



MUNICIPAL MUTUAL

(subject to a Scheme of Arrangement under section 425 of the Companies Act 1985 which was triggered on 13 November 2012, with Gareth Hughes appointed as Scheme Administrator)

30 October 2013

Dear Scheme Creditor

Important Notice - Municipal Mutual Insurance Limited (MMI) Scheme of Arrangement

Further to my letters dated 2 April 2013 and 13 May 2013 in which I advised that I would be setting the initial levy under the terms of the Scheme of Arrangement at 15%, I provide below details of the timing of the Levy Notice and instructions on the new claims handling procedures that will come into effect on the date that the Levy Notice is issued.

On 2 December 2013 at 11am I will also be holding a live webcast to provide information on the Levy and claims handling procedures. Following the presentation there will be an opportunity for Scheme Creditors to ask questions and I encourage all Scheme Creditors to join the call by registering their details for the call via the link on MMI's webpage: mminsurace.co.uk

The Levy Notice

The Levy Notice will be issued as of and with effect from 1 January 2014, being the "Levy Notice Date" for the purpose of the Scheme of Arrangement. The Levy Notice will comprise details of the Levy and a separate statement, which will be sent under separate cover within fourteen days of 1 January 2014, detailing amounts paid by MMI under its policies since 30 September 1993, (the "Scheme Record Date" for the purposes of the Scheme of Arrangement) with an invoice in respect of the Levy charge. Levy payments will fall due 45 days from the Levy Notice Date.

The Payment Percentage and claims handling process

Immediately following the setting of a Levy I am required by the Scheme to instigate payment of all claims of Scheme Creditors at the Payment Percentage, being 100% less the Levy. Consequently the initial Payment Percentage will be 85%.

In order to enable the proper application of the Payment Percentage it will be necessary to move to a system of indemnity for all future liabilities arising on policies of all Scheme Creditors who have received payments in excess of £50,000 against their policies in total since 30 September 1993. Liabilities arising under such policies are given the title "Established Liabilities" in the Scheme.

I am aware that following local government changes over the years, many local authorities have been merged, or been split and shared between new local authorities. In these cases the Scheme of Arrangement specifically states that the successor authority is the policy holder and is entitled to only one £50,000 deduction. I have taken legal advice on this issue and will be treating all liabilities of successor authorities in excess of £50,000 as Established Liabilities.

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Zurich will continue to handle all claims from the Levy Notice date however they will no-longer be able to make any payment in respect of Established Liabilities on the Scheme Creditor's behalf. Zurich will therefore advise the Scheme Creditors of any payment in respect of claimant's damages, expenses and costs that are due and the Scheme Creditor must make arrangement for the payment of this liability in full. The only costs that will be paid by MMI on the Scheme Creditor's behalf are the cost of defending the claim where MMI has elected to do so and CRU costs

Zurich will record the payments made by the Scheme Creditor in their records and provide information to MMI on a weekly basis. MMI will account to Scheme Creditors monthly in respect of 85% of amounts paid by Scheme Creditors adjusted for any amounts owed to MMI by the Scheme Creditor in respect of 15% of Elective Defence or CRU costs paid by MMI

The following new claims handling procedures have been agreed with MMI's claims handlers at Zurich:

1. New claims should continue to be presented in the normal course either to Zurich or to MMI directly in accordance with existing practice
2. On receipt of a new claim Zurich will identify whether that claim is from a Scheme Creditor that has received payments in excess of £50,000 against their policies in total since 30 September 1993
3. Zurich will write to the Scheme Creditor to:
 - a. Confirm receipt of the claim
 - b. Advise that they are dealing with it on behalf of MMI
 - c. Advise that the claim is subject to the Scheme of Arrangement and that in the first instance all cost must now be paid by the Scheme Creditor.
 - d. Confirm the cover applicable to the claim and refer to any shortfall identified
 - e. Ask the Scheme Creditor to confirm that the contact details (names, addresses, email addresses and telephone numbers) and reference we have for them are correct as they will be providing these to the claimant's solicitors to use in the event of any issues arising in respect of payments requested under the Scheme of Arrangement
4. Write to the claimant's solicitors to:
 - a. Confirm receipt of the claim.
 - b. Advise that they are dealing on behalf of MMI as their claims handlers.
 - c. Confirm the extent of MMI's cover
 - d. Advise the claimant's solicitor that the claim is subject to the Scheme of Arrangement and what this will mean in respect of payments for damages and their costs

Some specific claims are dealt with directly by MMI and the new procedures described above will also apply to such cases.

Existing Claim Notification

The above procedure will also apply to any existing claim at the time of the next activity after the Levy Notice Date.


Protected Creditors

As previously advised some creditors may be entitled to relief from all or part of the Levy and the Payment Percentage provision if they were eligible for the protection of the Policyholders Protection Board ("PPB"), now the Financial Services Compensation Scheme ("FSCS"), at the time the Scheme was approved on 30 September 1993 (the "Record Date"). Any creditor entitled to protection is required to complete a form for submission to the FSCS for certification. The relevant form to complete and return to MMI for submission to the FSCS was enclosed with my letter of 13 May 2013. The protected claims of protected creditors will therefore continue to be paid in full by MMI.

We will not be able to treat any Scheme Creditor as protected unless we have received notification of the certification of that creditor from the FSCS before the payment falls due. Affected Scheme Creditors can download a form from the MMI website.

If you require any further information please direct your questions in the first instance to MMI using the e-mail address soa@mminsurance.co.uk or alternatively you may contact my colleague Sarah Ellis at sellis@uk ey.com

Yours faithfully
For MMI



Gareth Hughes
Scheme Administrator
Direct line: 020 7951 9955

GHH/SJE/MMI