MUNICIPAL MUTUAL INSURANCE LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

YEAR ENDED 30 JUNE 2016

Executive Summary

Business and performance

The principal activity of Municipal Mutual Insurance Limited (‘**MMI**’ or ‘**the Company**’) during the year continued to be the run-off of its general insurance liabilities on policies issued up to 30 September 1992, being the date on which the Company ceased to write general insurance business.

MMI is in run off and subject to a scheme of arrangement under the Companies Act 1985 that was sanctioned by the High Court in England and Wales in 1994 (the ‘**Scheme**’).

The Scheme provides a mechanism under which:

- Policyholders who are not Scheme Creditors receive claims handling services and payment of their claims in full as if MMI were a solvent insurer;

- Policyholders who are also Scheme Creditors receive claims handling services and an immediate payment of a proportion of their claims at the payment percentage (currently 75%); and

- There is an equitable treatment of policyholders irrespective of at what point in time their liabilities crystallise.

The Scheme is delivering the closure of MMI in the most orderly and effective manner as is consistent with the generality of policyholders’ best interests.

Under the terms of the Scheme it is not possible for the Company to raise additional capital to enable it to meet its minimum solvency requirement. The Company is therefore in deficit and will remain in deficit whilst its business is brought to a close. This process is expected to take many years however the Scheme provides protection for policyholders over the duration and is structured to deliver the best possible outcome for policyholders. It therefore meets the main objective of Solvency II.

All underwriting activity of MMI has been in respect of the run-off of general liability business, since the Company ceased to write insurance business in 1992. The balance on the technical account for general business at 30 June 2016 was a deficit of £12,990k.

There were two significant events in the year; firstly, the payment percentage was reduced on 1 April 2016 from 85% to 75%. Any change in the payment percentage applies to future claims payments, but also to historical payments made on behalf of Scheme Creditors since 30 September 1993. The change in the amount due from these historical payments from this percentage change is recovered by way of a levy. Income for the year as a result of this levy mechanism and the payment percentage was £112,722k.

Secondly, MMI’s former subsidiary, Municipal General Insurance Limited was liquidated on 26 February 2016. It had been in provisional liquidation since 9 March 1994.

The Company reported profits for the year of £108,758k, compared to a loss £38,388k in the prior period. Profits arose mainly as a result of income arising from the levy charge and payment percentage change.

The Company also recorded gains from investment activities of £12,095k from investments in UK Gilts, debentures, floating rate notes and cash deposits during the period. This represented an increase of approximately £4,000k compared to prior period. The Company had no further material income during the period.

The only material change to the Company's business and performance in the period was the change to the levy rate. The levy rate was increased and the payment percentage reduced as a consequence of increases to the provisions at the 30 June 2015 for future mesothelioma and abuse claims liability.

The current payment percentage is expected to remain unchanged in the immediate future but is subject to annual review by the Scheme Administrator.

Refer to Section A below for further details relating to business and performance during the reporting period.

System of Governance

Management considers the Company to have an adequate system of governance based on the nature, scale and complexity of its operations.

The management of the run-off of MMI business is carried out under the terms of the Scheme, which was sanctioned by the High Court of Justice Chancery Division and approved by the Policyholders Protection Board, a precursor to the Financial Services Compensation Scheme. The Scheme Administrator, Gareth Hughes, who is required to be a person qualified to act as an insolvency practitioner in accordance with the Insolvency Act 1986, 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. During the year, the Scheme Administrator, Gareth Hughes and his deputy, Benjamin Cairns, were both appointed as directors of MMI to comply with the provisions of the Company's articles.

The Scheme Administrator has ultimate responsibility for ensuring that an adequate and effective system of internal controls is maintained in the Company. There is an ongoing process for identifying, evaluating and managing the risks faced by MMI which was in place throughout the period. The Company plans to commence a rolling programme of internal audit reviews using Ernst & Young LLP's ('**EY**') internal audit function in 2017.

The day to day management of the Company is carried out by a management board ('**the Board**') comprising the Scheme Administrator and his deputy, with assistance from senior managers.

The Actuarial function is outsourced to KPMG LLP ('**KPMG**') who provide estimates of future claims liabilities for statutory accounts and Solvency II purposes. The results are reviewed and approved by the Scheme Administrator and Financial Controller. Other areas outsourced include claims handling, which is carried out by Zurich Insurance plc ('**Zurich**'), and investment management which is carried out by Aviva Investors Global Services Limited ('**Aviva**').

Refer to Section B below for further details relating to MMI's system of governance.

Risk Profile

As the Company ceased to underwrite insurance business in 1992, it is not exposed to premium, catastrophe and lapse risks. Notwithstanding, the Company is exposed to risks from claims arising on policies prior to cessation, market risks arising from investments and other assets, credit risks arising from the inability of debtors, including reinsurers, to pay amounts owing to MMI when due, liquidity risks which could prevent the Company from paying its obligations and operational risks resulting from inadequate or failed internal processes.

As a result of levy income received during the period, MMI held a significant cash balance of £85,040k held by its custodian at 30 June 2016. This balance represents an increased credit risk, but should be considered a short term exposure, as the Company is making arrangements for the long term investment of these funds. There were no other material changes in the Company's risk profile during the year.

Refer to Section C below for further details relating to MMI's management of these risks.

Valuation for Solvency Purposes

On a Solvency II basis, as at 30 June 2016 the Company held assets of £282,717k, against technical provisions of £357,220k and additional trade payables of £907k.

Total assets on a Solvency II basis were £1,242,000 lower than as reported in the statutory financial statements as at 30 June 2016. The adjustment related to the discounting of reinsurance receivables to determine the Solvency II value.

Technical provisions on a Solvency II basis were £68,357k higher than as reported in the statutory financial statements as at 30 June 2016. Adjustments were made with respect to allocated administrative expenses (increase of £28,741k), events not in data (increase of £4,563k), impact of discounting (decrease of £31,710k) and the inclusion of the risk margin (increase of £66,763k).

Refer to Section D below for further details relating to valuation for solvency purposes.

Capital Management

Own funds as at 30 June 2016 showed a deficit of £75,410k. The Company uses the Standard Formula to calculate the Solvency Capital Requirement ('**SCR**'). The SCR computed at the end of the reporting period was £103,871,000 and the Minimum Capital Requirement ('**MCR**') was £28,680,000. MMI is in breach of its solvency requirements and the Scheme of Arrangement does not provide a mechanism whereby funds can be raised sufficiently to eradicate this deficit.

The Company commenced calculation of SCR and MCR for Solvency II purposes for the first time in the period. This was the only material change to capital management in the year and was implemented to comply with regulatory requirements.

Refer to Section E below for further details relating to MMI's capital management.

Directors' Statement

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the Prudential Regulation Authority ('**PRA**') Rules and the Solvency II Regulations.

We are satisfied that:

a) Throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer except as regards compliance with the requirement in Rule 2.1 of "Solvency Capital Requirement – General Provisions" Chapter of the Solvency II Firms Sector of the PRA Rulebook to hold eligible own funds to cover the SCR and Rule 2.1 of "Minimum Capital Requirement" Chapter of the Solvency II Firms Sector of the PRA Rulebook to hold eligible basic own funds to cover the MCR.

b) It is reasonable to believe that the insurer has continued so to comply subsequently and will continue so to comply in future, with the exception of compliance with SCR and MCR requirements referred to above.

Gareth Hughes

Director

Benjamin Cairns

Director

20 December 2016

A: Business and Performance

A.1 Business

Entity:	Municipal Mutual Insurance Limited
Registered Number:	00076678 England
Registered Office:	23 College Hill, London, EC4R 2RP
Supervisory Authority:	The Prudential Regulation Authority
Supervisory Address:	20 Moorgate, London, EC2R 6DA
External Auditor:	PricewaterhouseCoopers LLP
External Auditor Address:	7 More London Riverside, London SE1 2RT

The Company is a company limited by guarantee and does not have share capital. It is owned by its members.

Scheme of Arrangement

The Company is subject to a Scheme of Arrangement under section 425 of the Companies Act 1985 (now section 899 of the Companies Act 2006). The Scheme is binding on Scheme Creditors, who mostly comprise local authorities, who have or may have claims against the Company under, or arising out of, contracts of insurance written by MMI. All other creditors sit outside of the Scheme and continue to be paid in full.

Scheme Creditors are defined in the Scheme as creditors of the Company who:

- As at 30 September 1993 (the '**Record Date**') were recorded in the books of the Company as having liabilities under contracts of insurance ('**Scheme Liability**') outstanding to them of not less than £25k, in the case of claims reported by not by then agreed; and
- An aggregate amount of Scheme Liabilities agreed, whether before or after the Record Date, as obligations of the Company exceeding £50k.

The Scheme was sanctioned as a contingent scheme of arrangement in that it allowed the Company to continue in run off, paying all its liabilities in full until such time as the Directors of MMI had given written notice that a 'Trigger Event' had occurred, (in that they had concluded that, without the occurrence of a Trigger Event and the operation of the Scheme in accordance with its terms thereafter, there was no reasonable prospect that MMI will avoid going into insolvent liquidation).

A Trigger Event occurred on 13 November 2012 on which date the Scheme Administrator, Gareth Hughes, an Insolvency Practitioner and partner of the business advisory firm, EY, took over the day to day management of the Company.

Following a Trigger Event, the Scheme provides, among other things, that the Scheme Administrator may:

- set a Payment Percentage for the payment of future Scheme Liabilities at less than 100% of full value; and

- impose a Levy on each of the Scheme Creditors to recover past amounts paid by MMI in respect of Scheme Liabilities over and above the Payment Percentage rate from the Record Date (30 September 1993) to the Levy Notice Date.

