the Trigger Date complete a review of the assets and liabilities of the Company and when appropriate, set a Levy and Payment Percentage rate to be applied to amounts paid to Scheme Creditors since the Record Date (30 September 1993) in order to eliminate the Company's financial deficit; and
- (b) not less than once every year, review the Levy and Payment Percentage rate and adjust it if required.

On the Trigger Date, Gareth Hughes was appointed Scheme Administrator under the terms of the Scheme. Following his review of the financial position of the Company, a Levy rate of 15% (Payment Percentage of 85%) was set on 1 January 2014. On 1 April 2016, the Levy was increased to 25% (Payment Percentage reduced to 75%).

On 31 December 2018, having given due notice, Gareth Hughes resigned as Scheme Administrator and, in accordance with the terms of the Scheme, the Creditors' Committee appointed Richard Barker, an Associate Partner of Ernst & Young LLP and the previous Deputy Scheme Administrator, as Scheme Administrator. The Committee also appointed Simon Edel, a Partner of Ernst & Young LLP, as Deputy Scheme Administrator with effect from 31 December 2018.

Directors Duties

The Directors of the Company, as those of all UK companies, must act in accordance with a set of general duties. These duties are detailed in section 172 of the UK Companies Act 2006 which is summarised as follows:

A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- the likely consequences of any decision in the long term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers, and others;
- the impact of the company's operations on the community and the environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the company.

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Scheme Administrator's strategic review *continued*

The Directors duties are core to the Company's function and are embedded in its stated business strategy, which is to deliver the 'Best Outcome' for its Scheme Creditors and policyholders through the mechanism of the Scheme, where Best Outcome is defined as the delivery of:

1. on balance, a better financial return to creditors than would be achieved through an insolvent liquidation or other exit solution; and
2. the fair and equitable treatment of all MMI's policyholders, creditors, members, and employees over the lifetime of the run-off.

It is important to recognise that under the Scheme the Scheme Administrator's powers are in substitution for, and to the exclusion of, the powers of the Directors. The Scheme Administrator also has the duty to seek the winding up of MMI if at any point he considers the Scheme to no longer be in the best interests of the general body of creditors.

The Scheme Administrator is responsible for the implementation and management of the Scheme. The performance and function of the Scheme is monitored by a Creditors' Committee which meets twice per year to review the financial position of MMI and the matters affecting the Scheme.

The Scheme Administrator delegates the management and control of the day to day running of the Company to its Directors and the Directors fulfil their duties through the corporate governance framework. As part of their induction, Directors are briefed on their duties, they receive annual training on their responsibilities and are subject to annual performance reviews.

To ensure effective day to day management of the business, key decisions are taken by the Board of Directors which comprises executive and independent non-executive directors.

The following provides an overview of how the board has performed its duties:

Risk management

Risk management processes are embedded in all aspects of the corporate governance and decision-making processes. The Company is a Solvency II regulated firm, and the effective identification, evaluation management and mitigation of risks is a core function of the management of the business. The Directors consider the impact of strategic decisions on the likely ultimate outcome for Scheme Creditors and policyholders by preparing, updating and regularly reviewing a runoff forecast and applying a range of risk parameters to consider estimated outcomes. This includes insurance and financial risk, see further detail in note 6 to the accounts.

Tight cost control is essential for the achievement of the Company's objectives. The Directors set annual budgets for expenditure and closely monitor costs on a monthly basis. The annual budget is reviewed by the Scheme Administrator and reported to the Creditors' Committee. All project expenditure is subject to cost benefit analysis and prior board approval.

Our people and key suppliers

The Company employs eight full time members of staff. Accordingly, the Directors have a close working relationship with all employees. The Company places a high level of importance on the support and professional development of its employees. Staff are offered both in-house and external professional training and are encouraged to take up all development opportunities. Performance is reviewed annually, and staff are subject to annual fit and proper conduct reviews.

The Company has a number of multi-year outsource relationships in place with its key suppliers. These are subject to quarterly performance review and the Company works closely with these suppliers to build and enhance long-term working relationships.

Members, Scheme Creditors, and policyholders

The Company consults regularly with the Creditors' Committee in respect of all matters that may potentially affect the outcome of the Scheme, this includes insurance risk, see further detailed note in note 6 to the accounts.

The Scheme Administrator reviews the levy rate under the Scheme at least annually and consults with the Creditors' Committee regarding his conclusions on the appropriate rate that should be set. To manage the levy, the Company maintains two key tools:

1. A run-off forecast; and
2. Its Own Risk and Solvency Analysis ('ORSA')

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Scheme Administrator's strategic review *continued*

The run-off forecast

The run-off forecast is prepared using low, mid and high actuarial projections so a range of possible outcomes can be shared with the Creditors' Committee. These outcomes do not constitute an upper or lower ultimate range of outcomes but represent a potential range of possible outcomes based on flexed assumptions. The run-off forecast prepared for 2022/23 indicates that under the mid-IBNR forecast MMI's assets are sufficient to pay all its forecast expenses and insurance liabilities at the current Payment Percentage of 75%.

The ORSA

The annual ORSA report assesses the possible range of run-off outcomes through a stress test analysis of the assumptions underlying the run-off forecast. The 2022 ORSA indicated that the Scheme of Arrangement would continue to deliver the best outcome for Scheme Creditors even in the event of a 1 in 200-year shock to the insurance reserves.

The Company communicates regularly with its creditors and policyholders by statement, letter, e-mail and through its website and operates a number of dedicated enquiry inboxes for both members and creditors.

The Directors, through the setting and monitoring of performance targets and the reinforcement of a culture of excellence ensure the provision of a high standard of claims handling service for Scheme Creditors and policyholders.

Greenhouse Gas Emissions

The Company has assessed its energy consumption for the year ended 30 June 2022 to be less than 40,000 KWH and is, therefore, categorised as a Low Energy User and exempt from the greenhouse gas emission disclosure requirements under The Companies Act 2006 and The Companies (Directors Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

Results for the year

Profit for the year was £nil (2021: £nil). Net assets are £nil (2021: £nil). Under the terms of the Scheme, any surplus assets of the Company will ultimately be returned to Scheme Creditors through an adjustment to the Payment Percentage (see note 24). For the year ended 30 June 2022, the Company has recognised a reduction in the provision to return levy monies of £20.2 million (2021: £5.7 million). This reduction is due to a significant decline in the market value of the Company's investments. Investment assets are purchased with maturity dates that are closely matched to the projected claims liability profile of the Company to provide interest rate protection. Rising interest rates and continuing disruption from the war in Ukraine has affected these valuations, but the expected cashflows from these fixed asset investments remain broadly unchanged. MMI generally holds its investments to maturity and, therefore, any short-term appreciation or reduction in market value is expected to unwind over time as the run-off matures.

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 the Company's external actuarial adviser, KPMG LLP ('KPMG'). This calculation is reviewed and approved by the Directors. There has been a release to profit of £5.2 million for gross reserves compared with the previous year. The Directors do not consider that this movement represents a significant shift in the overall claims' estimation position. Further details regarding results for the year can be found in the Report of the Directors on page 10.

The Company presents its results under FRS 102 'The Financial Reporting Standard, applicable in the UK'. In accordance with FRS 102, the Company has identified its insurance contracts and accounted for them in accordance with FRS 103 'Insurance Contracts'.

Payment percentage and levy on Scheme Creditors

In accordance with the terms of the Scheme, the financial position of the Company was reviewed in March 2022 and I concluded that the current Payment Percentage rate of 75%, set on 1 April 2016, remained appropriate. No further changes to the payment percentage and the levy rate are currently anticipated.

