MUNICIPAL MUTUAL INSURANCE LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

YEAR ENDED 30 JUNE 2019

Contents

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 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.

The results for the year ended 30 June 2019 show a profit of £nil (2018: profit of £1,432k). The profit for the year is net of a provision for the possible future return of monies to Scheme Creditors via an adjustment to the Levy rate. In the year ended 30 June 2019 this provision was £2,326k (2018: £3,313k). The profit in the year, prior to this provision, was therefore £2,326k, primarily attributable to gains in fixed income investments, as valued at market value at the year end.

The provision for the return of Levy reduces the Company's net assets to £nil and is included within technical provisions. Before application of the return of Levy provision the Company had net assets of £5,639k.

There was no change to the payment percentage of 75% in the current period. The payment percentage is expected to remain unchanged in the immediate future but is subject to annual review by the Scheme Administrator.

Since the Company ceased to write insurance business in 1992, all underwriting activity of MMI has been in respect of the run-off of general liability business. Excluding the return of Levy provision and other Scheme levy adjustments, there was a deficit on the technical account for general business at 30 June 2019 of £7,743k (2018: surplus of £6,105k). The deficit is primarily due to increased provision for future mesothelioma settlement costs, partially offset by reinsurance recovery.

Net investment income in the year was £12,432k (2018: £4,489k). This year-on-year gain is attributable to exogenous market movements, in particular gilts, where market uncertainty in the wake of Brexit negotiations has contracted yields.

Other operating expenses were £4,633k (2018: £2,637k), reflecting increased costs in respect of legal and other expenses, including those associated with the reinsurance Court of Appeal hearing, participation in the Independent Inquiry into Child Sexual Abuse ('IICSA') and Scheme resolution matters.

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

There were no other material changes to the system of governance in the period.

Refer to Section A below for further details relating to MMI's business and performance.

System of Governance

Management considers the Company to have an appropriate and 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, Richard Barker, 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.

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 conducts a rolling programme of internal audit reviews, supported as required by external experts. The results of these reviews are presented to the Audit and Risk Committee.

The Scheme Administrator has exercised his power under the Scheme to delegate the management and control of the day to day running of the Company to its board of directors ('**the Board**') comprising executive and non-executive directors.

The Company's Chief Risk Officer is responsible for the review and control of risks.

The Company's Chief Actuary is responsible for oversight of the Actuarial function, key elements of which are outsourced to KPMG LLP ('**KPMG**'). KPMG provide estimates of future claims liabilities for the statutory accounts and Solvency II purposes. The results are reviewed and approved by the Scheme Administrator and the Board.

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, in particular 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.

There were no 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, net assets as at 30 June were as follows:

All figures in £000s	**2019**	**2018**
Total assets	258,100	257,429
Technical provisions	(317,280)	(307,430)
Other liabilities	(2,355)	(909)
Net Assets/(Liabilities)	**(61,535)**	**(50,910)**

Table i

On a Solvency II basis, as at 30 June 2019 the Company held assets of £258,100k, against technical provisions of £317,280k, which also includes a £5,639k provision for the return of levy monies. There are additional trade payables of £2,355k.

Total assets on a Solvency II basis were £1,534k lower than reported in the statutory financial statements as at 30 June 2019 due to the discounting of reinsurance receivables to determine the Solvency II value.

Technical provisions on a Solvency II basis are £60,001k higher than as reported in the statutory financial statements as at 30 June 2019. The reconciling adjustments are: allocated administrative expenses (increase of £28,204k), events not in data (increase of £4,025k), impact of discounting (decrease of £32,676k) and the inclusion of the risk margin (increase of £60,448k).

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

Capital Management

Own funds as at 30 June 2019 showed a deficit of £61,535k (2018: deficit £50,910k). The Company uses the Standard Formula to calculate the Solvency Capital Requirement ('**SCR**'). The SCR computed at the end of the reporting period was £88,630k (2018: £88,943k) and the Minimum Capital Requirement ('**MCR**') was £24,848k (2018: £24,747k).

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 Directors consider that the existing Scheme of Arrangement is the most equitable and cost-effective way of returning value to the policyholders in respect of historical, current and future claims settlements.

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

Director's 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.

MMI is a small firm for external audit purposes and is therefore exempt from the external audit requirements of the Solvency and Financial Condition Report as set out in Supervisory Statement SS11/16.