As at 30 June 2016, the Payment Percentage was 75%.

In accordance with Article IV (a) and (c) of the Company's Articles of Association, since the triggering of the Scheme of Arrangement the voting rights exercisable by the Scheme Administrator at general meetings give him effective overall control of the Company. Excluding the Scheme Administrator, no single member controls 10% or more of the voting rights or is able to exercise significant influence.

Group Structure

The Company's sole wholly-owned subsidiary, Municipal General Insurance Limited ('**MGI**'), has not previously been consolidated in the financial statements because of severe long-term restrictions which substantially hindered the exercise of the parent undertaking's rights over MGI's assets and management. These restrictions arose upon the appointment of joint provisional liquidators to MGI on 9 March 1994. MGI was placed into Compulsory Liquidation on 20 February 2015 with the Official Receiver acting as Liquidator. On 26 February 2016, MGI was dissolved. The Company received no financial benefit. The Company has no other subsidiaries, associates or branches.

Objectives and Strategies

MMI's business strategy is to achieve the best outcomes for policyholders and Scheme Creditors from the run off of the insurance business subject to the Scheme of Arrangement.

The principal objectives of the Company are:

- The protection of investment assets and cost control to preserve the maximum value in the Company for the benefit of policyholders and Scheme Creditors;

- Provision of claims management services for policyholders; and

- Delivery of the provisions of the Scheme of Arrangement, including servicing the financial transactions associated with Levy and Payment Percentage.

All MMI's run-off business results from contracts concluded in the UK and MMI's sole Solvency II Line of Business is General Liability Insurance.

Performance

Financial statements are prepared in accordance with UK GAAP.

Summary profit and loss for the year ended 30 June 2016 was as follows:

	2016 £000	2015 £000
Balance on technical account for general business	(12,990)	(53,735)
Net investment income	12,095	8,362
Other income	-	1,881
Other expenses	(3,068)	(3,296)
Levy amounts receivable	112,722	8,400
Profit/(loss) for the year	**108,758**	**(38,388)**

The movement to profit in the year ended 30 June 2016 from a loss in the year ended 30 June 2015 was due to the decision by the Scheme Administrator to increase the levy under the Scheme to 25%, reducing the Payment Percentage to 75% on 1 April 2016. The additional levy charge totalled £72,604k in regard of past settlements made since the inception of the Scheme in September 1993 and the reduction in the future claims provision as a result of reduction to the Payment Percentage totalled £40,118k. Total levy income for the year ended 30 June 2016 was therefore £112,722k.

A.2 Performance from Underwriting Activities

All MMI's run-off business results from contracts concluded in the UK and MMI's sole Solvency II line of business is General Liability Insurance.

MMI ceased to write general liability insurance business on 30 September 1992. All underwriting activity since that date has been in respect of the run-off of this business.

The balance on the technical account for the year was as follows:

	2016 Actual £000	2016 Budget £000	2015 Actual £000
Claims Paid	(14,327)	(18,300)	(13,893)
Reinsurance recoveries	432		2,842
Net movement on claims reserves	905	18,300	(42,684)
Balance on technical account for general business	**(12,990)**	-	**(53,735)**

For 2015/16, the underlying claims activity continues to present uncertainty as to the ultimate outcome of the Company's run-off. The Company's insurance liabilities relate to Employers' Liability and in particular mesothelioma compensation payments and Public Liability claims in respect of abuse of children/young people. The very nature of these claims makes future projection uncertain.

The technical account deficit of £12,990k for the year ended 30 June 2016 compares to a technical account deficit of £53,735k with respect to the prior period.

As at 30 June 2016, it was necessary to increase the provision for abuse claims as projected by the Company's actuarial advisers, KPMG. However, no increase in the provision for mesothelioma claims was required, as reporting patterns for new mesothelioma claims had remained stable in the year.

As at 30 June 2015, it had been necessary to substantially increase reserves in respect of both the Employers' Liability mesothelioma account and the Public Liability abuse account following receipt of revised future liability projections received from KPMG. The increases were a result of considerably increased numbers of new claims in the year ended 30 June 2015.

The technical account deficit of £12,990k, as compared to budget of zero, is attributable to a loss on public liability insurance of £24,362k net of a gain of £11,372k in respect of employers' liability insurance. The loss on public liability claims was almost entirely due to the strengthening of the provision for abuse claims in light of increased notifications during the year. The gain on employers' liability was mainly due to deafness claims, where there were reduced new notifications year on year (2016: 591, 2015: 893) and a higher proportion settled at nil value. Employers' liability mesothelioma was stable with slightly fewer claims year on year.

The table below provides a reconciliation to expenses reported on Quantitative Reporting Template S.05.01 (Premiums, claims and expenses):

	2016 **£**	**2016**
Claims incurred – [Section A.2] *Gross - Direct Business* *Reinsurers' share*	 12,722,224 267,951	
Net		**12,990,175**
Expenses incurred- [Section A.3} Investment management expenses		 93,001
Overhead expenses – [Section A.4]		3,068,462
Other expenses – Levy amount [Section A.1]		(112,721,914)
Total expenses		**(109,560,451)**

There are no claims handling expenses as claims handling is provided by Zurich at no cost to MMI. All income and expenses other than that relating to claims incurred is included in the non-technical account in the financial statements.

The levy amount is explained in Section A.1 above.

A.3 Performance from Investment Activities

Investments comprise of UK Gilts, debentures, floating rate notes and cash deposits. All investments are denoted in Sterling.

Investment performance for the year end 30 June 2016 and for the prior year as shown in the financial statements are as follows (£000):

Asset Class	Interest receivable	Realised gains/(losses)	Unrealised gains/(losses)	Other	**TOTAL 2016**	**TOTAL 2015**
UK Gilts	2,771	(63)	7,010		9718	8,031
Corporate Bonds and similar fixed income products	1,480	108	799		2,387	476
Cash Deposits	83	-	-		83	17
Investment Costs	-	-	-	(93)	(93)	(162)
	4,334	45	7,809	(93)	**12,095**	**8,362**

In the financial statements realised gains represent the difference between the sales value and original cost. 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.

Unrealised market gains year on year arose due to falling bond yields over the period, particularly in the wake of the UK EU exit vote in June. Investment values fell back slightly in Autumn 2016 as bond yields increased following the election of Donald Trump to the US presidency and growing expectations of future inflationary rises. All investment gains and losses are included in the technical account in the financial statements and no amounts are included in equity.

MMI does not invest in securitisation assets.

A.4 Performance of other activities

The Company had no other material income in the year ended 30 June 2016.

Operating and administrative expenses for the year ended 30 June 2016 were £3,068k (2015 £3,296k), of which £149k (2015 £58k), as shown in the non-technical account in the financial statements, was in respect of the Company’s leasehold premises at 23 College Hill. This lease commenced on 11 February 2015 and has a 10 year term with a mutual break at 19 May 2020. There are no other leasing arrangements in place.

The Company’s sole freehold property, 29 Buckingham Gate was sold on 12 May 2015. The gain on disposal of £1,881k was recorded as other income in the prior period.

A.5 Any other information

All material information regarding MMI's business and performance has been disclosed in Sections A1-A4 above.

B: System of Governance

The directors of MMI consider the system of governance to be adequate and proportionate to the nature, scale and complexity of the risks inherent in its business.

B.1 General Governance Arrangements

MMI operates within a system of governance designed to ensure that the business is well managed with effective decision making, robust procedures and proportional internal reporting. It also ensures that MMI complies with all relevant legislation and regulation.

MMI is subject to a Scheme of Arrangement which was subject to a 'Trigger Event' under the terms of the Scheme on 13 November 2012. On that date the Scheme Administrator, Gareth Hughes, became responsible for the:

a) Management of the run off of MMI's business;

b) Holding and realising the assets of MMI for the benefit of the voting creditors (policyholders) and MMI in accordance with the Scheme; and

c) Supervising and ensuring the carrying out of the Scheme.

The Scheme Administrator is required to be a person qualified to act as an insolvency practitioner in accordance with section 390 of the Insolvency Act 1986 and must ensure that there is in force such a bond as would have had to be in force if MMI had been wound up in England on such date and he had been appointed liquidator.

A Deputy Scheme Administrator is also put in place under the Scheme and the qualification provisions for the Deputy Scheme Administrator are the same as those for the Scheme Administrator.

The Scheme Administrator's powers under the Scheme 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.

At the reporting date, the Scheme Administrator believes that the Scheme remains in the best interests of the Scheme Creditors.

After a Trigger Event, the Directors continue in office and retain their fiduciary duties. In October 2014, the number of directors of MMI was reduced to one by special resolution at a meeting of members.

In the year ended 30 June 2016, Mr Ian Willett served as a director of the Company. From 1 May 2016 Mr Gareth Hughes and Mr Ben Cairns were also appointed directors of MMI in order to comply with the terms of the Senior Insurance Management Regime.

The Scheme requires the constitution of a Creditors' Committee which is responsible for monitoring the implementation of the Scheme and for the supervision of the Scheme Administrator in the performance of his functions under the Scheme.

The Creditors' Committee must consist of not less than four and not more than ten members of whom one shall be the FSCS and one shall be a person which is not a Local Authority.

The committee meets at least twice a year to receive a report from the Scheme Administrator on the financial position of MMI and operational matter affecting the Scheme.

To ensure effective day to day management of the business key decisions are taken by the Board comprising the Scheme Administrator and his deputy, with assistance from senior managers. Minutes are maintained from both of these meetings and also of meetings with the Scheme Creditors' Committee.