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Scheme Administrator's strategic review *continued*

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 with the aim of generating income and capital growth matched to the estimated cost and timing of current and forecast future liabilities. 63.9% of the current investment portfolio is invested in gilts, 31.1% is invested in corporate bonds and floating rates notes, with the balance held as cash. Further information is set out in note 6(ii).

The outlook for investment in fixed rate products is challenging, despite recent rises in yields. Consequently, the Company places a low level of reliance on investment returns to support any foreseeable changes in claims run-off projections.

Creditors' Committee

Meetings of the Creditors' Committee were held on 23 November 2021 and 24 May 2022, at which Committee members were updated fully on all aspects of the progress of the run-off of the Company's business.

The next meeting of the Creditors' Committee will take place on 22 November 2022, prior to the Annual General Meeting.

Principal risks and uncertainties

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

1. Reserve risk – claims volatility

Claims volatility represents a continuing risk for the Company. Significant uncertainty regarding the ultimate liability for asbestos related disease claims remains due to the long latency period from exposure to asbestos fibres to the development of the mesothelioma cancer and the potential for increased future costs in respect of developing treatments such as immunotherapy.

Significant uncertainty also remains regarding future liability for historic abuse claims due to the unknown impact of factors such as: increased public awareness arising from publicity surrounding high profile abuse cases, the associated police and public body investigations, the Independent Inquiry into Child Sexual Abuse, the enactment of the Limitations (Childhood Abuse) (Scotland) Bill and the Supreme Court decisions regarding local authorities' vicarious liability in respect of children abused by foster carers. Further information is set out in note 5(ii).

2. Investment risk– market and counterparty risk

Uncertainty over the interest rate environment represents a risk to the return on investments the Company can earn.

The Company adopts a risk-averse investment strategy to manage its exposure to market and counterparty risk.

The portfolio is invested in a portfolio of gilts, corporate bonds, floating rate notes and the remainder in cash deposits. The portfolio is managed by Aviva under an investment management agreement. Performance and security of assets are closely monitored.

3. Financial risk – liquidity

The Company's investments are held in highly liquid instruments and the Company monitors the liquidity of those investments to ensure that it always has access to sufficient funds to honour its cash outflow obligations as they fall due.

4. Outsourcing risk

The Company has received assurances from third parties, in particular its claims handling providers, that appropriate recovery plans are in existence in the event of unforeseen extended interruptions to the services which are provided to the Company. The Company undertakes a rolling program of internal audits of its key outsourced claims handlers. The Company also has its own contingency plans in place in respect of its outsourced functions.

KPMG are engaged to produce actuarial reports on behalf of the Company. The Board closely monitors these outsourced functions and considers that in the event of either function becoming unavailable it could arrange alternative providers with minimal disruption to the Company.

MUNICIPAL MUTUAL INSURANCE LIMITED
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Scheme Administrator's strategic review *continued*

5. Human resource risk

The Company operates with a small team of experienced staff and, therefore, is exposed to key man risk. The Company actively manages this risk. It has succession plans in place for key personnel and can call on the resources of Ernst & Young to assist with any temporary staff needs.

6. Regulatory risk

The Company is regulated by the PRA and the FCA. The costs of regulatory compliance, particularly associated with Solvency II, have significantly increased in recent years. Changes to the legal or regulatory regimes in which the Company operates represent a risk to the run-off of the business.

Key performance indicators (KPIs)

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

1. 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. In the year ended 30 June 2022, 383 new claims were reported (2021: 526). As at 30 June 2022 the number of outstanding claims was as follows:

	Year ended 30 June 2022	<i>Year ended 30 June 2021</i>
Employers' Liability	552	823
Public Liability	430	532
	<u>982</u>	<u>1,355</u>
Total Claims	<u>982</u>	<u>1,355</u>

2. Income from investments

Investment income as a percentage of average investment funds gives an indication of the level on investment return in the year. In the year ended 30 June 2022, investment income as a percentage of average investment funds was 2.30% (2021: 2.10%).

	Year ended 30 June 2022 £000	<i>Year ended 30 June 2021 £000</i>
Investment funds at beginning of period	229,140	250,340
Investment funds at end of period	189,181	229,140
	<u>206,161</u>	<u>239,740</u>
Average	<u>206,161</u>	<u>239,740</u>
Investment Income	4,751	5,035
	<u>4,751</u>	<u>5,035</u>
Investment Income as a percentage of average investment funds	<u>2.30%</u>	<u>2.10%</u>

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Scheme Administrator's strategic review *continued*

3. Run-off model

The Company prepares a run-off forecast to assist the Scheme Administrator in the setting of the Levy and Payment Percentage rate. The forecast prepared as at 30 June 2022, using mid-IBNR claim projections, indicates that under current assumptions, a long-term Levy rate of 25% will enable the Company to pay its adjusted liabilities in full. The forecast assumes that the run-off will continue until the year 2060 when the final claim will be received.

Outlook

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.

R Barker

Scheme Administrator

29 September 2022

MUNICIPAL MUTUAL INSURANCE LIMITED
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REPORT OF THE DIRECTORS

The Directors present their report and the audited accounts of the Company (registered number: 00076678 England) for the year ended 30 June 2022. The Company is a company limited by guarantee and has no share capital. It is owned by its members.

Having assessed the principal risks and uncertainties (pages 7 and 8 of The Scheme Administrator's Strategic Review), the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements. Further details are presented in note 3(i) to the financial statements.

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.

Results for the year ended 30 June 2022

The results for the year ended 30 June 2022 are set out in the accounts on pages 22 to 36 and show a profit of £nil (2021: £nil), which is net of a reduction in the provision to return monies to Scheme Creditors of £20.2 million (2021: £5.7 million), as reported within the balance of technical provisions. The loss in the year, prior to this provision movement, is £20.2 million and primarily attributable to unrealised losses on fixed income investments due to market value movements.

Before the offsetting provision release of £20.2 million (see Contingent Liabilities, note 24) (2021: £5.7 million), the balance on the technical account for the year ended 30 June 2022 is a profit of £6.7 million (2021: £6.8 million).

In accordance with the Company's normal practice, the Directors received and approved actuarial advice from KPMG to assist in establishing the undiscounted claims provisions as at 30 June 2022. This advice considers 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 Directors' decision regarding the value of the outstanding claims provisions to be included in the financial statements for the year ended 30 June 2022.

Reported net investment income in the year is a loss of £25.1 million (2021: £10.9 million loss). This year-on-year loss is significant and can be attributed to substantial falls in the fixed income markets in response to increased expectations of future interest rate rises. These expectations are driven by supply side inflationary pressures, including rising energy costs and supply chain issues in the wake of the war in Ukraine, and increased economic activity post covid. Municipal Mutual Insurance's investment strategy is to hold fixed income investments to maturity to provide a hedge against the movement in the value of future claims liabilities due to interest rate changes. Despite market value volatility the fixed income streams generated by these investments remain largely unchanged and therefore the reported losses do not impact the Company's run-off forecast or its projected Payment Percentage.

Other operating expenses were £1.8 million (2021: £1.6 million).

Under the terms of the Scheme, Scheme Creditors are also entitled to additional payments of up to £30 million from any surplus reserves once all other liabilities have been met in full. No provision has been made for payment of any part of this £30 million commission for risk to Scheme Creditors, as such a payment arises only in the event of a solvent run-off.

Events since the balance sheet date

The Directors have reviewed events since the balance sheet date, and these are considered in note 21 to the accounts.

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. The Company's exposures to interest rate risk, credit risk and liquidity risk are separately disclosed in that note.