Gareth Hughes

Gareth Hughes
Director
3 October 2019

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 20 Moorgate, London, EC2R 6DA
Regulatory Authority:	The Financial Conduct Authority 25 The North Colonnade, London E14 5HS
External Auditor:	Grant Thornton UK LLP 30 Finsbury Square, London, EC2A 1AG

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 £25,000, 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 £50,000.

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, an Insolvency Practitioner, 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.

At 30 June 2019, the Payment Percentage was 75%.

In accordance with Article IV (a) and (c) of the Company's Articles of Association, after 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 is a solo company, having no other subsidiaries, associates or branches.

Objectives and Strategies

MMI's business strategy is to achieve the best outcome 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:

- Delivery of the provisions of the Scheme, including the servicing of the financial transactions associated with the levy percentage;

- The protection of assets, including investments and reinsurance, and the ongoing control of operational costs to preserve the value in the company for the benefit of policyholders and Scheme Creditors;

- Provision of effective claims management services for policyholders resulting in the proper and fair valuation of scheme liabilities.

- Fulfilment of all regulatory and legal responsibilities.

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 2019 was as follows:

All figures in £000s	2019	2018
Balance on technical account for general business	(7,743)	6,105
Net investment income	12,432	4,489
Other expenses	(4,633)	(2,637)
Levy charge or payment percentage receivable	(55)	(6,525)
rounding	(1)	-
Profit for the year	**-**	**1,432**

Table ii

The deficit on the technical account for general business at 30 June 2019 of £7,743k (2018: surplus of £6,105k) is primarily due to increased provision for future mesothelioma settlement costs, partially offset by reinsurance recovery.

The year-on-year increase in net investment income is attributable to exogenous market movements, in particular gilts, where market uncertainty in the wake of Brexit negotiations has contracted yields.

The sharp rise in other operating expenses is due to increased costs in respect of legal and other expenses, including those associated with the reinsurance Court of Appeal hearing, participation in the Independent Inquiry into Child Abuse ('IICSA') and Scheme resolution matters. Much of this cost is non-recurring in nature.

The levy deficit of £55k includes £2,326k in respect of the provision for the reimbursement of levy monies received to date, as described in the Executive Summary.

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:

All figures in £000s	2019 Actual	2019 Budget	2018 Actual
Claims Paid	(16,103)	(17,400)	(17,958)
Reinsurance recoveries	34		(449)
Net movement on claims reserves	8,326	17,400	24,512
Balance on technical account for general business	**(7,743)**	-	**6,105**

Table iii

For the financial year ending 30 June 2019, underlying claims activity continues to create uncertainty as to the ultimate outcome of the Company's run-off. The Company's insurance liabilities relate to Employers' Liability (EL) and Public Liability (PL) claims. In the EL category mesothelioma compensation payments are the largest category of claim cost and in the PL category, claims in respect of the abuse of children/young people in local authority care form the majority of claims. The very nature of these claims makes future projection uncertain.

As in prior years, an actuarial review was conducted for the year end 30 June 2019. Excluding reinsurance, the outcome of this review was an overall negative movement in the technical account for the year of £11,452k (2018: positive £7,354k); comprising a loss of £9,323k in respect of EL, a loss of £2,219k for PL and a net gain of £88k on other minor balances. The negative movement of both EL and PL is mostly attributable to increasing assumptions as to future inflationary claims growth.

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

All figures in £000s	*Section Ref*	2019	2018
Claims incurred/(recovered)	**A.2**		
Gross - direct business		11,452	(7,354)
Reinsurers' share		(3,709)	1,249
Net		**7,743**	**(6,105)**
Expenses Incurred			
Investment management expenses	**A.3**	202	212
Overhead expenses	**A.4**	4,633	2,637
Other expenses: Levy charge or payment percentage receivable	**A.1**	55	6,525
Total expenses		**4,890**	**9,374**

Table iv

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 charge is explained in Section A.1 above.