The principal activities of the Board comprise:

- Delegation of authority to senior managers of MMI;
- Control of investment management, including delegated authority to Aviva;
- Approval and signature of all contracts and agreements;
- Setting claims reserving strategy;
- Determining the amount for future claims provisions (IBNR);
- Setting remuneration and associated benefits of MMI employees;
- Reviewing capital adequacy and determination of Scheme levies;
- Corporate liaison with Zurich Insurance on the delegated authority arrangements for claims handling and associated services;
- Oversight of corporate litigation; and
- Ensuring compliance with Regulatory requirements, including Solvency II and the Employer's Liability Register.

Staff remuneration is set by the Scheme Administrator and his deputy and is communicated to the Creditor's Committee at the following committee meeting. Neither the Scheme Administrator, nor his deputy receives any remuneration from the Company.

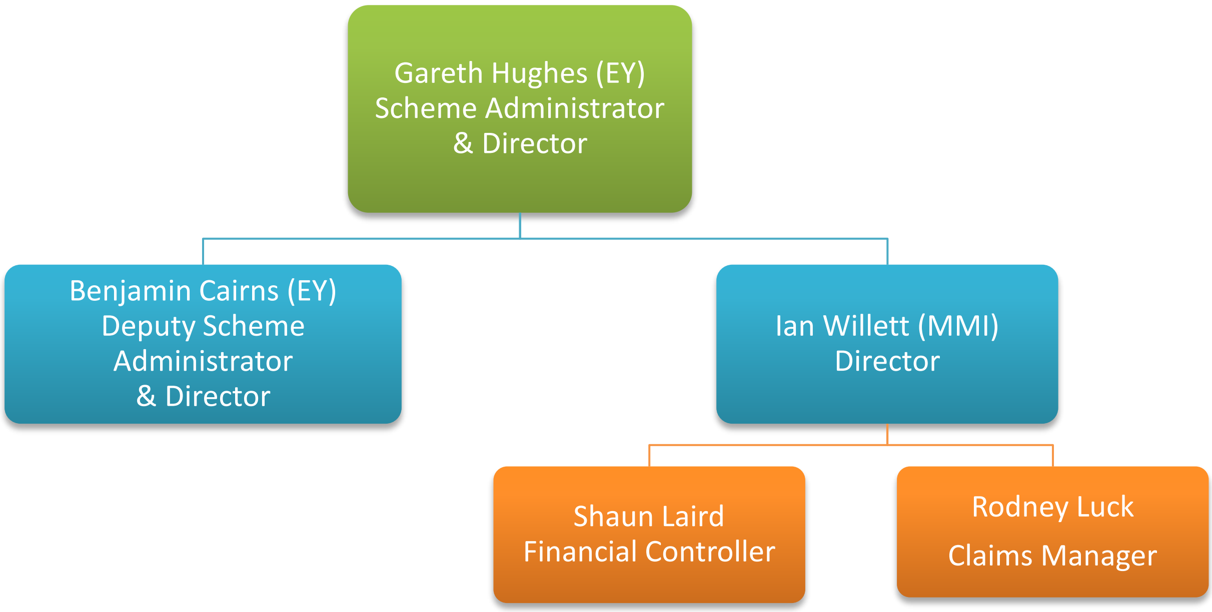
As Scheme Administrator, Gareth Hughes exercises general powers of management and control of the business.

The Company does not operate a performance related remuneration scheme for any of its executives or staff members or any entitlement to membership. It therefore does not encourage excessive risk taking and its policies are consistent with sound and effective risk management. There is no early retirement schemes or supplementary pension scheme in operation for executives or staff members. The Company operates an auto-enrolment compliant defined contribution pension scheme for all employees.

There were no material transactions during the reporting period with members, with persons who exercise a significant influence on the undertaking, or with members of the board.

The Scheme administrator delegates day to day operation to the Financial Controller and the Claims Manager, who are themselves supported by a further two members of staff.

An organisational chart providing details of the positions of the key function holders is set out below:



The Financial Controller and Claims Manager report on a day to day basis to Mr Ian Willett acting in the function of effectively running the firm.

Mr Willett, Mr Luck and Mr Laird report to the management committee on a monthly basis. The Scheme Administrator empowers the management team to implement all actions agreed by the management committee.

There were no material changes in system of governance over the reporting period.

Mr Willett resigned as a director and left the Company on 30 September 2016. His responsibilities have been taken over by Ms Sarah Ellis, a senior manager of EY, who has provided operational support to the Scheme Administrator since the triggering of the Scheme.

B.2 Fit and Proper

The Scheme Administrator, supported by the Deputy Scheme Administrator, is responsible for the control and management of MMI under the terms of the Scheme of Arrangement. The Scheme Administrator has a duty to act bona fide and with due care and diligence in the interests of the voting creditors as a whole and is required to be a person qualified to act as an insolvency practitioner in accordance to the Insolvency Act 1986.

The powers of the Scheme Administrator are in substitution and to the exclusion of the powers of the Directors of MMI.

During the year ended 30 June 2016, Mr Ian Willett was an approved person under the FCA Approved Persons regime.

On 31 October 2016, Mr Gareth Hughes was approved by the PRA to perform the following Senior Manager Functions (Controlled Function): Chief Executive, Chief Finance and Chief Actuary.

As the Company has only five staff, the Scheme Administrator is fully informed of the experience, qualifications and employment history of all employees and ensures that all staff are carefully matched to the operational requirement of their respective roles.

B.3 Risk Management System including Own Risk and Solvency Assessment

MMI's risk management strategy supports the execution of the wider business strategy of delivering the best outcome to policyholders and Scheme Creditors from the run off of the insurance business subject to the Scheme of Arrangement.

The point at which the Scheme may not be in the best interest of policyholders is referred to as the "tipping point". Risk appetite and tolerances are viewed in relation to the possible impact on the levy rate under the Scheme of Arrangement and the levy rate at which it is considered that a tipping point has been reached.

MMI cannot raise additional capital in order to meet its Minimum or Solvency Capital Requirements as this is not permitted under the Scheme of Arrangement. The Scheme Administrator therefore looks to control risk in order to maintain the maximum headroom possible above the tipping point.

MMI uses a risk and control framework to ensure that risks are appropriately managed, mitigated or avoided.

The risk management processes adopted continue to evolve in line with changing risk and regulatory regimes, with a particular focus in 2016 following the implementation of the Solvency II regime.

The Deputy Scheme Administrator, Mr Benjamin Cairns is responsible for carrying out the function of the Chief Risk Officer by identifying, evaluating, monitoring and managing risks faced by the Company and for effectively managing the risks for the benefit of the policyholders and the Scheme.

The Board review risks at monthly meetings and consider the ongoing appropriateness and sufficiency of mitigating actions and controls.

Risk management procedures are reviewed by the Creditors Committee at the bi-annual meetings of this committee. Any new or emerging risks are also reported to and considered by the committee.

The Scheme Administrator retains ultimate responsibility for the risk appetite and for maintaining a robust risk management system supported by the Deputy Scheme Administrator and the management committee.

Own Risk and Solvency Assessment (ORSA)

The ORSA is the process by which the Company assesses the adequacy of its risk management and solvency position. The ORSA is the responsibility of the Scheme Administrator and is reflected in the ORSA document. This document is updated in response to material changes in the Company's structure or solvency and at least annually the document is fully reviewed and updated and approved by the Management Committee and the Creditors' Committee. Responsibility for sections of the document are allocated to staff on the basis of their operational activities and the final document approved by the Scheme Administrator.

The most recent submission to the regulatory authority, the PRA, was in December 2015, with an updated document to be submitted in December 2016.

The solvency deficit was addressed in 2016 through an adjustment to the Levy and Payment Percentage rates as proscribed in the Scheme of Arrangement. The Scheme of Arrangement requires at least an annual review of the solvency deficit position and following this review the Scheme Administrator makes a decision after consultation with the Creditors' Committee on whether to adjust the levy rate.

The results of the ORSA process and the report are considered by the creditor committee to help inform their decisions on the size and likelihood of any future changes to the levy amount.

The Scheme does not allow the use of the levy to raise a capital buffer so a reverse stress test is performed as part of the ORSA to assess the capital headroom available over the Scheme tipping point.

MMI uses the Solvency II standard formula approach to determine its regulatory capital and given its financial situation it also uses this within the ORSA process. These results are supplemented by stress and scenario tests which are used to assess possible stresses within the claims reserves and their size relative to potential changes in the levy amount.

MMI's principle capital management strategy and actions are to adjust the size of the levy over time to ensure that claims are paid in an equitable manner and also that excess funds do not accumulate within MMI. The assessment of risk, from the risk management process, is used as an input into this process.

B.4 Internal Control

The Board, comprising the Scheme Administrator and the Management Committee, has overall responsibility for ensuring that an adequate and effective system of internal control is maintained in the Company.

The Scheme Administrator reviews the effectiveness of internal control systems annually. This system includes governance, financial controls, the risk management framework and processes to deliver regulatory and compliance requirements.

The internal control system is designed to manage or mitigate, rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

There is an ongoing process for identifying, evaluating and managing the principal risks faced by MMI. This process was in place throughout 2015/2016 and up to the date of approval of the Annual Report and Accounts, and accords with guidance on risk management, internal control and related financial and business reporting.

The reporting framework, including reports to the Scheme Administrator from management, the auditor and the Deputy Scheme Administrator, delivers information to enable the Scheme Administrator to assess the effectiveness of MMI's systems of internal control.

Key procedures of internal control are:

- Preparation of monthly management accounts monitoring actual financial outcomes against budgets and forecasts;
- Approval and sign-off of all contracts, agreements and payments in excess of £2,500

- Review of reconciliations of claim reserve movements, cash movements and expense payments

- Audit visits, reviews and reports on all outsource providers; and

- Review of monthly investment management reports provided by Aviva.