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Report of the Directors *continued*

Directors

The following Directors of the Company served for the full year:

Mr G H Hughes
Ms S J Ellis
Mr M B A Walker
Mr K Gill

In addition, Mr S Laird was appointed Director on 1 January 2022 in accordance with Article 33 of the Articles of Association until the date of the next Annual General Meeting. Being eligible, he is recommended for re-election.

Indemnity insurance

A policy of indemnity insurance cover to the benefit of the Directors and Officers of the Company has been in force during the year ended 30 June 2022 and at the date of this report.

Directors' interests

By virtue of Article 4(d) of the Articles of Association, the Scheme Administrator and the Deputy Scheme Administrator have agreed to become members of the Company for their respective period 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. No Directors of the Company have any 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 Directors have 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; and
- 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

The Directors confirm that:

- (a) so far as each Director is aware, there is no relevant audit information of which the Company's auditor is 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 auditor is aware of that information.

Independent auditors

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

Approved by the Board on 29 September 2022 and signed on its behalf.

G H Hughes
Director

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DIRECTORS' STRATEGIC REPORT

When the Scheme was triggered by the Directors on 13 November 2012, control of the Company passed to the Scheme Administrator who has general powers of management and control of the business. The Scheme Administrator has exercised his power under the Scheme to delegate the management and control of the day to day running of the Company to its 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 29 September 2022 and signed on its behalf.

G H Hughes
Director

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS
OF MUNICIPAL MUTUAL INSURANCE LIMITED

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Municipal Mutual Insurance Limited (the 'Company') for the year ended 30 June 2022, which comprise the Statement of Income and Retained Earnings, the Statement of Financial Position, Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2022 and of its result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Emphasis of matter – Significant uncertainties in estimating the claims incurred but not reported ('IBNR')

We draw attention to Note 6 (i) (a) & Note 6 (i) (b) to the financial statements which describe the significant uncertainties involved in estimating the valuation of IBNR provision. This is particularly the case for mesothelioma and abuse claims, as demonstrated in the sensitivity analyses in note 6(i)(a) of the financial statements. The final settlement value of such claims can vary materially from the amount at which these are currently recorded in the financial statements. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included a review of management's assessment of the applicability of the going concern basis of preparation of the financial statements, including:

- Obtaining and checking the arithmetical accuracy of client prepared forecasts;
- Consideration of the appropriateness of the going concern period until June 2024;
- Inspection of Company board minutes for board approval of the forecasts;
- Consideration and challenge of management assumptions made in their budgets and forecasts;
- Consideration of the accuracy of management's forecasts prepared for prior periods;
- Challenge of sensitivity scenarios modelled by management and associated available mitigating actions;
- Challenge of management's assessment of the significant uncertainties with respect to claims outstanding and assessment of the impact of this on the overall going concern status of the Company;

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Independent Auditor’s report *continued*

- Assessment of the Scheme of Arrangement (“the Scheme”) and whether it continues to operate in the best interests of the Scheme’s creditors; and
- Assessment of the adequacy of the disclosures in the financial statements relating to going concern.


In our evaluation of the Directors’ conclusions, we considered the inherent risks associated with the Company’s business model (including consideration of the finite nature of the entity’s resources and that the ability to operate as a going concern is also dependent on the scheme being able to operate in the best interests of the Scheme Creditors), we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the Company’s financial resources or ability to continue operations over the going concern period. We draw attention to Note 3 (i) to the financial statements which set out the key characteristics of the Company’s going concern assessment.

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

In auditing the financial statements, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the directors with respect to going concern are described in the ‘Responsibilities of directors for the financial statements’ section of this report.

Our approach to the audit



Grant Thornton

Overview of our audit approach


Overall materiality: £2,340,000, which represents 1% of the Company’s total liabilities, determined at the planning stage of the audit.

The key audit matter identified is the valuation of claims incurred but not reported (‘IBNR’) provision, which forms a significant component of the technical provisions. This is consistent with the prior year key audit matter identified.

Our auditor’s report for the year ended 30 June 2021 included no key audit matters that have not been reported as key audit matters in our current year’s report.

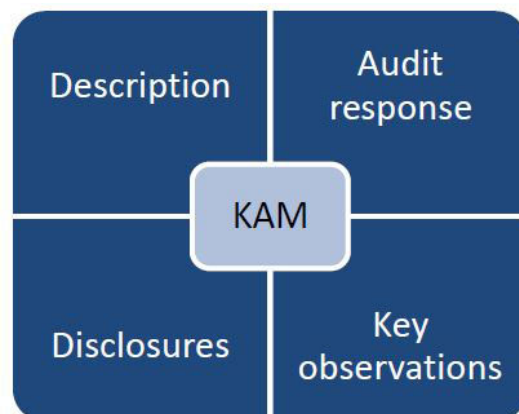
In the prior year, the audit strategy on the valuation of the IBNR provision included an independent expert calculation of the reserve for the most significant loss types. In the current year, the audit strategy for the valuation of the IBNR provision has been changed to assessing the methodology, assumptions and key changes to the reserving approach used by the management expert and concluding on their reasonableness.

There have been no other changes to our scoping of the engagement from prior year.



Key Audit Matters

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



MUNICIPAL MUTUAL INSURANCE LIMITED
(In Scheme of Arrangement)

Independent Auditor's report *continued*

Key Audit Matter

IBNR provision – valuation

We identified the valuation of IBNR provision as one of the most significant assessed risks of material misstatement due to error.

The IBNR provision is a material and complex balance in the financial statements and requires a high level of expert judgement, and as such gives rise to a significant risk due to error.

There is a significant amount of uncertainty around the IBNR provision due to the complex judgements and estimates involved in calculating the provision, with a focus on mesothelioma and abuse claims.

The IBNR provision is formulated through complex models and inputs. The key judgements made by management in determining the provision are set out below:

Number of claims:

The expected number of future claims is a key variable used in projecting claims expenses arising in future years. The number of claims is uncertain.

Future cost per claim:

The key assumptions used in assessing the future cost per claim are age bands and inflation. There is limited industry specific data available in this regard, which further increases the overall uncertainty in the valuation of the IBNR provision.

Mesothelioma claims:

There are long inactive periods associated with mesothelioma claims, which along with future claims cost assumptions makes the valuation of the IBNR provision significantly uncertain.

Abuse:

The nature of abuse claims and assumptions used in the projections for abuse claims makes it an area of significant uncertainty within the IBNR provision.

Relevant disclosures in the Annual Report and Accounts

Financial statements: Note 6(i)(a) & Note 6(i)(b), Management of Insurance and financial risk.

How our scope addressed the matter

Considering the complexity and nature of the book of business, we have engaged our actuarial experts to assist in the review of the IBNR provision. Our actuarial experts considered the appropriateness of key assumptions and judgements and their effect on the final valuation of the IBNR provision.

Related procedures performed by our actuarial experts are listed below:

Reserving methodology:

- Evaluated the reasonableness of management's methodology, key assumptions and any changes to those from prior period used for the determination of the valuation of the IBNR provision;
- Challenged management's judgement and assumptions with respect to reserving;
- Benchmarked management's reserving methodology to standard industry practice.

Management's experts:

- Held meetings with management's experts to understand their IBNR valuation process and other key aspects to their role;
- Assessed the competence, capabilities, objectivity and experience of management's experts involved in the valuation of the IBNR provision.

Data:

- The audit team tested the completeness and accuracy of the data that management's experts used in assessing the valuation of the IBNR provision.

Controls:

- Obtained an understanding of and assessed the design implementation of controls with respect to the reserving process and valuation of the IBNR provision.

Disclosures:

- Assessed the disclosures related to the technical provisions in the Financial Statements. This included evaluating against the standards and reporting requirements as set out by FRS 102 and FRS 103.