A.3 Performance from Investment Activities

Investments comprise UK Gilts, debentures, floating rate notes and cash deposits. All investments are denoted in Sterling. Investment performance as shown in the financial statements for the year ended 30 June 2019 and the prior year was as follows:

All figures in £000s **Asset Class**	Interest receivable	Realised gains/(losses)	Unrealised gains/(losses)	Other	**TOTAL** **2019**	***2018***
UK Gilts	4,897	390	5,255	-	10,542	3,962
Corporate Bonds and similar fixed income products	1,556	(403)	930	-	2,083	715
Cash Deposits	9	-	-	-	9	24
Investment Costs	-	-	-	(202)	(202)	(212)
	6,462	(13)	6,185	(202)	**12,432**	**4,489**

Table v

In the financial statements, realised gains represent the difference between the sales value and original cost of investments. The movement in unrealised gains and losses on investments represents the difference between the valuation at the balance sheet date and the purchase price or, if investments have been previously valued, the 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.

Net unrealised and realised gains for the year registered a net gain of £6,172k. The fixed income market continues to be volatile during the ongoing Brexit negotiation period. All investment gains and losses are included in the non-technical account in the financial statements and no amounts are included in equity.

MMI does not invest in securitisation assets; several of its corporate bonds are covered by assets but retain dual recourse.

A.4 Performance of other activities

The Company had no other material income in the year ended 30 June 2019.

Operating and administrative expenses for the year ended 30 June 2019 were £4,633k (2018 £2,637). The rise in other operating expenses is due to increased costs in respect of legal and other expenses, including those associated with the reinsurance Court of Appeal hearing, participation in the Independent Inquiry into Child Sexual Abuse ('IICSA') and Scheme resolution matters. Much of this cost is non-recurring in nature.

£149k of the administrative expenses (2018: £149k) was in respect of the Company's leasehold premises at 23 College Hill. This lease commenced on 11 February 2015 and has a ten-year term with a mutual break at 19 May 2020. There are no other leasing arrangements in place.