Currently, MMI has no formal compliance function or policy in place. However, MMI took advice from EY's compliance team and has a programme that solves compliance issues as they arise. In addition, MMI is also performing an overall governance review in early 2017. It is intended that as part of this review, a compliance function and policy will be formulated and activities planned to review all relevant areas of MMI's activity and assess exposure to compliance risk.

However, MMI does seek external advice from time to time to ensure it is up to date on any legal or regulatory changes and to understand its compliancy with such changes. For example, the Financial Controller receives updates on legal and regulatory changes from its lawyers and actuarial advisers and MMI also uses the services of EY's Financial Assurance Advisory Service to provide support to the financial controller in reviewing MMI's compliance with its legal and regulatory responsibilities.

Compliance is reported to the Scheme Creditors' committee bi-annually.

B.5 Internal Audit Function

Due to the size and financial position of MMI it has not previously had an audit committee or carried out formal internal audits.

Instead, the Company has, until the second half of 2016, asked its external auditors at the time of the statutory audit, to carry out additional work covering specific areas of additional review, akin to the scope of an internal audit.

As previously advised, the Company will be undertaking an overall governance review in early 2017. As part of this review, it is intended that an internal audit policy will be formulated and MMI will commence a rolling programme of internal audit reviews using EY's specialist internal audit practice.

B.6 Actuarial Function

Actuarial forecasting is out-sourced to KPMG subject to an annual engagement agreement. KPMG report to the Scheme Administrator and the Board of MMI on the estimated level of 'incurred but not reported' ('**IBNR**') claims reserves required on an annual basis or more frequently as deemed required by board.

Specifically, KPMG report on the estimated level of undiscounted IBNR claims reserves as at 30 June for all business written in the UK and provide cash flow projections for Public Liability and Employers' Liability. In particular, KPMG are instructed to review in depth the areas of greatest uncertainty including Employers' Liability asbestos related claims, Public Liability abuse claims and Employers' Liability deafness claims.

The process of the review consists of a mixture of interviews, data collection and data analysis. Reference is made to relevant industry studies to the extent that they are available.

KPMG provide a report to the Board following the annual review and provide actuarial estimates on a low, mid and high basis. The report is considered in detail and the Board and Scheme Administrator agree and/or amend reserves in the light of the review.

The board consider a sensitivity analysis of the actuarial forecasts, using differing assumptions as to the number of future claims notified, the average settlement amount and the rate of claims inflation.

B.7 Outsourcing

Zurich Insurance plc (Switzerland)

Zurich acquired the right to renew almost all of MMI's direct personal and direct commercial lines insurance in 1993 by virtue of an asset purchase and claims administration agreement dated 9 March 1993 (the '**Zurich Agreement**').

In consideration for the transfer of the MMI's business, Zurich agreed under the terms of the Zurich Agreement to act as agent for the Company for the purpose of dealing with, handling, processing and administering all claims arising under the insurance policies issued by the Company (other than a small set of excluded policies) for a period of three years without charge and thereafter on a net cost basis.

A side letter was subsequently entered into between the Company and Zurich (signed by the Company on 18 December 1995 and acknowledged by Zurich on 9 January 1996) in which Zurich agreed to continue to provide the claims administration services in the Zurich Agreement beyond the three year period until "extinction of the relevant claims" without any charge. As a result, Zurich provides claims administration services to the Company free of charge.

The continuation of this claims outsourcing arrangement is in the best interests of the policyholders of MMI as it results in a significant cost savings which enhance the likely ultimate outcome for policyholders under the scheme of arrangement.

Currently, MMI's claims are handled in either the Zurich Farnborough office in the Complex Claims Team ('**CCT**') for abuse or the Birmingham office Occupational Disease Claims Team ('**ODC**') for disease claims. Claims handling procedures are set out in a set of claims handling procedural guidelines. These guidelines are agreed by MMI.

MMI monitors Zurich claims handling via various management information reports provided by Zurich, by regular meetings between the organisations, and by specific file reviews. MMI's claims manager is responsible for monitoring the claims handling service.

MMI and Zurich recognise that potential conflicts can arise where Zurich are handling claims where they have a following period of cover. The conflicts are managed through by the senior management team on a case by case basis.

Aviva Investors Global Services Limited (UK)

Investments are managed by Aviva under an IMA, which delegates the investment management decision making function to Aviva. The assets are held with State Street under a custodian agreement.

The IMA stipulates rules and limitations on allowable investments and the key factors are provided in the Credit Risk section of this document.

Aviva confirm that they have no conflicts of interest as part of engagement procedures.

KPMG LLP (UK)

KPMG provide actuarial services to the Company, and their results are reviewed annually by MMI’s auditors, PwC, to confirm that the claims estimates adopted in the statutory accounts are consistent with PwC’s own forecast of the plausible range of estimates.

The results are also reviewed by the Financial Controller and Directors. The Scheme Administrator reviews and concludes on whether to agree with the advice provided on the claims estimates.

KPMG confirm that they have no conflicts of interest as part of their annual engagement procedures.

B.8 Any Other Information

All material information regarding MMI's system of governance is disclosed in sections B1-B7 above.

C: Risk Profile

The Company ceased underwriting insurance business on 30 September 1992, whilst it is not exposed to premium risk, catastrophe risk or lapse risk it 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. An analysis of the impact of these risks on the Standard Formula SCR calculation is included in Section E (Capital Management).

C.1 Reserve Risk

a) Measures used to assess risk

Reserve risk considers the uncertainty in the liabilities arising from periods of expired exposure and the possibility that prior year reserves are inadequate.

Best estimates of claims reserves are set by having regard to past claims experience, current judicial interpretations of the law and other relevant information. The inherent uncertainty in insurance claims makes it likely that historical data will not be wholly predictive of the actual future emergence and development of claims. A substantial measure of judgement is involved in both establishing the individual claims provisions and in interpreting past claims experience as part of the process of establishing the total claims provision.

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 claims liabilities. These estimates do not represent the minimum and maximum estimates of future liability, but provide a range of outcomes in which the ultimate liability may reasonably fall. In producing their estimates, the actuaries make use of a range of data sources including historical company information, industry-wide reports and relevant supplementary population data.

b) Material risk exposure

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. Abuse claims also have a significant delay and latency in reporting.

c) Material risk concentrations

The major risk classes of claims identified by the business are child abuse and mesothelioma.

d) Risk mitigation

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

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

Mesothelioma claims are partly mitigated by a reinsurance recovery program. MMI has estimated reinsurance recoverables at year end of £12,000k.

C.2 Market Risk

MMI's investment strategy is to acquire secure assets which will generate income and capital growth to meet the cost of current and future liabilities, for the benefit of Scheme Creditors. An extremely low risk/low volatility strategy has been adopted since the inception of the scheme and this strategy will not change in the foreseeable future.

The Company's primary market risk is that proceeds from financial assets are not sufficient to meet its claims settlement obligations due under the run-off its insurance business.

Investments are managed by Aviva, whilst the assets are held with State Street under a custodian agreement.

MMI does not invest in infrastructure investments.

a) Measures used to assess risk

Market risk describes the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. This includes the uncertainties relating to investments performance - the investment return achieved and the value of the assets held by MMI could go up or down, and the amount by which they go up or down is uncertain.

MMI's management receives and reviews a monthly investment report from their investment managers, Aviva, detailing all transactions in the month and movements in valuation. Each quarter the investment managers send MMI a quarterly summary, which includes a narrative analysis of their quarterly investment performance.

b) Material risk exposure

This risk module is further subdivided into interest rate risk, equity risk, property risk, spread risk, concentration risk and currency risk. Only Interest rate risk, spread risk and concentration risk are relevant to MMI.

c) Material risk concentrations

MMI invests in accordance with the 'prudent person principle' set out in Article 132 of Directive 2009/138/EC, in particular:

i. The portfolio is invested in gilts, corporate bonds and floating rate notes, with the remainder in cash deposits;

ii. Only high investment grade (AAA or AA) investments are permitted under the IMA with Aviva; and

iii. No derivatives are permitted and all investments must be made in sterling to avoid foreign exchange related risk.

A full list of assets is set out in QRT S06.02 which is included in the appendices to this report.

d) Risk mitigation

Market risk is the risk of changes in values caused by market prices or volatilities of market prices differing from their expected values. MMI's investment strategy is to match the maturity of its investments to the forecast claims requirements of its runoff business. By using low risk fixed-income products, held to maturity with known redemption values and publically traded on regulated markets, the Company can mitigate this risk and ensure a reliable income stream. These investments may exhibit short term mark to market volatility, whilst the underlying income stream remains secure.

C.3 Credit Risk

a) Measures used to assess risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Counterparty default risk is estimated by using MMI's counterparties' credit ratings and solvency ratios to calculate the risk of unexpected default. Counterparties include any institution or individual that is a debtor to MMI, and in particular the reinsurers of MMI.

b) Material risk exposure

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;
- amounts due from policyholders, including levy balances not yet settled; and
- cash at bank.

c) Material risk concentrations

The most significant component of credit risk is therefore the Company's investments.

As a result of the increased levy on 1 April 2016, the Company has amassed a large cash balance – as at 30 June 2016, £85,040k was held with the custodian at State Street. This concentration represents a credit risk, but the exposure is deemed low risk (AAA rating) and short term; MMI has worked with Aviva to place these funds during the latter half of 2016.