Key observations:

Based on our audit work, including our actuarial assessment of management's methodology and the key assumptions involved in management's calculation of the IBNR provision, we did not identify any material misstatements in the valuation of the IBNR provision.

MUNICIPAL MUTUAL INSURANCE LIMITED
(In Scheme of Arrangement)

Independent Auditor's report *continued*

Key Audit Matter

How our scope addressed the matter

Our audit work identified that, whilst the assumptions used are not unreasonable, there are significant uncertainties involved in the IBNR provision estimation, particularly related to mesothelioma and abuse claims. The final settlement of such claims can vary materially from recorded balances at as at the year-end.

We draw attention to Note 6 (i)(a) & Note 6 (i)(b) in the financial statements, which describe the significant uncertainties involved in estimating the valuation of IBNR provision, as concluded within our Emphasis of Matter paragraph.

Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

Materiality was determined as follows:

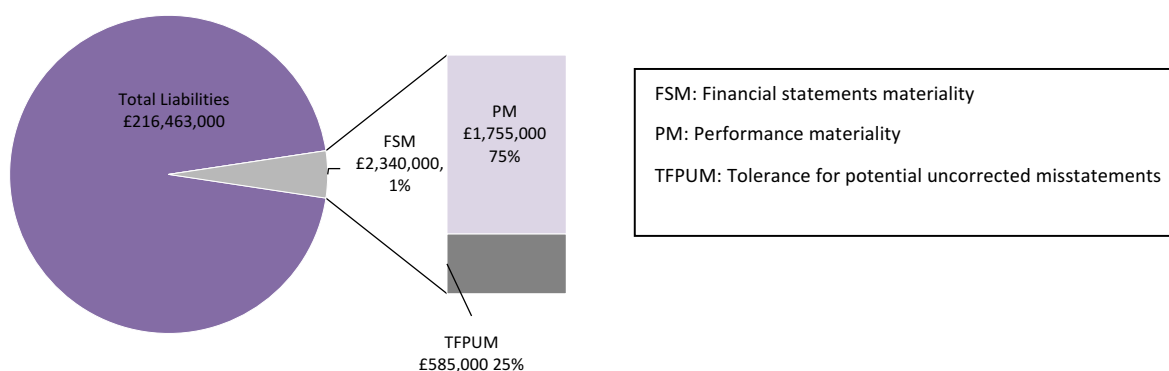
<i>Materiality measure</i>	<i>Company</i>
Materiality for financial statements as a whole	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.
Materiality threshold	£2,340,000, which is 1% of total liabilities, determined at the planning stage of the audit.
Significant judgements made by auditor in determining the materiality	<p>In determining materiality, we made the following significant judgments:</p> <ul style="list-style-type: none"> ● We have consistently used total liabilities as the underlying benchmark. Whilst Profit before Tax might typically be used for an insurance-based entity, The Company is in run-off after the Scheme of Arrangement (SOA) was triggered in 1992. Since the signing of this agreement the objectives of the Company are to perform under the SOA and therefore this overrules the original business objectives. The Company aims to pay off its scheme creditors throughout its run-off period. ● On this basis we have taken into consideration the key stakeholders and readers of the financial statements. The scheme members are the key parties interested in the future existence of the Company and its ability to meet future claims payments. In line with the purpose of the SOA, they will be interested in the solvency position of the entity and its ability to pay future claim costs. The key driver behind the solvency position being the total liabilities figure. ● Our use of a 1% measurement percentage is based upon the level of risk associated with the Company, which is a public interest entity. This percentage falls in the middle of the permissible range for the firm's higher risk clients, allowing for the Company not being a listed entity. <p>Materiality for the current year is lower than the level that we determined for the year ended 30 June 2021 to reflect the decrease in total liabilities.</p>
Performance materiality used to drive the extent of our testing	We set performance materiality at an amount less than materiality for the financial statements as a whole, to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceed materiality for the financial statements as a whole.

MUNICIPAL MUTUAL INSURANCE LIMITED
(In Scheme of Arrangement)

Independent Auditor's report *continued*

<i>Materiality measure</i>	<i>Company</i>
Performance materiality threshold	£1,755,000, which is 75% of financial statement materiality.
Significant judgements made by auditor in determining the performance materiality	<p>In determining performance materiality, we made the following significant judgments:</p> <ul style="list-style-type: none"> ● Our risk assessment – evaluation of the results of our risk assessment procedures in regard to the Company's overall control environment, which indicates a strong control environment following the centralisation of their claims handling process; and ● Our experience of auditing the financial statements of the Company in previous years – based on no misstatements identified in prior years, and also management's attitude to correcting identified control points raised.
Specific materiality	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
Specific materiality	<p>We determined a lower level of specific materiality for the following areas:</p> <ul style="list-style-type: none"> ● Directors' Remuneration ● Related Party Transactions
Communication of misstatements to the audit committee	We determine a threshold for reporting unadjusted differences to the audit committee.
Threshold for communication	£117,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.



An overview of the scope of our audit

We performed a risk-based audit that requires an understanding of the Company's business and in particular matters related to:

Understanding the Company, its environment, including controls

- Discussions held with management to understand key changes to the business and reinforce our understanding of the Company's environment and key risk areas;

MUNICIPAL MUTUAL INSURANCE LIMITED
(In Scheme of Arrangement)

Independent Auditor's report *continued*

- Obtaining an understanding of relevant internal controls relating to the claims handling operations of both the Company and claims handling third-party service providers, including performing a review of the design and operating effectiveness of the Company's internal claims handling system; and
- Obtaining an understanding and evaluating the design and implementation of controls relating to the day-to-day management of the Company's investment portfolio and the custody of its investments, which are outsourced to third-party service providers. This included obtaining and reviewing internal controls reports prepared by third party auditors in respect of the independent custodian and the investment management operations provided by the investment manager.

Performance of our audit

- Based on the large level of estimation uncertainty and management judgement in the valuation of the IBNR provision, we noted this area could reasonably be expected to have a significant material impact on the financial statements. We involved our actuarial experts to audit various assumptions and judgements made in relation to the valuation of the IBNR provision;
- Performed substantive testing of other risk areas, account balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the design effectiveness of controls over individual systems and management of specific risks;
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements as described above. We did not identify any key audit matters relating to irregularities, including fraud.

Changes in approach from previous period

- We have streamlined our scope in regard to the IBNR provision, where previously we had conducted an independent calculation of the IBNR provision. In the current year, our scope has been reduced to accessing the methodology, assumptions, and any changes to the approach for arriving at the IBNR provision, and concluding on the reasonableness of such factors.

Other information

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

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

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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

- 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; and
- the Directors' strategic report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

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

MUNICIPAL MUTUAL INSURANCE LIMITED
(In Scheme of Arrangement)

Independent Auditor's report *continued*

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks applicable to the Company and the industry in which it operates. We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the directors, management and the internal auditors. We determined that the most significant laws and regulations were the Financial Conduct Authority (FCA) handbook, Prudential Regulation Authority (PRA) handbook and those that relate to the financial reporting framework, being United Kingdom Accounting Standards, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', FRS 103 'Insurance Contracts' and the Companies Act 2006, together with UK tax legislation;
- We enquired of the directors and management, including internal audit, to obtain an understanding of how the Company is complying with those legal and regulatory frameworks and whether there were any instances of non-compliance with laws and regulations and whether they had any knowledge of actual or suspected fraud. We corroborated the results of our enquiries through our review of the minutes of the Company's board and audit committee meetings, inspection of legal and regulatory correspondence and reports to the regulators, the PRA and the FCA;

MUNICIPAL MUTUAL INSURANCE LIMITED
(In Scheme of Arrangement)