A.5 Any other information

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

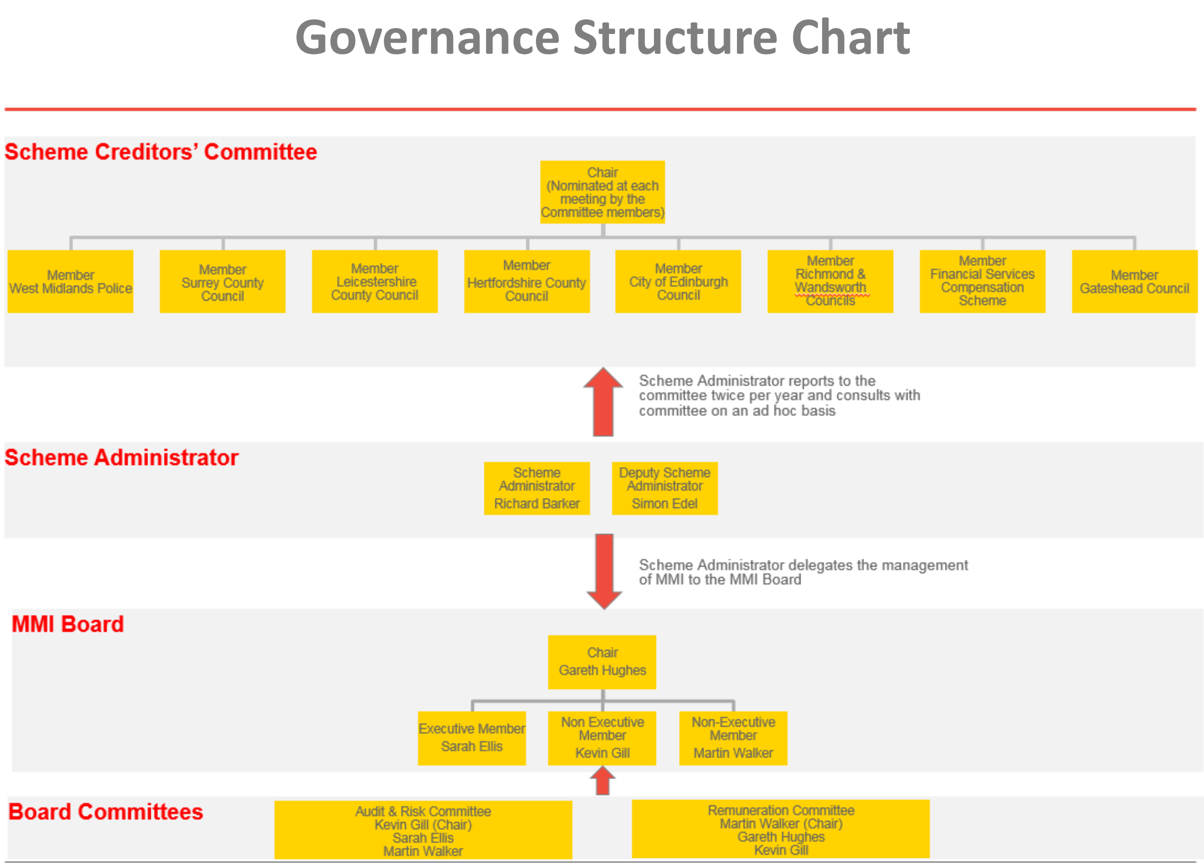
B: System of Governance

The directors of MMI consider the system of governance to be appropriate, 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 enables MMI to comply with all relevant legislation and regulation.

Its governance structure is set out in the chart below:



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.

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

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.

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.

As Scheme Administrator, Richard Barker, exercises general powers of management and control of the business. He has exercised his power under the Scheme to delegate the management and control of the day to day running of the Company to its Directors.

To ensure effective day to day management of the business key decisions are taken by the Board comprising Executive and Non-Executive directors. Minutes are maintained from these meetings and 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);
- 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

In addition to the Board of Directors the Company's governance structure includes an Audit and Risk Committee and a Remuneration Committee

The principal activities of the Audit and Risk Committee comprise:

- Overseeing the financial reporting and disclosure process.
- Monitoring choice of accounting policies and principles.
- Overseeing hiring, performance and independence of the external auditors.
- Oversight of regulatory compliance, ethics, and whistleblowing procedures.
- Monitoring the internal control process.
- Overseeing the performance of the internal audit function.
- Discussing risk management policies and practices with management.
- Identifying risks to the Board; and
- Ensuring that either mitigation strategies/techniques are created with respect to those risks or already identified mitigation techniques/strategies are examined for their effectiveness;

The principal activities of the Remuneration Committee comprise:

- Setting remuneration and associated benefits of MMI the executives and employees.

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 scheme 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.

EY charges MMI for the professional services provided by the Scheme Administrator, the Deputy Scheme Administrator, and the Director, K Gill, in carrying out their roles. The costs of the Scheme Administrator are scrutinised and approved by the Creditors' Committee.

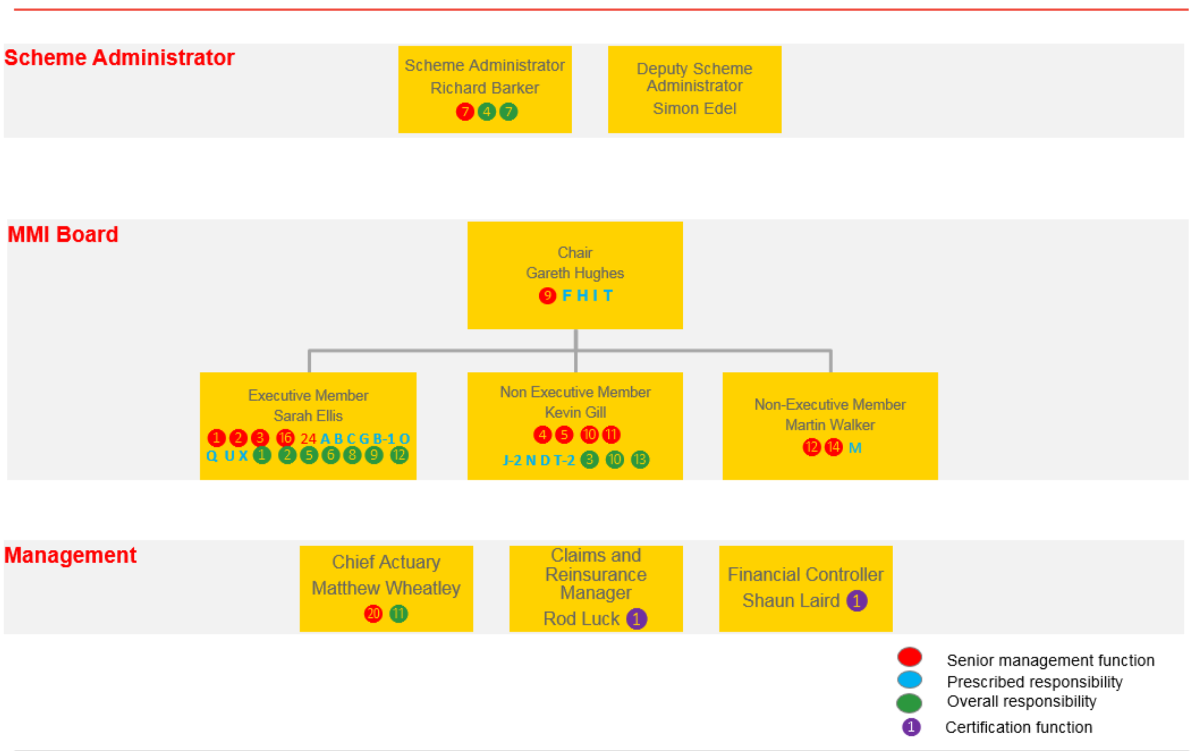
During the year, the Company incurred the following costs in respect of services provided by EY in administering the Scheme of Arrangement:

All figures in £000s	**2019 £000**	**2018 £000**
Administering the Scheme of Arrangement	211	110
Solvency II compliance support	-	5
Fees paid in respect of Director's services (K. Gill)	94	71
Other assurance services	51	126
Taxation services	12	19
	368	**331**

The Company has fully implemented all the requirements of the Senior Mangers Regime which came into force for insurance companies on 10 December 2018. An organisational chart providing details of the Senior Management Functions ('SMF') and Prescribed Responsibilities of key function holders at 30 June 2019 is set out below:

Diagram of allocation

Showing SMFs, Prescribed Responsibilities and Overall Responsibilities



Senior Management Functions	Prescribed Responsibilities	Overall Responsibility
SMF 1: Chief Executive Function	**A** Responsibility for MMI's performance of its obligations under the senior manager regime, including implementation and oversight	❶Responsibility for effectively running MMI
SMF 2: Chief Finance Function	**B** Responsibility for MMI's performance of its obligations under the certification regime.	❷ Responsibility for overseeing the claims management function
SMF 3: Executive Director	**C** Responsibility for compliance with the requirements of the regulatory system about the management responsibilities map	❸ Responsibility for overseeing the reinsurance function
SMF 4: Chief Risk Function	**F** Responsibility for the induction, training and professional development of all members of MMI's governing body	❹ Responsibility for the management and control of Scheme Creditor records
SMF 5: Head of Internal Audit Function	**G** Responsibility for the induction, training and professional development of all persons performing designated senior management functions on behalf of MMI other than members of the governing body	❺ Responsibility for overseeing the information technology function
SMF 16: Compliance Oversight	**J-2** Responsibility for the oversight of outsourced internal audit	❻ Responsibility for the management and control of investments
SMF 24: Chief Operations	**N** Responsibility for the independence, autonomy and effectiveness of MMI's policies and procedures on whistleblowing, including the procedures for the protection of staff who raise concerns	❼ Responsibility for the implementation of the Scheme
	H Overseeing the adoption of the firm's culture	❽ Responsibility for human resources
	I Leading the development of the firm's culture by the governing body as a whole.	❾ Responsibility for compliance
	M Responsibility for overseeing the development of, and implementation, of the firm's remuneration policies and practices	❿ Responsibility for complaint handling
	O Management of the allocation and maintenance of the firm's capital and liquidity	⓫ Responsibility for overseeing the actuarial function
	Q Responsibility for the production and integrity of the firm's financials and its regulatory reporting	⓬ Responsibility for supplier management and procurement
	T Responsibility for the development and	⓭ Responsibility for

	maintenance of the firm's business model by the **T-2** Responsibility for the performance of the firm's Own risk and solvency assessment ('ORSA') governing body	business continuity
	U Responsibility for the firm's obligations under Fitness and Propriety in the PRA Rulebook	
	X Responsibility for outsourced operational functions including systems and technology	

The Scheme Administrator empowers the management team to implement all actions agreed by the Board.

The Financial Controller and Claims Manager report on a day to day basis to Ms Sarah Ellis in the function of effectively running the firm.

The Chief Actuarial Officer oversees the actuarial function.

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

B.2 Fit and Proper

Through its fitness and propriety policy MMI ensures that all its Senior Managers and persons carrying out a certification role:

- have the competence and capability to carry out their key function effectively and in accordance with any relevant regulatory requirements including having the appropriate professional qualifications, knowledge and experience.
- role have the personal characteristics of honesty, integrity and financial soundness and have a faultless reputation.
- have undergone or are undergoing all required training.