Reinsurance balances due are in respect of insurance claims underwritten prior to 30 September 1992. Of the total reinsurance recoverables of £12,008k (Solvency II balance sheet) more than 75% is in respect of a single reinsurer, Equitas Insurance Limited (‘**Equitas**’). Equitas’ liabilities are guaranteed by National Indemnity Company, which is AA rated. In the event that National Indemnity Company’s Standard & Poor’s’ rating falls below AA-, it must establish a trust fund equal to 102% of its net liabilities due under the agreement with Equitas.

d) Risk mitigation

This risk is mitigated by a number of investment restrictions with the IMA with Aviva, namely:

- With the exception of UK gilts and supranational bonds, maximum exposure to any counterparty is limited to the lesser of 5% of the Portfolio value or £10,000k;
- All funds must be invested in sterling; and
- The use of derivatives is not permitted.

MMI staff regularly review the credit ratings of National Indemnity Company with the major ratings agencies and any news postings.

C.4 Liquidity Risk

a) Measures used to assess risk

Liquidity risk is the risk that cash may not be available to pay obligations when they fall due. MMI maintains a projection of cash inflows (primarily investment income) and cash outflows (primarily claims settlements) to ensure that enough liquidity is present within the cash and asset portfolios. The risk around this projection is assessed, with reference to the range of reserves provided by KPMG.

b) Material risk exposure

The primary liquidity risk of the Company is the obligation to pay claims to policy holders as they fall due.

c) Material risk concentrations

These claims are projected to remain payable for in excess of 30 years. Any long term shortfall in claims coverage identified by the annual actuarial forecast can be met through the Scheme of Arrangement levy mechanism.

d) Risk mitigation

Short term liquidity requirements are met by transfers of funds from investments to cash. Under the Company’s IMA, £2,000k must always be available for same day transfer and £10,000k of funds must be made available within 5 working days on request.

C.5 Operational Risk

a) Measures used to assess risk

Operational risk is the risk of a change in value due to inadequate or failed internal processes, people or systems, or from external events. MMI are evaluating their current processes and controls to enhance their assessments of operational risks.

b) Material risk exposure

Because of the small number of staff employed by the Company it is exposed to fraud and reporting risk.

c) Material risk concentrations

The levy raise in April 2016 meant there was a high value of funds remitted to the Company's bank account from third parties.

d) Risk mitigation

This is mitigated by a well-established formal process of monthly reporting, the oversight and review of all expenditure by the Scheme Administrator's assistant. Dual authorisation procedures required for all banking payments in excess of £2.5k. Additionally the Company relies on external parties and advisors to provide update and support on changes in the regulatory and taxation environment. The transaction levels each year are sufficiently low for the auditors to provide reliance on substantive testing procedures. Exceptionally the Company makes use of professional resources provided by EY.

C.6 Other Material Risks

Asset Liability Mismatch Risk

a) Measures used to assess risk

ALM risk is the risk that there is a change in own funds from a deviation between asset and liability cash-flows, prices or carrying amounts. It is assessed alongside Market risk within the Standard Formula calculation.

b) Material risk exposure

Because claims runoff is forecast to continue for more than 30 years, this risk is particularly relevant for MMI.

c) Material risk concentrations

The UK fixed income investment market has been subject to significant volatility as a result of the EU exit vote in June 2016. The size and timing of the liability cash-flows is also uncertain which means they cannot be matched exactly by cash-flows from assets.

d) Risk mitigation

A long term mismatch between assets and liabilities can be addressed by the Levy mechanism, raising or lowering the levy percentage as appropriate.

MMI's investment strategy, as delegated to Aviva, is to match investment income with forecast claims liabilities. In the short term this means matching investment income to forecast claims outflows. In the longer term, where there may not be appropriate products to directly match, Aviva selects the portfolio of investments such that the sensitivity in the carrying values of investments in respect of a move in investment yields is matched, as far as possible, to the corresponding sensitivity of the discounted claims provision.

C.7 Any Other Information

Other information

All material information regarding MMI's Risk Profile is disclosed in sections C1-D7(a) above.

D: Valuation for solvency purposes

D.1 Assets

Assets held by the Company as at 30 June 2016 were as follows:

All figures in £000s	**Per Solvency II**	*Reclassify Accrued Interest*	*Discounting (risk free rate)*	**Per Financial Statements**
Investments in government and corporate bonds	**178,448**	*(1,235)*		**177,213**
Reinsurance recoverables	**12,008**		*1,242*	**13,250**
Cash and cash equivalents	**86,097**	*(28)*		**86,069**
Insurance and intermediaries receivables	**4,897**			**4,897**
Other	**1,267**	*1,263*		**2,530**
TOTAL	**282,717**	*-*	*1,242*	**283,959**

Investments in government and corporate bonds are all valued at fair value in financial statements and under Solvency II, being the quoted market price on close of business 30 June 2016, plus any accrued interest. All gilts and bonds are investment grade and their valuations represent quoted prices in active markets.

Cash and cash equivalents are valued at carrying value on 30 June 2016 plus accrued interest.

Reinsurance recoverables are estimates based upon gross provisions for outstanding claims, having due regard to collectability. 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. For the Solvency II balance sheet, these recoveries have been discounted at the risk free rate; the difference of £1,242k between the Solvency II figure and the Financial Statement figure reflects this discounting.

Insurance and intermediaries receivables represent amounts due from Scheme Creditors in respect of the Levy notices issued on 01 April 2016 and other sundry scheme balances recoverable. They are valued at settlement amount, less any provision for bad and doubtful debts. All are expected to settle within six months and so are not discounted.

Other balances represent other sundry debtors. They are valued at settlement amount, less any provision for bad and doubtful debts. All are expected to settle within six months and so are not discounted.

The £1,263k difference between Solvency II and UK GAAP represents a reclassification of sundry interest receivable balances from other to investment in government and corporate bonds (£1,235k) and cash and cash equivalents (£28k), with nil net asset effect.

The assets held by MMI at the end of the year are not subject to leasing arrangements.

MMI has an arbitration action pending that is due to be heard in January 2017. Depending on the outcome of this action, reinsurance assets may increase by a material amount. This contingent asset is not reported in template S.03.01.

This is the first year for which MMI has been required to report under Solvency II and there have been no changes in the recognition and valuation basis for assets under Solvency II during the reporting period.

D.2 Technical Provisions

Reported technical provisions per the financial statements for the year ended 30 June 2016 were £288,863k and comprised of non-life outstanding claims estimates, less estimated deductions for the levy recoveries, as follows:

All figures in £000s	Per Financial Statements
Outstanding Claims estimate (mid case)	(381,928)
Estimated Levy recoveries	93,065
Outstanding Claims per financial statements	**(288,863)**

In general the IBNR for MMI has been estimated using decay type techniques where the predicted rate of notification of IBNR is based largely on calendar year data with adjustment for other factors such as demographic trends. Standard actuarial techniques such as chain ladder or link-ratio approach are of limited use to MMI as historic claim development patterns do not necessarily reflect future expected development.

Exposure type analysis for estimating IBNR has not been used because of the difficulty in obtaining accurate exposure data and the limitation of referencing a relatively small claim frequency to a larger potential exposure.

The main assumptions in the reserving exercise relate to the nature of the liabilities. For mesothelioma claims it is the average cost per claim, the future number of claims projected, as well as trends in inflation and mortality. For abuse claims the main assumptions are the future number of claims projected, the average cost per claim and future trends such as inflation.

The inherent uncertainty in insurance claims makes it likely that historical data will not be wholly predictive of the actual future emergence and development of claims. A substantial measure of judgement is involved in both establishing the individual claims provisions and in interpreting past claims experience as part of the process of establishing the total claims provision. Certain classes of business, such as Employers' Liability and Public Liability are inherently more uncertain than others and the ultimate cost of such claims is more likely to vary as a result of subsequent developments.

Provisions on these classes include substantial amounts for asbestos related and abuse claims. Asbestos related claims can be subject to very long delay in reporting losses, since the onset of illness and disability arising from the exposure to harmful conditions may only become apparent many years later; in cases of mesothelioma this latency period can be anything between 10 and 40 years. The major risk classes of claims identified by the business are therefore child abuse and mesothelioma.

All technical provisions relate to general insurance liability business. The reconciliation between the Financial Statements and the Solvency II figure is given below:

All figures in £000s	Reconciliation Per Solvency II
Technical provision per Financial Statements	**(288,863)**
Allocated administrative expenses	(28,741)
Events not in data	(4,563)
Discounting	31,710
Best Estimate	**(290,457)**
Risk Margin	(66,763)
Technical provision per Solvency II	**(357,220)**

These liabilities are all reported within the Solvency II "General Liability" line of business. Details of the adjustment made to reinsurance recoverables for Solvency II purposes is included in Section D.1 above.

Direct claims handling costs are met by Zurich. Under the Solvency II calculation, 75% of all administrative expenses are allocated to the Technical Provision (£nil for financial statements). These expenses represent a forecast of the total expenses over the period of the run-off, based on the 2016-17 budget and grown at 3% pa. These costs are also adjusted year on year for known events that may significantly affect the level of future administrative expenses.

Events not in data is an estimate for unknown liabilities not yet captured by IBNR actuarial estimates. It has been set at 1.5% of undiscounted claims less undiscounted reinsurance recoveries. MMI has not underwritten new business since September 1992 and does not believe there is a significant exposure to future types of claims occurring.

Technical provisions are not discounted in the Financial Statements. The Solvency II provisions have been discounted at the EIOPA risk free rate published for 30 June 2016. The discounting applied assumes that claims payments occur in an even distribution over the year.

As MMI is in run-off there are no new policies or premiums, and no issues with contract boundaries.