Independent Auditor's report *continued*

- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by evaluating management's incentives and opportunities for manipulation of the financial statements. This included an evaluation of the risk of management override of controls. Audit procedures performed by the engagement team in connection with the risks identified included:
 - evaluation of the design and implementation of controls that management has put in place to prevent and detect fraud;
 - testing journal entries, including manual journal entries processed at the year-end for financial statements preparation; and
 - challenging the assumptions and judgements made by management in its significant accounting estimates.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it;
- The engagement partner's assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
 - understanding of, and practical experience with, audit engagements of a similar nature and complexity, through appropriate training and participation;
 - knowledge of the industry in which the Company operates; and
 - understanding of the legal and regulatory frameworks applicable to the Company.
- We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Company's operations, including the nature of its revenue sources, products and services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement;
 - the rules and interpretative guidance issued by the Financial Conduct Authority applicable to the Company and the scope of its authorisation; and
 - the Company's control environment, including the policies and procedures implemented to comply with the requirements of its regulator, including the adequacy of the training to inform staff of the relevant legislation, rules and other regulations of the regulator, the adequacy of procedures for authorisation of transactions, internal review procedures over the Company's compliance with regulatory requirements, the authority of, and resources available to the compliance officer and procedures to ensure that possible breaches of requirements are appropriately investigated and reported.

Other matters which we are required to address

We were appointed by the Audit Committee as set out within the engagement letter dated 16 May 2022 to audit the financial statements for the year ended 30 June 2022 and for the subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 4 years covering the periods ending 30 June 2019 to 30 June 2022.

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

Our audit opinion is consistent with the additional report to the audit committee.

MUNICIPAL MUTUAL INSURANCE LIMITED
(In Scheme of Arrangement)

Independent Auditor's report *continued*

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Flatley

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

London

29 September 2022

MUNICIPAL MUTUAL INSURANCE LIMITED
(In Scheme of Arrangement)

STATEMENT OF INCOME AND RETAINED EARNINGS
for the year ended 30 June 2022

	Note	2022		2021	
		£000	£000	£000	£000
<i>Technical account</i>					
Claims (paid)/recovered					
Gross amount		(11,272)		(15,024)	
Reinsurers' share	7	<u>5,001</u>		<u>6,019</u>	
Net claims (paid)			(6,271)		(9,005)
Change in provisions for claims					
Gross amount		36,734		25,675	
Reinsurers' share	7	<u>(3,087)</u>		<u>(3,653)</u>	
Change in net provisions for claims			<u>33,647</u>		<u>22,022</u>
Claims (incurred) net of reinsurance			27,376		13,017
Net Operating Expenses					
Administrative Expenses			(493)		(475)
Balance on technical account for general business	7		<u>26,883</u>		<u>12,542</u>
<i>Non-technical account</i>					
Investment Income					
Income from investments	16	4,751		5,035	
Net (loss)/profit on realisation of investments		<u>(1,318)</u>		<u>2,900</u>	
			3,433		7,935
Net unrealised (loss) on investments		(28,327)		(18,660)	
Investment expenses and charges		<u>(196)</u>		<u>(211)</u>	
			<u>28,523</u>		<u>(18,871)</u>
Net Investment (loss)/gain			(25,090)		(10,936)
Other charges	9		<u>(1,793)</u>		<u>(1,606)</u>
Profit on ordinary activities before tax			-		-
Tax on profit on ordinary activities	14		-		-
Profit on ordinary activities after tax			-		-
<i>Total comprehensive income</i>			<u>-</u>		<u>-</u>
<i>Retained earnings</i>					
Retained earnings brought forward			-		-
Profit on ordinary activities after tax			-		-
Retained earnings carried forward			<u>-</u>		<u>-</u>

MUNICIPAL MUTUAL INSURANCE LIMITED
(In Scheme of Arrangement)

STATEMENT OF FINANCIAL POSITION
as at 30 June 2022

	Note	2022		2021	
		£000	£000	£000	£000
<i>Intangible Assets</i>	3(vi)				
Development costs	15		281		365
<i>Investments</i>					
Other financial investments	16		189,181		229,140
<i>Reinsurers' share of technical provisions</i>					
Claims outstanding	3(iii)		13,760		16,847
<i>Debtors</i>					
Debtors arising out of reinsurance operations	8	1,043		280	
Other debtors	17	2,350		1,925	
			3,393		2,205
<i>Other assets</i>					
Tangible fixed assets	18	11		20	
Cash and cash equivalents	20	9,837		4,613	
			9,848		4,633
<i>Total Assets</i>			216,463		253,190
<i>Technical provisions</i>					
Gross amount of claims outstanding	6	(215,800)		(252,534)	
<i>Creditors</i>					
Other creditors including taxation and social security	19	(663)		(656)	
<i>Total liabilities</i>			(216,463)		(253,190)
<i>Net assets</i>			-		-
Retained earnings brought forward			-		-
Profit on ordinary activities after tax			-		-
<i>Profit and loss account</i>			-		-

The financial statements on pages 22 to 36 were approved by the Board of Directors on 29 September 2022 and signed on its behalf by

S Laird
Director

S J Ellis
Director

MUNICIPAL MUTUAL INSURANCE LIMITED
(In Scheme of Arrangement)

STATEMENT OF CASH FLOWS
for the year ended 30 June 2022

	Note	<u>2022</u>	<u>2021</u>
		£000	£000
<i>Net cash (outflow) from operating activities</i>	20	<u>(9,914)</u>	<u>(8,776)</u>
<i>Investing activities</i>			
Interest received		4,825	<i>5,160</i>
Purchases of tangible fixed assets		(1)	<i>(18)</i>
Purchases of intangible assets		–	<i>(271)</i>
Payments to acquire investments: UK gilts, debentures and floating rate notes		(37,115)	<i>(24,511)</i>
Receipts from sales of investments: UK gilts, debentures and floating rate notes		47,429	<i>29,951</i>
Net cash flow from investing activities		<u>15,138</u>	<u><i>10,311</i></u>
<i>Increase in cash and cash equivalents</i>		<u>5,224</u>	<u><i>1,535</i></u>
<i>Cash and cash equivalents at 1 July</i>		4,613	<i>3,078</i>
Increase in cash and cash equivalents in period		5,224	<i>1,535</i>
<i>Cash and cash equivalents at 30 June</i>	20	<u>9,837</u>	<u><i>4,613</i></u>

MUNICIPAL MUTUAL INSURANCE LIMITED
(In Scheme of Arrangement)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

1 General information

Municipal Mutual Insurance Limited is a private company, limited by guarantee and incorporated and domiciled in England. The address of its 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 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 1993, 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 agreed with the Company's largest insurance creditors (the 'Scheme Creditors'). The Scheme enabled the Company to continue to pay all its creditors in full until 13 November 2012, when the Directors determined 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.

Under the terms of the Scheme, Scheme Creditors have agreed to share any ultimate shortfall in the Company's capital proportionally to qualifying claims payments received. This is managed through the imposition by the Scheme Administrator of a levy on claims paid since 30 September 1993 and the application of a payment percentage to future projected claims at a rate that makes the Company's estimated assets equal to its estimated liabilities. As at 30 June 2022, the Scheme Administrator had imposed a levy of 25% and a payment percentage of 75% therefore reducing amounts paid on Scheme Creditors' claims by 25%. Creditors other than Scheme Creditors continue to be paid in full throughout the run-off period.

As part of its Own Risk and Solvency Assessment, the Directors assess the Company's resilience to financial and other shocks over the period to 30 June 2024. This is also the period over which the Directors have assessed the company's ability to continue as a going concern. The Directors consider that the principal Company risk over this period is that it is unable to meet its insurance settlement obligations when they fall due but have determined that its highly liquid financial assets fully mitigate this risk and are sufficient to meet any foreseeable payment requirements during this period. Having assessed the principal risks, the Directors have concluded it is appropriate to adopt the going concern basis of accounting in preparing the financial statements.