Appropriate due diligence is carried out on individuals being appointed including requesting and obtaining regulatory references from all former employers in the last six years and obtaining satisfactory evidence covering any gaps in employment; and the company maintains sufficient records to enable it to provide a regulatory reference if requested to do so.

As the Company has only five members of 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.

MMI's risk management processes are designed to identify, measure, manage, monitor and report all risks to it being able to achieve its strategic objectives. MMI uses a risk and control framework to ensure that risks are appropriately managed, mitigated or avoided.

The Board reviews and agrees the Company's risk appetite by category of risk at least annually.

Written risk assessments are prepared by management for all material changes to critical or important functions or activities and provided to the Board prior to implementation of the change. Critical activities include: The Scheme, including levy matters, insurance policies, including reserving and reinsurance, human resources, outsourcing, compliance procedures, investment policies, financial policies and company strategy. The Board must approve any change to critical functions.

Contingency and business continuity plans are prepared for all critical functions and reviewed annually by the Board.

An assessment of the risks associated with all key functions of MMI is prepared annually by the Key Function Holders and presented to the Chief Risk Officer. The risks are documented in the Chief Risk Officer's Report which is presented annually to the Board. The report includes consideration of any emerging risks.

The Audit & Risk Committee reviews reported risks, considers and challenges risk and assurance reports and reviews all risk mitigation strategies.

The internal audit function monitors the implementation of risk mitigation controls and processes and reports to the Audit & Risk Committee on the compliance and effectiveness of risk mitigation strategies.

The Audit & Risk Committee monitors the total level of risk exposure and reports to the Board annually on risk exposure to at minimum: insurance risk, strategic risk, financial risk, investment risk, outsourcing risk, operational risk and Scheme risk.

MMI cannot raise additional capital 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 to ensure that The Scheme remains secure and viable for Scheme Creditors.

The risk management processes adopted continue to evolve in line with changing risk and regulatory regimes.

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 Board and the Creditors' Committee. Responsibility for sections of the document are allocated to staff based on their operational activities and the final document is approved by the Scheme Administrator.

The Scheme of Arrangement requires at least an annual review of the solvency deficit position and following this review the Scheme Administrator decides after consultation with the Creditors' Committee on whether to adjust the payment percentage.

The results of the ORSA process and the report are considered by the Creditors' 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 a nominal levy percentage where the Scheme is deemed likely to be no longer in the best interest of Scheme Creditors.

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 principal 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.

The most recent ORSA document was provided to the regulatory authority, the PRA, in March 2019, covering the review based on the financial position at 31 December 2018. The ORSA will be updated in February 2020 based on the financial position at 31 December 2019 and this assessment will be used to inform the annual review of the appropriateness of the payment percentage and levy rate in March 2020.

B.4 Internal Control

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

The Scheme Administrator and the Board review 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 2018/2019 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 the Board, key function holders and the auditor, 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 key outsource providers; and

- Review of investment management reports provided by Aviva.

The Chief Executive Officer carries out the role of compliance officer.

MMI seeks 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.

Compliance is reported to the Scheme Creditors' Committee twice a year.

B.5 Internal Audit Function

Internal Audit is an independent and objective function that is a key part of the control environment required for MMI to achieve its objectives and meet its obligations. The purpose of the internal audit function is to evaluate the adequacy and effectiveness of the internal control system and other elements of the system of governance. The internal audit function is proportionate to the nature scale and complexity of the operations of MMI.

The scope of internal auditing encompasses the examination and evaluation of the adequacy and effectiveness of MMI's governance, risk management, and internal controls. This includes:

- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information;

- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organisation;

- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets;

- Evaluating the effectiveness and efficiency with which resources are employed;

- Monitoring and evaluating governance processes; and

- Monitoring and evaluating the effectiveness of the organisation's risk management processes;

In order to ensure that the internal audit function maintains its independence and objectivity MMI employs the services of a partner of the business consultancy firm EY to perform the role of Head of Internal Audit. The IA function will appoint appropriate independent consultants to support individual internal audit reviews as required.