MMI has not applied for approval for and therefore is not applying the matching adjustment, volatility adjustment, transitional risk-free interest rate term structure or transitional deduction with respect to the calculation of Solvency II technical provisions.

MMI's SCR risk margin calculation comprises of reserve, counterparty and operational risk. A correlation of 50% between reserve and counterparty risk has been assumed in line with the standard formula parameterisation. The risk margin is estimated using a simplified approach, as specified within Solvency II. When estimating the SCR in future years, the risk is run-off in proportion to the run-off of the technical provision; MMI deems this approach to be appropriate, as it is in run-off and operates under a simplified operating structure; E2 shows that reserve risk is by far the greatest component of the Company's SCR calculation.

This is the first year for which MMI has been required to report under Solvency II and there have been no changes in the recognition and valuation basis for technical provisions under Solvency II during the reporting period.

D.3 Other Liabilities

All figures in £000s	Per Solvency II	Per Financial Statements	Difference
Trade Payables	907	907	0

Trade payable comprise of trade accruals, trade payables due and sundry amounts due to Her Majesty's Revenue & Customs. The balance of £907k represents expected settlement amounts and in respect of accruals, these estimates are based on invoices received post year-end. All balances are expected to settle within six months of the year end and are subject to minimal uncertainty risk as to timing or amounts and therefore no discounting was applied to the financial statement amount to determine the fair value for Solvency II purposes as the impact is not likely to be material.

There was no obligation under finance leases at end of the reporting period. The minimum rentals payable under non-cancellable operating leases for leasehold property within five years amounted to £558k measured at the end of the reporting period.

There are no further material off-balance liabilities that have not been reported in template S.03.01.

This is the first year for which MMI has been required to report under Solvency II and there have been no changes in the recognition and valuation basis for other liabilities under Solvency II during the reporting period.

D.4 Alternative methods for valuation

As all investments are listed on active markets MMI has not applied any "alternative valuation methods" as referred to in Article 10(5) of Solvency II Delegated Regulation in order to determine their fair value.

D.5 Any Other Information

Upon the triggering of the Scheme of Arrangement, the Scheme Administrator imposed an initial levy rate on Scheme Creditors of 15%. This levy rate was increased to 25% from 1 April 2016 and another levy raised. The undiscounted liabilities of the Company have consequently been reduced by £275,473k which could be repayable to Scheme Creditors in whole or in part on a reduction of the Levy.

Under the terms of the Scheme of Arrangement, Scheme Creditors would also be entitled to additional payments of up to £30,000k at the conclusion of the run-off, from any surplus reserves once all other settlements have been made, including the refunding of any levy balances paid. This 'Commission for Risk' represents compensation to the Scheme Creditors for assuming the risk under the Scheme of having to make payments to the Company in order to satisfy the imposition of a Levy by the Scheme Administrator, or of having insurance claims payments reduced.

The Company's sole material lease liability is for the lease of its premises at 23 College Hill. This lease is described in section **A4**.

The Company does not operate any employee share option plans, and has no defined benefit staff pension schemes.

All material information regarding MMI's Valuation for Solvency Purposes is disclosed in sections **D1-D5** above.

E Capital Management

E.1 Own Funds

Own funds comprise of the following:

All figures in £000s	TOTAL	Tier 1 Unrestricted	Tier 1 Restricted	Tier 2	Tier 3
Reconciliation reserve	(75,410)	(75,410)	-	-	-
Deficit of Own Funds	**(75,410)**	**(75,410)**	**-**	**-**	**-**

There are no deductions made from own funds. Any own fund surpluses would be subject to the Levy and Commission for Risk contingent liabilities listed under **D4**.

Own funds are managed in order to generate income and capital growth to meet the cost of current and future liabilities for the benefit of Scheme Creditors. The Company can be, and historically has been, subject to significant volatility of own funds as a result of changes in the actuarial forecast of future claims payments. The time horizon for the settlement of the claims is long, with actuarial forecasts predicating payments will be made to 2057, meaning that any identifiable deterioration will not necessarily translate into a liquidity shortfall in the medium term. The Scheme Arrangement Levy mechanism provides a way of funding any long term structural deficit of own funds, but is not intended to give rise to surpluses in own funds.

For the excess of assets over liabilities, the attribution of valuation differences is as follows:

	£000
Difference in the valuation of assets	(1,242)
Difference in the valuation of technical provisions	68,357
Difference in the valuation of other liabilities	-
Total of reserves and retained earnings from financial statements	(5,811)
Other	-
Reserves from financial statements adjusted for Solvency II valuation differences	(75,410)
Excess of assets over liabilities attributable to basic own fund items (excluding the reconciliation reserve)	-
Excess of assets over liabilities	**(75,410)**

E.2 Minimum Capital Requirement and Solvency Capital Requirement

MMI uses the Standard Formula to calculate its SCR.

30 JUNE 2016	
SCR - Overview	(£000)
Reserve Risk	91,889
Market Risk	7,383
Interest Rate Risk	6,140
Spread Risk	2,043
Concentration Risk	306
Diversification	-1,106
Counterparty Default Risk	2,226
Undiversified BSCR	101,498
Diversification	-6,340
Basic SCR	**95,157**
Operational Risk	8,714
Final SCR	**103,871**
MCR cap	46,742
MCR floor	25,968
MCR	**28,680**

As can be seen above, the majority of MMI's risk relates to reserve risk, which has been estimated using the Standard formula calibration for General Liability. For the other, smaller, risk types some simplifications have been used which are described in more detail below.

The SCR has been estimated using the dependency structure provided within the Standard Formula, and so it has not been necessary to use any quantitative data from MMI.

In assessing the SCR of MMI the following risk assumptions were used:

1) Reserve risk

The reserves were allocated to the general liability line of business, and stressed using the factors provided by EIOPA, giving the results for the standard calculation. The net technical provisions within the Solvency II balance sheet were used as an input into the Standard Formula.

2) Interest rate risk

MMI calculate the stress using the difference between the two EIOPA estimates of the market value of the assets, using the base and stressed yield curves. Due to differences in supply and demand in the financial markets these estimated market values do not match exactly those of the actual market values measured at the balance sheet date. The base EIOPA valuation is however similar to the actual market value, and so the shock between the base and stressed yields is considered appropriate.

As a simplification MMI assume the cash flows of both assets and liabilities occur at mid-year of each calendar year.

3) Spread risk

As a simplification, all bonds that are not classified as "UK Government" are classified as "Other bonds". Some of these may qualify for the "other EEA governments" category and they would attract a slightly lower risk charge if they were categorised as such.

4) Operational risk

This requires the input of the gross technical provisions, and as a simplification this is approximated this by using the net technical provisions and adding the undiscounted value of the reinsurance recoveries. We expect this to give a slightly higher capital charge as this will generate a slight over-estimate of the gross provisions.

The MCR is calculated as follows:

		£000
Net Best Estimate Technical Provision	(a)	278,450
TP Factor (α)	(b)	10.3%
MCR (a x b)		**28,680**

The final amounts of the SCR and MCR are subject to supervisory approval. The UK has made use of the option provided for in the third subparagraph of Article 51(2) of Directive 2009/138/EC not to require disclosure of any capital add ons imposed on the SCR for periods ending up to 31 December 2020.

E.3 Non-Compliance with the Minimum Capital Requirement and the Solvency Capital Requirement.

Municipal Mutual Insurance Limited is subject to a Scheme of Arrangement and should be technically regarded as insolvent. It has a deficit of own funds of £75,410k compare to an MCR of £28,680k and an SCR of £103,871k.

MMI is in breach of its solvency requirements and the Scheme of Arrangement does not provide a mechanism whereby funds can be raised sufficiently to eradicate this deficit. The Company is therefore expected to remain in deficit and consequently in breach whilst its business is brought to a close. This process is expected to take many years however the Scheme provides protection for policyholders over the duration and is structured to deliver the best possible outcome for policyholders. The run-off under the Scheme therefore meets the main objective of Solvency II.

The maximum amount of non-compliance with MCR and SCR during the year was at 31 March 2016, immediately prior to the increase in the levy rate from 15% to 25%. Details are as below:

	30 Jun 2016 £000	**31 Mar 2016 £000**
Surplus/(Deficit) of Own Funds	(75,410)	(159,412)
SCR	103,871	119,471
MCR	28,680	30,106
SCR Surplus/(Deficit)	(179,281)	(278,883)
MCR Surplus/(Deficit)	(104,090)	(189,518)

E.4 Any Other Information

All material information regarding MMI's capital management is disclosed in sections E1-E3 above.

ANNEX: QUANTITIVE REPORTING TEMPLATES

This Annex lists the annual quantitative templates submitted to the PRA on behalf of Municipal Mutual Insurance Limited in respect of the year ended 30 June 2016.