The Directors have also prepared a run-off forecast that indicates that under current assumptions, the Company has sufficient capital to meet all its liabilities under the current levy and payment percentage rate over the lifetime of the run-off. The run-off is currently forecast to extend to the year 2060. This long-term forecast is prepared for the benefit of the creditors and is shared with the Prudential Regulation Authority. The Directors are of the opinion that the provisions of the Scheme ensure that any future balance sheet deficit is eliminated through the adjustment of the levy and payment percentage rates applicable to Scheme Creditors.

(ii) 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.

(iii) Reinsurance

Reinsurers' share of technical provisions are estimates based upon gross provisions for outstanding claims, having due regard to collectability (note 6) and calculated in accordance with valuation methods agreed with reinsurers, where applicable. 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.

(iv) Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income. In this case tax is also recognised in other comprehensive income. Current or deferred taxation assets and liabilities are not discounted.

MUNICIPAL MUTUAL INSURANCE LIMITED
(In Scheme of Arrangement)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

3 Summary of significant accounting policies *continued*

(a) Current tax

Current tax is the amount of tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

(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) Intangible Assets

Intangible assets comprise of software costs incurred in the development of the Company's claims handling system, Pierian. This system went live on 01 October 2020.

Development costs are amortised in equal instalments over the next 5 years. Costs were not amortised until the system went live and were treated as work in progress and accounted at cost up until that date. The software will be used to manage claims over the life of the run-off of the Company's insurance business and 5 years is the minimum period the Company could envisage reviewing the Scheme in respect of its potential conclusion.

(vii) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments. Cash equivalents are amounts readily convertible to known amounts of cash that are subject to an insignificant risk of changes in value, e.g. investments with short maturity of three months or less from the date of acquisition.

(viii) 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, Section 11, the Company has elected to value these assets at fair value, with all gains and losses taken 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.

(ix) Pensions

The Company operates a Workplace Pension Scheme, a defined contribution scheme. Contributions to the Workplace Pension Scheme are made by the Company based upon amounts of salary sacrificed by each employee and are charged to the profit and loss non-technical account as incurred. The Plan requires a minimum staff contribution of 5% of pensionable salary. The Company contributes an additional 4% of pensionable salary.

(x) 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.

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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 provision for outstanding claims, including claims incurred but not reported, has been reduced in line with this payment 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.

(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 £215.8 million (2021: £252.5 million). Reinsurers' share of technical provisions, at £13.8 million (2021: £16.8 million) is calculated on the basis of these claims' estimates, having due regard to the anticipated cover years and, hence, reinsurance programs into which these claims will fall due. The most significant assumptions made relate to the level of future claims and the level of future claim settlements. Whilst the Directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated based on 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 £189.2 million (2021: £229.1 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 Scheme payment percentage (see note 4).

Claim provisions have been made with regard to past claim 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 claim provisions and in interpreting past claim experience as part of the process of establishing the total claim 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. Management reviews the development of key claims class reserves on a monthly basis.

Each year-end, the Directors instruct their actuarial advisors, KPMG, to produce three range estimates of claims outstanding, corresponding to a high, mid and low forecast of potential future claim 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. KPMG's report includes a high-level summary of current and emerging risks, detailing the issues and the currently adopted approach.

All claims are handled either in-house or by one of MMI's specialist panel of law firms under an outsourced agreement.

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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 liability estimates under the low, mid and high assumptions, along with the key variable assumptions for the mesothelioma and abuse classes are given below:

	gross claims outstanding £000	<i>Mesothelioma Assumptions</i>			<i>Abuse Assumptions (non-institutional)</i>		
		<i>MSO claims inflation p.a.*</i>	<i>Average Settlement 2022 (£)**</i>	<i>No of Future Claims</i>	<i>ABU claims inflation p.a.*</i>	<i>Average Settlement 2022 (£)**</i>	<i>No of Future Claims</i>
LOW	199,242	2.50%	Base-5.3%	805	2.50%	Base-12.6%	852
MID	276,342	4.00%	Base	936	3.50%	Base	1,254
HIGH	434,042	5.50%	Base+16.2%	1,159	4.50%	Base+7.7%	1,739

* An additional 5% loading on inflation is included for the next 2 years on all claims forecasts, over and above the long-term rates shown in the table above. This is to account for the current period of high inflation.

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

The table below shows the net profit and loss effect of a change from the mid case, once adjusted by the current payment percentage of 75% and reinsurance recoveries

	gross claims outstanding £000	net profit and loss effect £000
LOW	199,242	56,140
MID	276,342	–
HIGH	434,042	(114,771)

The gain of £56.1 million under the low scenario would be offset by an increase in the liability to repay levy monies previously raised and retained earnings would remain at £nil. The first £6.9 million of the £114.8 million loss under the high scenario would offset the current liability to repay levy monies included within claims outstanding, with the remaining £107.9 million shown as negative retained earnings.

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6 Management of Insurance and financial risk *continued*

(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 ten financial years:

<i>financial year ended 30 June</i>	Claims Outstanding – £000			Claims Paid – £000		
	<i>Gross claims outstanding</i>	<i>Reduction for payment percentage*</i>	Gross claims outstanding after payment percentage	<i>Gross paid claims net of recoveries before levy</i>	<i>Reduction for levy and payment percentage*</i>	Gross claims paid/ (recovered)
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)
2017	362,054	(87,217)	274,837	17,713	(5,899)	11,814
2018	336,741	(78,712)	258,029	17,958	(1,979)	15,979
2019	332,090	(74,811)	257,279	16,103	(3,845)	12,258
2020	321,790	(43,581)	278,209	18,595	(4,432)	14,163
2021	297,482	(44,948)	252,534	19,897	(4,873)	15,024
2022	276,342	(60,542)	215,800	15,510	(4,238)	11,272

* The Scheme provides a mechanism by which the Company can mitigate its insurance risk. The Scheme gives the Scheme Administrator the power to adjust the payment percentage applicable to claims to reflect the financial position of the Company; it also gives the Scheme Administrator the power to recover past payments in excess of the payment percentage through a levy. An initial payment percentage of 85% was set on 1 January 2014 and a 15% levy was made on Scheme Creditors on the same date. A further 10% levy was made on 1 April 2016. The payment percentage of 75% has remained unchanged since 1 April 2016. Under the Scheme, the Payment Percentage will be adjusted to reflect the changing financial circumstances of the Company throughout the run-off of its claim liabilities, ensuring that all Scheme Creditors receive an equitable share of the Company's assets. The Company remains liable for all unpaid liabilities until the conclusion of the run-off of the Company. If there are insufficient assets to pay liabilities in full at conclusion, then final payment will be made to Scheme Creditors on a pro-rata basis. If surplus assets exist at the conclusion of the run-off, the Scheme Creditors will receive a pro-rata share of the first £30 million of the surplus.

To the extent that the Company would otherwise report a surplus of net assets, the reduction in claims outstanding for the repayment percentage is restricted by this asset surplus to reflect the obligation to repay monies previously raised by the levy/payment percentage mechanism (see note 24: Contingent liabilities). As at 30 June 2022, the reduction for the payment percentage of £60.5 million (2021: £44.9 million) has been restricted by a total of £6.9 million (2021: £27.0 million) to reflect this notional surplus.

Gross claims outstanding of £215.8 million at 30 June 2022 is net of amounts recoverable from third parties of £2.6 million (2021: £nil).