The following templates are reproduced in this annex:

Code	Template name
S.02.01.02	Balance Sheet
S.05.01.02	Premiums, claims and expenses by line of business
S.05.02.01	Premiums, claims and expenses by country
S.17.01.02	Non-Life Technical Provisions
S.19.01.21	Non-Life insurance claims
S.23.01.01	Own Funds
S.25.01.21	Solvency Capital Requirement – for undertakings on Standard Formula
S.28.01.01	Minimum Capital Requirement – only life or non-life insurance or reinsurance activity

S.02.01.02
Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	230
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	178,448
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	0
R0130	*Bonds*	178,448
R0140	*Government Bonds*	128,714
R0150	*Corporate Bonds*	49,734
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	0
R0190	*Derivatives*	0
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	0
R0270	Reinsurance recoverables from:	12,008
R0280	*Non-life and health similar to non-life*	12,008
R0290	*Non-life excluding health*	12,008
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	0
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	4,897
R0370	Reinsurance receivables	687
R0380	Receivables (trade, not insurance)	351
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	86,097
R0420	Any other assets, not elsewhere shown	0
R0500	**Total assets**	282,717

S.02.01.02
Balance sheet

		Solvency II value
		C0010
	Liabilities	
R0510	Technical provisions - non-life	357,220
R0520	*Technical provisions - non-life (excluding health)*	357,220
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	290,458
R0550	*Risk margin*	66,763
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	0
R0680	*Risk margin*	0
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	0
R0720	*Risk margin*	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	0
R0790	Derivatives	0
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	0
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	907
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	358,127
R1000	**Excess of assets over liabilities**	-75,410

S.05.01.02
Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)					
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance
		C0010	C0020	C0030	C0040	C0050	C0060
	Premiums written						
R0110	*Gross - Direct Business*						
R0120	*Gross - Proportional reinsurance accepted*						
R0130	*Gross - Non-proportional reinsurance accepted*						
R0140	*Reinsurers' share*						
R0200	*Net*						
	Premiums earned						
R0210	*Gross - Direct Business*						
R0220	*Gross - Proportional reinsurance accepted*						
R0230	*Gross - Non-proportional reinsurance accepted*						
R0240	*Reinsurers' share*						
R0300	*Net*						
	Claims incurred						
R0310	*Gross - Direct Business*						
R0320	*Gross - Proportional reinsurance accepted*						
R0330	*Gross - Non-proportional reinsurance accepted*						
R0340	*Reinsurers' share*						
R0400	*Net*						

S.05.01.02
Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)					
		Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss
		C0070	C0080	C0090	C0100	C0110	C0120
	Premiums written						
R0110	*Gross - Direct Business*		0				
R0120	*Gross - Proportional reinsurance accepted*		0				
R0130	*Gross - Non-proportional reinsurance accepted*						
R0140	*Reinsurers' share*		0				
R0200	*Net*		0				
	Premiums earned						
R0210	*Gross - Direct Business*		0				
R0220	*Gross - Proportional reinsurance accepted*		0				
R0230	*Gross - Non-proportional reinsurance accepted*						
R0240	*Reinsurers' share*		0				
R0300	*Net*		0				
	Claims incurred						
R0310	*Gross - Direct Business*		12,722				
R0320	*Gross - Proportional reinsurance accepted*		0				
R0330	*Gross - Non-proportional reinsurance accepted*						
R0340	*Reinsurers' share*		-268				
R0400	*Net*		12,990				

S.05.01.02
Premiums, claims and expenses by line of business

Non-life

		Line of business for: accepted non-proportional reinsurance				Total
		Health	Casualty	Marine, aviation and transport	Property	
		C0130	C0140	C0150	C0160	C0200
	Premiums written					
R0110	*Gross - Direct Business*					0
R0120	*Gross - Proportional reinsurance accepted*					0
R0130	*Gross - Non-proportional reinsurance accepted*					0
R0140	*Reinsurers' share*					0
R0200	*Net*					0
	Premiums earned					
R0210	*Gross - Direct Business*					0
R0220	*Gross - Proportional reinsurance accepted*					0
R0230	*Gross - Non-proportional reinsurance accepted*					0
R0240	*Reinsurers' share*					0
R0300	*Net*					0
	Claims incurred					
R0310	*Gross - Direct Business*					12,722
R0320	*Gross - Proportional reinsurance accepted*					0
R0330	*Gross - Non-proportional reinsurance accepted*					0
R0340	*Reinsurers' share*					-268
R0400	*Net*					12,990

S.05.01.02
Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)					
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance
		C0010	C0020	C0030	C0040	C0050	C0060
	Changes in other technical provisions						
R0410	*Gross - Direct Business*						
R0420	*Gross - Proportional reinsurance accepted*						
R0430	*Gross - Non-proportional reinsurance accepted*						
R0440	*Reinsurers' share*						
R0500	*Net*						
R0550	**Expenses incurred**						
R1200	**Other expenses**						
R1300	**Total expenses**						

S.05.01.02
Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)					
		Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss
		C0070	C0080	C0090	C0100	C0110	C0120
	Changes in other technical provisions						
R0410	*Gross - Direct Business*		0				
R0420	*Gross - Proportional reinsurance accepted*		0				
R0430	*Gross - Non-proportional reinsurance accepted*						
R0440	*Reinsurers' share*		0				
R0500	*Net*		0				
R0550	**Expenses incurred**		3,161				
R1200	**Other expenses**						
R1300	**Total expenses**						

S.05.01.02
Premiums, claims and expenses by line of business

Non-life

		Line of business for: accepted non-proportional reinsurance				Total
		Health	Casualty	Marine, aviation and transport	Property	
		C0130	C0140	C0150	C0160	C0200
	Changes in other technical provisions					
R0410	*Gross - Direct Business*					0
R0420	*Gross - Proportional reinsurance accepted*					0
R0430	*Gross - Non-proportional reinsurance accepted*					0
R0440	*Reinsurers' share*					0
R0500	*Net*					0
R0550	**Expenses incurred**					3,161
R1200	**Other expenses**					-112,722
R1300	**Total expenses**					-109,560

S.05.02.01
Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations		
R0010					
		C0080	C0090	C0100	C0110
	Premiums written				
R0110	*Gross - Direct Business*	0	0	0	0
R0120	*Gross - Proportional reinsurance accepted*	0	0	0	0
R0130	*Gross - Non-proportional reinsurance accepted*	0	0	0	0
R0140	*Reinsurers' share*	0	0	0	0
R0200	*Net*	0	0	0	0
	Premiums earned				
R0210	*Gross - Direct Business*	0	0	0	0
R0220	*Gross - Proportional reinsurance accepted*	0	0	0	0
R0230	*Gross - Non-proportional reinsurance accepted*	0	0	0	0
R0240	*Reinsurers' share*	0	0	0	0
R0300	*Net*	0	0	0	0
	Claims incurred				
R0310	*Gross - Direct Business*	12,722	0	0	0
R0320	*Gross - Proportional reinsurance accepted*	0	0	0	0
R0330	*Gross - Non-proportional reinsurance accepted*	0	0	0	0
R0340	*Reinsurers' share*	-268	0	0	0
R0400	*Net*	12,990	0	0	0
	Changes in other technical provisions				
R0410	*Gross - Direct Business*	0	0	0	0
R0420	*Gross - Proportional reinsurance accepted*	0	0	0	0
R0430	*Gross - Non-proportional reinsurance accepted*	0	0	0	0
R0440	*Reinsurers' share*	0	0	0	0
R0500	*Net*	0	0	0	0
R0550	**Expenses incurred**	3,161	0	0	0
R1200	**Other expenses**				
R1300	**Total expenses**				

S.05.02.01
Premiums, claims and expenses by country

Non-life

		C0050	C0060	C0070
		Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010				
		C0120	C0130	C0140
	Premiums written			
R0110	*Gross - Direct Business*	0	0	0
R0120	*Gross - Proportional reinsurance accepted*	0	0	0
R0130	*Gross - Non-proportional reinsurance accepted*	0	0	0
R0140	*Reinsurers' share*	0	0	0
R0200	*Net*	0	0	0
	Premiums earned			
R0210	*Gross - Direct Business*	0	0	0
R0220	*Gross - Proportional reinsurance accepted*	0	0	0
R0230	*Gross - Non-proportional reinsurance accepted*	0	0	0
R0240	*Reinsurers' share*	0	0	0
R0300	*Net*	0	0	0
	Claims incurred			
R0310	*Gross - Direct Business*	0	0	12,722
R0320	*Gross - Proportional reinsurance accepted*	0	0	0
R0330	*Gross - Non-proportional reinsurance accepted*	0	0	0
R0340	*Reinsurers' share*	0	0	-268
R0400	*Net*	0	0	12,990
	Changes in other technical provisions			
R0410	*Gross - Direct Business*	0	0	0
R0420	*Gross - Proportional reinsurance accepted*	0	0	0
R0430	*Gross - Non-proportional reinsurance accepted*	0	0	0
R0440	*Reinsurers' share*	0	0	0
R0500	*Net*	0	0	0
R0550	**Expenses incurred**	0	0	3,161
R1200	**Other expenses**			-112,722
R1300	**Total expenses**			-109,560

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance			
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance
		C0020	C0030	C0040	C0050
R0010	**Technical provisions calculated as a whole**				
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole				
	Technical provisions calculated as a sum of BE and RM				
	Best estimate				
	Premium provisions				
R0060	Gross				
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				
R0150	**Net Best Estimate of Premium Provisions**				
	Claims provisions				
R0160	Gross				
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				
R0250	**Net Best Estimate of Claims Provisions**				
R0260	**Total best estimate - gross**				
R0270	**Total best estimate - net**				

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance			
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance
		C0020	C0030	C0040	C0050
R0280	**Risk margin**				
	Amount of the transitional on Technical Provisions				
R0290	Technical Provisions calculated as a whole				
R0300	Best estimate				
R0310	Risk margin				
R0320	**Technical provisions - total**				
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**				
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**				

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance			
		Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance
		C0060	C0070	C0080	C0090
R0010	**Technical provisions calculated as a whole**				0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole				0
	Technical provisions calculated as a sum of BE and RM				
	Best estimate				
	Premium provisions				
R0060	Gross				0
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				0
R0150	**Net Best Estimate of Premium Provisions**				0
	Claims provisions				
R0160	Gross				290,458
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				12,008
R0250	**Net Best Estimate of Claims Provisions**				278,450
R0260	**Total best estimate - gross**				290,458
R0270	**Total best estimate - net**				278,450