(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 of 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. A 100bps sensitivity has been selected to reflect the variation which might reasonably be expected in a given twelve-month period.

	2022	Change	2021	Change
	£000	£000	£000	£000
Financial assets at fair value through the profit and loss	189,181		229,140	
<i>Sensitivities:</i>				
Fair value following 100bps increase in interest yields	174,148	(15,033)	208,868	(20,272)
Fair value following 100bps decrease in interest yields	206,603	17,422	252,925	23,785

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6 Management of Insurance and financial risk *continued*

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 except for 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 £15 million. All investments must be denoted in sterling and the use of derivatives is not permitted under the agreement. Company policy is that all cash balances should be held with parties rated as at least Investment Grade.

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

	2022	<i>2021</i>
	£000	<i>£000</i>
Gilts	127,218	<i>158,917</i>
Fixed income corporate bonds	47,867	<i>67,188</i>
Floating rate notes	14,096	<i>3,035</i>
Reinsurers' share of technical provisions	13,760	<i>16,847</i>
Debtors arising out of reinsurance operations	1,043	<i>280</i>
Cash and cash equivalents	9,837	<i>4,613</i>
Accrued Interest	1,321	<i>1,396</i>
Amounts owed by Scheme Creditors	687	<i>200</i>
Other debtors	342	<i>329</i>
Total assets bearing credit risk	<u>216,171</u>	<i><u>252,805</u></i>
AAA	54,351	<i>53,288</i>
AA	157,551	<i>194,471</i>
A	418	<i>220</i>
BBB	729	<i>2,054</i>
Not Rated	3,122	<i>2,772</i>
Total assets bearing credit risk	<u>216,171</u>	<i><u>252,805</u></i>

Ratings of A and below in the above table relate to non-investment assets only. These lower rated assets are regularly monitored for recoverability and provided for when necessary.

(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 will be met through the Scheme levy mechanism.

Short term liquidity requirements are met by transfers of funds from investments to cash. Under the Company's Investment Management Agreement, a minimum target of £2.0 million is set for same day transfer and £10 million of funds must be made available within 5 working days on request.

The projected settlement of the Company's liabilities is given below

	Between	Between	Between		
	1 year	5 years	10 years		
Financial Liabilities and outstanding claims	<1 year	and 5 years	and 10 years	and 20 years	>20 years
	£000	£000	£000	£000	£000
					Total
					£000
At 30 June 2022:					
Outstanding claims	12,217	49,236	56,968	67,768	29,611
Other Creditors	663	–	–	–	663
	<u>12,880</u>	<u>49,236</u>	<u>56,968</u>	<u>67,768</u>	<u>29,611</u>
					<u>216,463</u>

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6 Management of Insurance and financial risk *continued*

<i>Financial Liabilities and outstanding claims</i>	<i><1 year £000</i>	<i>Between 1 year and 5 years £000</i>	<i>Between 5 years and 10 years £000</i>	<i>Between 10 years and 20 years £000</i>	<i>>20 years £000</i>	<i>Total £000</i>
At 30 June 2021:						
Outstanding claims	14,520	53,006	57,982	73,638	53,388	252,534
Other Creditors	656	–	–	–	–	656
	<u>15,176</u>	<u>53,006</u>	<u>57,982</u>	<u>73,638</u>	<u>53,388</u>	<u>253,190</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 £189.2 million (2021: £229.1 million) comprise of UK gilts, debentures and similar debt securities. They are all categorised as level 1.

7 Supplementary Information Regarding Classes of Business

Balance on technical account for general business	2022			2021		
	Gross claims £000	Reinsurance recoveries £000	Net £000	Gross claims £000	Reinsurance recoveries £000	Net £000
Employers' liability	3,093	1,116	4,209	(6,514)	1,264	(5,250)
Public liability	2,117	798	2,915	9,374	1,102	10,476
Unallocated claims handling costs	(73)	–	(73)	1,076	–	1,076
Levy adjustment	19,832	–	19,832	6,240	–	6,240
	<u>24,969</u>	<u>1,914</u>	<u>26,883</u>	<u>10,176</u>	<u>2,366</u>	<u>12,542</u>

Third party liability claims are predominantly abuse claims. The major component of Employers' liability claims by value is mesothelioma, but the class also includes noise induced hearing loss and vibration white finger claims.

Reinsurance Recoveries

Reinsurance recoveries are amounts recoverable under excess of loss reinsurance contracts. Reinsurance recoveries for the year ended 30 June 2022 were £1.9 million (2021 £2.4 million), being reinsurance monies receivable of £5.0 million, less a reduction of reinsurers' share of technical provisions of £3.1 million.

Gross Claims Outstanding

	2022 £000	2021 £000
Employers' liability	187,454	201,259
Public liability	84,857	91,772
Unallocated claims handling provision ('ULAE')	4,031	4,451
Reduction for Levy/payment percentage	(60,542)	(44,948)
Total claims outstanding	<u>215,800</u>	<u>252,534</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 Earnings shown on page 22. All business results from contracts concluded in the UK.

The Company's in-house claims handling system, Pierian, went live on 01 October 2020. As at 30 June 2022, a provision of £4.0 million (2021: £4.5 million) has been made for future claims handling administration costs ('ULAE'), including staffing and maintenance of this claims handling system.

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8 Debtors arising out of reinsurance operations

	2022	<i>2021</i>
	£000	<i>£000</i>
Debtors arising out of reinsurance operations	1,043	<i>280</i>

This balance represents reinsurance recoverable balances submitted to reinsurers for payment and not yet settled and are recorded at the transaction price. All are expected to settle within 12 months.

9 Other Charges

	2022	<i>2021</i>
	£000	<i>£000</i>
Operating lease rentals – leasehold property	164	<i>139</i>
Other administration costs	1,629	<i>1,467</i>
Total other charges	1,793	<i>1,606</i>

10 Employee information

The monthly average number of persons (including executive Directors) employed by the Company during the year was 8 (2021: 8). All staff are employed in the run-off administration of the Company.

Staff costs for the above persons were:

	2022	<i>2021</i>
	£000	<i>£000</i>
Wages and salaries, including amounts sacrificed as pension contributions (Note 12)	737	<i>720</i>
Social security costs	82	<i>79</i>
Other pension costs – contributions by Company	29	<i>27</i>
	848	<i>826</i>

11 Directors' emoluments and Scheme Administrator's fees

	2022	<i>2021</i>
	£000	<i>£000</i>
The aggregate emoluments paid to directors in respect of qualifying services were	355	<i>266</i>
The amount included above in respect of the highest paid Director was	193	<i>182</i>
The number of directors who were accruing benefits under the defined contribution pension scheme was	2	<i>1</i>

The emoluments of directors are set by the Company's Remuneration Committee and are subject to the approval of the Scheme Administrator.

At 30 June 2022, the Company had 5 directors (2021: 4). An analysis of the remuneration packages of the executive Directors is set out below:

	Salary	Pension	Benefits	Total	<i>Total</i>
	£000	contributions	in kind	2022	<i>2021</i>
	£000	£000	£000	£000	<i>£000</i>
S J Ellis	184	7	2	193	<i>182</i>
S Laird	70	3	1	74	<i>–</i>
	254	10	3	267	<i>182</i>

S Laird was appointed a director on 1 January 2022 and the table above reflects his remuneration from that date. In addition, he received a total remuneration of £69,000 for his period of employment from 01 July 2021 to 31 December 2021.

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11 Directors' emoluments and Scheme Administrator's fees *continued*

An analysis of the fees paid to the non-executive directors is set out below:

	Total	<i>Total</i>
	2022	<i>2021</i>
	£000	<i>£000</i>
M B A Walker	44	43
G H Hughes	44	43
	88	<i>86</i>
	88	<i>86</i>

In addition to their fees, non-executive directors are eligible for reimbursement of expenditure incurred for the attendance at Board meetings.

The remaining director, K Gill, did not receive any remuneration in respect of his directorship of MMI. Fees incurred by MMI and payable to Ernst & Young LLP in respect of Mr Gill's role as a director are disclosed in note 22.

12 Pensions

The Company operates a Workplace Pension Scheme which is an auto-enrolment compliant defined contribution scheme. Members of the scheme must contribute a minimum of 5% of gross salary, usually by way of salary sacrifice, with a further 4% of gross salary contributed to the Plan by the Company. Amounts shown in Note 10 in respect of staff and directors are the gross salaries to which they 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 £20,000 (2021: £9,000) and contributions for income protection benefits were £14,000 (2021: £6,000).

13 Auditors' remuneration

	2022	<i>2021</i>
	£000	<i>£000</i>
Fees payable to the Company's auditors for the audit of the Company	124	121
Audit related assurance services	13	12
	137	<i>133</i>
	137	<i>133</i>

The Company's auditors are Grant Thornton UK LLP.

14 Tax on profit/(loss) on ordinary activities

The standard rate of Corporation Tax in the UK was set at 19% with effect from 1 April 2017. The relevant deferred tax balances have been calculated at this 19%.

	2022	<i>2021</i>
	£000	<i>£000</i>
Profit on ordinary activities before tax	—	—
UK corporation tax at 19% (2021: 19%) on taxable profit/(losses) for the period	12	(12)
Deferred tax on trading losses carried forward/(utilised)	(12)	12
Tax charge in non-technical account	—	—
	—	—

There is deferred tax not provided on tax losses of £11.8 million (2021: £11.8 million), which will be recovered if the Company makes future trading profits. As the Company is in run-off it does not anticipate making future profits. There is no expiry date associated with the utilisation of the losses against 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.

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15 Development costs

	Software Costs £000
Book Cost	
At 1 July 2021	423
Additions	–
Disposals	–
At 30 June 2022	423
Amortisation	
At 1 July 2021	58
Charge for the year	84
Eliminations in respect of disposals	–
At 30 June 2022	142
Net book value	
30 June 2022	281
30 June 2021	365

Software costs represents expenditure by the Company in developing its own in-house claims handling system. This expenditure was treated as work in progress and was not amortised until the system went live on 01 October 2020.

16 Investments

Financial investments comprise of the following

	2022		2021	
	Cost £000	Market Value £000	Cost £000	Market Value £000
Financial assets at fair value through the profit or loss	216,618	189,181	228,250	229,140
Income from investments		4,751		5,035

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

17 Other debtors

	2022 £000	2021 £000
Accrued interest	1,321	1,396
Amounts owed by Scheme Creditors	687	200
Prepayments and other debtors	342	329
	2,350	1,925

MUNICIPAL MUTUAL INSURANCE LIMITED
(In Scheme of Arrangement)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

18 Tangible fixed assets

	Fixtures, fittings and office equipment £000
Book Cost	
At 1 July 2021	351
Additions	1
Disposals	–
At 30 June 2022	352
Accumulative depreciation	
At 1 July 2021	331
Charge for the year	10
Eliminations in respect of disposals	–
At 30 June 2022	341
Net book value	
30 June 2022	11
30 June 2021	20

The charge for depreciation for the year ended 30 June 2021 was £11,000.

19 Other creditors including taxation and social security

	2022 £000	<i>2021 £000</i>
Amounts owed to trade creditors	73	88
Taxation and social security payable	30	26
Other operational accruals: non-financing balances	560	<i>1,152</i>
	663	<i>656</i>

20 Notes to the statement of cash flows

(i) Profit/(loss) on operating activities

	2022 £000	<i>2021 £000</i>
Profit for the financial year	–	–
Depreciation charges	10	11
Amortisation charges	84	58
Investment return	24,894	10,725
(Decrease) in gross claims provision	(36,734)	<i>(25,675)</i>
Decrease in reinsurers' share of claims provision	3,087	3,653
Increase/(decrease) in other creditors	7	(610)
(Increase)/decrease in amounts due from reinsurers	(763)	<i>3,056</i>
(Increase)/decrease in debtors	(499)	<i>6</i>
Net cash (outflow) from operating activities	(9,914)	<i>(8,776)</i>

(ii) Movement in cash and portfolio investments

	<i>At 1 July 2021 £000</i>	<i>Cash flow £000</i>	Realised and unrealised losses £000	At 30 June 2022 £000
Cash in hand and at bank and deposits with credit institutions	4,613	5,224	–	9,837
UK Gilts, debentures and floating rate notes	229,140	(10,314)	(29,645)	189,181
	233,753	(5,090)	(29,645)	199,018

MUNICIPAL MUTUAL INSURANCE LIMITED
(In Scheme of Arrangement)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

21 Events after the reporting period

The Company continues to monitor operational and other risks in relation to the unfolding Covid 19 pandemic in the post year end period. At the date of signing of the Report and Accounts, for the year ended 2022, operations continue as normal. The Company continues to monitor investment market fluctuations during this period; the latest month-end valuation of the Company's investment assets was at the 31 August 2022 at a market value of £181.8 million (30 June 2022: £189.2 million).

22 Transactions with related parties

As Scheme Administrator, R Barker exercises general powers of management and control of the business. Mr Barker is an Associate Partner of Ernst and Young LLP. K Gill is a director of the Company and is a partner of Ernst and Young LLP. The Company has incurred the following costs in respect of services provided by Ernst & Young LLP.

	2022	<i>2021</i>
	£000	<i>£000</i>
Administering the Scheme of Arrangement	135	<i>108</i>
Fees paid in respect of director's services	52	<i>43</i>
Other assurance services	30	<i>38</i>
Taxation services	16	<i>12</i>
	233	<i>201</i>
	233	<i>201</i>

As at 30 June 2022, the balance outstanding in respect of these services was £4,000 (2021: £26,000). All transactions with Ernst and Young LLP have been undertaken on an arm's length basis.

23 Obligations under leases

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

	Land and buildings	<i>Land and buildings</i>
	2022	<i>2021</i>
	£000	<i>£000</i>
Payable within one year	137	<i>137</i>
Payable between two and five years	222	<i>359</i>
	359	<i>496</i>
	359	<i>496</i>

24 Contingent liabilities

Upon the triggering of the Scheme, the Scheme Administrator set an initial payment percentage of 85% and imposed an initial levy on Scheme Creditors of 15%. The payment percentage was decreased to 75% from 1 April 2016 and an additional 10% Levy was billed at that date. As at 30 June 2022, £207.7 million has been collected from Scheme Creditors via the Levy mechanism (2021: £203.4 million).

The Company reflects the requirement to repay this liability to the extent that it would otherwise hold surplus reserves. The future levy recoverable element of claims outstanding at 30 June 2022 of £60.5 million (2021: £44.9 million) includes an offset of £6.9 million (2021: £27.0 million) in respect of these surplus reserves (see note 6(i)(b)), representing a decrease of £20.1 million which otherwise would have represented the Company's loss for the year.

Taking account of historical and future levy/payment percentage deductions, the liabilities of the Company have consequently been reduced by £268.2 million (2021: £248.4 million). Part, or all of these liabilities could become payable to Scheme Creditors if the financial position of the Company improves and the payment percentage is consequently increased.

Under the terms of the Scheme, Scheme Creditors are also entitled to additional payments of up to £30 million from any surplus reserves once all other liabilities have been met in full. 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 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 2022 (2021: £nil).

25 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 the voting rights exercisable by the Scheme Administrator at general meetings give him effective overall control of the Company.