S.17.01.02
Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance			
		Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance
		C0060	C0070	C0080	C0090
R0280	**Risk margin**				66,763
	Amount of the transitional on Technical Provisions				
R0290	Technical Provisions calculated as a whole				0
R0300	Best estimate				0
R0310	Risk margin				0
R0320	**Technical provisions - total**				357,220
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**				12,008
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**				

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance			
		Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss
		C0100	C0110	C0120	C0130
R0010	**Technical provisions calculated as a whole**				
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole				
	Technical provisions calculated as a sum of BE and RM				
	Best estimate				
	Premium provisions				
R0060	Gross				
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				
R0150	**Net Best Estimate of Premium Provisions**				
	Claims provisions				
R0160	Gross				
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				
R0250	**Net Best Estimate of Claims Provisions**				
R0260	**Total best estimate - gross**				
R0270	**Total best estimate - net**				

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance			
		Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss
		C0100	C0110	C0120	C0130
R0280	**Risk margin**				
	Amount of the transitional on Technical Provisions				
R0290	Technical Provisions calculated as a whole				
R0300	Best estimate				
R0310	Risk margin				
R0320	**Technical provisions - total**				
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**				
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**				

S.17.01.02

Non-Life Technical Provisions

		Accepted non-proportional reinsurance				
		Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**					0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole					0
	Technical provisions calculated as a sum of BE and RM					
	Best estimate					
	Premium provisions					
R0060	Gross					0
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default					0
R0150	**Net Best Estimate of Premium Provisions**					0
	Claims provisions					
R0160	Gross					290,458
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default					12,008
R0250	**Net Best Estimate of Claims Provisions**					278,450
R0260	**Total best estimate - gross**					290,458
R0270	**Total best estimate - net**					278,450

S.17.01.02
Non-Life Technical Provisions

		Accepted non-proportional reinsurance				Total Non-Life obligation
		Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
		C0140	C0150	C0160	C0170	C0180
R0280	**Risk margin**					66,763
	Amount of the transitional on Technical Provisions					
R0290	Technical Provisions calculated as a whole					0
R0300	Best estimate					0
R0310	Risk margin					0
R0320	**Technical provisions - total**					357,220
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**					12,008
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**					

S.19.01.21
Non-Life insurance claims

Total Non-life business

Z0010 **Accident year / underwriting year** Accident Year

Gross Claims Paid (non-cumulative)
(absolute amount)

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year	**Development year**											**In Current year**	**Sum of years (cumulative)**
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											14,328	14,328	14,328
R0160	N-9	0	0	0	0	0	0	0	0	0	0		0	0
R0170	N-8	0	0	0	0	0	0	0	0	0			0	0
R0180	N-7	0	0	0	0	0	0	0	0				0	0
R0190	N-6	0	0	0	0	0	0	0					0	0
R0200	N-5	0	0	0	0	0	0						0	0
R0210	N-4	0	0	0	0	0							0	0
R0220	N-3	0	0	0	0								0	0
R0230	N-2	0	0	0									0	0
R0240	N-1	0	0										0	0
R0250	N	0											0	0
R0260												**Tot**	14,328	14,328

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Year	**Development year**											**Year end (discounted data)**
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											322,169	290,458
R0160	N-9	0	0	0	0	0	0	0	0	0	0		0
R0170	N-8	0	0	0	0	0	0	0	0	0			0
R0180	N-7	0	0	0	0	0	0	0	0				0
R0190	N-6	0	0	0	0	0	0	0					0
R0200	N-5	0	0	0	0	0	0						0
R0210	N-4	0	0	0	0	0							0
R0220	N-3	0	0	0	0								0
R0230	N-2	0	0	0									0
R0240	N-1	0	0										0
R0250	N	0											0
R0260												**Total**	290,458

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	**Total**	**Tier 1 unrestricted**	**Tier 1 restricted**
		C0010	C0020	C0030
R0010	Ordinary share capital (gross of own shares)	0	0	
R0030	Share premium account related to ordinary share capital	0	0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0	
R0050	Subordinated mutual member accounts	0		0
R0070	Surplus funds	0	0	
R0090	Preference shares	0		0
R0110	Share premium account related to preference shares	0		0
R0130	Reconciliation reserve	-75,410	-75,410	
R0140	Subordinated liabilities	0		0
R0160	An amount equal to the value of net deferred tax assets	0		
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds			
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	0		
	Deductions			
R0230	Deductions for participations in financial and credit institutions	0	0	0
R0290	**Total basic own funds after deductions**	-75,410	-75,410	0

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	**Total**	**Tier 1 unrestricted**	**Tier 1 restricted**
		C0010	C0020	C0030
	Ancillary own funds			
R0300	Unpaid and uncalled ordinary share capital callable on demand	0		
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0		
R0320	Unpaid and uncalled preference shares callable on demand	0		
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0		
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0		
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0		
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0		
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0		
R0390	Other ancillary own funds	0		
R0400	**Total ancillary own funds**	0		
	Available and eligible own funds			
R0500	Total available own funds to meet the SCR	-75,410	-75,410	0
R0510	Total available own funds to meet the MCR	-75,410	-75,410	0
R0540	Total eligible own funds to meet the SCR	-75,410	-75,410	0
R0550	Total eligible own funds to meet the MCR	-75,410	-75,410	0

S.23.01.01

Own Funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35		**Total**	**Tier 1 unrestricted**	**Tier 1 restricted**
		C0010	C0020	C0030
R0580	**SCR**	103,871		
R0600	**MCR**	28,680		
R0620	**Ratio of Eligible own funds to SCR**	-72.60%		
R0640	**Ratio of Eligible own funds to MCR**	-262.93%		

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	-75,410
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	0
R0730	Other basic own fund items	0
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	-75,410
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	0
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	0
R0790	**Total Expected profits included in future premiums (EPIFP)**	0

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	**Tier 2**	**Tier 3**
		C0040	C0050
R0010	Ordinary share capital (gross of own shares)	0	
R0030	Share premium account related to ordinary share capital	0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	
R0050	Subordinated mutual member accounts	0	0
R0070	Surplus funds		
R0090	Preference shares	0	0
R0110	Share premium account related to preference shares	0	0
R0130	Reconciliation reserve		
R0140	Subordinated liabilities	0	0
R0160	An amount equal to the value of net deferred tax assets		0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds		
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds		
	Deductions		
R0230	Deductions for participations in financial and credit institutions	0	0
R0290	**Total basic own funds after deductions**	0	0

S.23.01.01

Own Funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35		Tier 2	Tier 3
		C0040	C0050
	Ancillary own funds		
R0300	Unpaid and uncalled ordinary share capital callable on demand	0	
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0	
R0320	Unpaid and uncalled preference shares callable on demand	0	0
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0	0
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0	
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0	0
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0	
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0	0
R0390	Other ancillary own funds	0	0
R0400	**Total ancillary own funds**	0	0
	Available and eligible own funds		
R0500	Total available own funds to meet the SCR	0	0
R0510	Total available own funds to meet the MCR	0	
R0540	Total eligible own funds to meet the SCR	0	0
R0550	Total eligible own funds to meet the MCR	0	

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Own Funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35

		Tier 2	Tier 3
		C0040	C0050
R0580	**SCR**		
R0600	**MCR**		
R0620	**Ratio of Eligible own funds to SCR**		
R0640	**Ratio of Eligible own funds to MCR**		
	Reconcilliation reserve		
R0700	Excess of assets over liabilities		
R0710	Own shares (held directly and indirectly)	INTENTIONALLY BLANK	
R0720	Foreseeable dividends, distributions and charges		
R0730	Other basic own fund items		
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds		
R0760	**Reconciliation reserve**		
	Expected profits		
R0770	Expected profits included in future premiums (EPIFP) - Life business		
R0780	Expected profits included in future premiums (EPIFP) - Non- life business		
R0790	**Total Expected profits included in future premiums (EPIFP)**		

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
R0010	Market risk	7,383		
R0020	Counterparty default risk	2,226		
R0030	Life underwriting risk			
R0040	Health underwriting risk			
R0050	Non-life underwriting risk	91,889		
R0060	Diversification	-6,340		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	95,157		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	8,714
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	103,871
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	103,871
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	28,680

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	0	0
R0030	Income protection insurance and proportional reinsurance	0	0
R0040	Workers' compensation insurance and proportional reinsurance	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	0	0
R0060	Other motor insurance and proportional reinsurance	0	0
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	0
R0080	Fire and other damage to property insurance and proportional reinsurance	0	0
R0090	General liability insurance and proportional reinsurance	278,450	0
R0100	Credit and suretyship insurance and proportional reinsurance	0	0
R0110	Legal expenses insurance and proportional reinsurance	0	0
R0120	Assistance and proportional reinsurance	0	0
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	0
R0140	Non-proportional health reinsurance	0	0
R0150	Non-proportional casualty reinsurance	0	0
R0160	Non-proportional marine, aviation and transport reinsurance	0	0
R0170	Non-proportional property reinsurance	0	0

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Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_L Result	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits	0	
R0220	Obligations with profit participation - future discretionary benefits	0	
R0230	Index-linked and unit-linked insurance obligations	0	
R0240	Other life (re)insurance and health (re)insurance obligations	0	
R0250	Total capital at risk for all life (re)insurance obligations		0

	Overall MCR calculation	C0070
R0300	Linear MCR	28,680
R0310	SCR	103,871
R0320	MCR cap	46,742
R0330	MCR floor	25,968
R0340	Combined MCR	28,680
R0350	Absolute floor of the MCR	2,066
R0400	**Minimum Capital Requirement**	28,680