B.6 Actuarial Function

Actuarial forecasting is out-sourced to KPMG subject to an annual engagement agreement. KPMG report to the Chief Actuarial Officer, 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

The objectives of the Company's Outsourcing Policy are to ensure that the outsourcing of critical or important operational functions or activities does not lead to:

Reduction in the Board's, and where applicable a relevant sub committees' responsibility for or influence over key functions of the Company;

- Material impairment of the quality of the Company's system of Governance;
- Any impairment of the Company's ability to meet its regulatory requirements;
- Non-adherence to the Company's approved policies and procedures;
- Undue increases in operational risk;
- Material impairment of the Company's ability to fulfil its obligations to scheme creditors and other stakeholders, nor impede effective supervision by regulators;
- Conflicts of interest;
- Breach of the Company's data protection obligations.

Management has a responsibility to annually review outsourced activities, provide the Board with sufficient information to determine which functions are critical and report to the Board if any of the above arises.

The Board is responsible for the approval of and termination of all outsourcing arrangements of critical or important functions or activities and of assessing the risk associated with the outsourcing of critical or important functions or activities.

The Company out-sources the following critical activities to UK based suppliers:

Claims handling: Zurich Insurance plc

Zurich acquired the right to renew almost all of MMI's direct personal and direct commercial lines of 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). 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 enhances the likely ultimate outcome for policyholders under the scheme of arrangement.

Currently, MMI's claims are handled by either Zurich's Specialist Claims Team ('**CCT**') or its Occupational Disease Claims Team ('**ODC**'). 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 by the senior management team on a case by case basis.

Investment management: 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.

Actuarial services: KPMG LLP (UK)

KPMG provide actuarial services to the Company. Actuarial reports and estimates are considered by the Scheme Administrator and the Board who decide on reserve estimates in the financial accounts. The estimates are reviewed by The Company's Chief Actuary, who reports to the Board on his findings.

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 financial year-end, the Directors instruct their actuarial advisors, KPMG, to produce three estimates of claims outstanding corresponding to a high, mid and low forecast of potential future claims liabilities. The low to high range represents an indicative range of reasonable best estimates. 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 up to 60 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 by its Specialist Claims Team, 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 mesothelioma reinsurance recoverables at year end of £16,875k on its booked reserves (2018: £13,200k).

MMI has been working with its lawyers in relation to the presentation and allocation of mesothelioma reinsurance claims in the light of the Supreme Court ruling in Zurich v International Energy Group Limited. This process has included arbitration against one of the Company's reinsurers and a subsequent appeal in the Court of Appeal at which the Court ruled in favour of the reinsurer. The matter is subject to an appeal to the Supreme Court and is therefore not yet concluded. If MMI is successful in relation to this dispute and were it to apply this basis across all its reinsurers, it estimates that risk mitigation from the reinsurance programme for mesothelioma would be £54,550k at 30 June 2019.

C.2 Market Risk

MMI's investment strategy is to acquire secure assets which will generate income and capital growth to contribute towards meeting 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 of 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.

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 publicly 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.

Reinsurance balances due are in respect of insurance claims underwritten prior to 30 September 1992. Total reinsurance recoverables as at 30 June 2019 were £15,591k (2018: £11,940k), of which more than 75% is in respect of a single reinsurer, Equitas Insurance Limited (‘**Equitas**’). Equitas’s liabilities are guaranteed by National Indemnity Company, which is AA rated. If 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.

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

d) Risk mitigation

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

- Except for UK gilts and supranational bonds, maximum exposure to any counterparty is limited to the lesser of 5% of the Portfolio value or £15m;

- All funds must be invested in sterling; and

- The use of derivatives is not permitted.

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, £2m must always be available for same day transfer and £10m 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.

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

MMI is has significant key man risk due the employment of small team of people with key knowledge and experience.

d) Risk mitigation

This is mitigated by a well-established formal process of monthly reporting and review by the Board and, in particular, MMI's independent non-executive directors. Dual authorisation procedures are required for all banking payments in excess of £2,500. Additionally, the Company relies on external parties and advisors to provide updates 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.

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 due to continued uncertainty regarding Brexit. 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

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.

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

Risk Sensitivities

As described in the Executive Summary, the Company is not able to meet its minimum solvency requirement, but that the Scheme provides protection for policyholders over the duration of the run-off and is structured to deliver the best possible outcome for policyholders, therefore meeting the main objective of Solvency II.

Sensitivity testing and analysis is therefore focused on the effect of adverse outcomes upon the payment percentage applied to claims paid on behalf of Scheme Creditors under the operation of the levy mechanism.

Two key tests are implemented and reviewed at least annually as part of the ORSA process.

The first test is a sensitivity test of claims. The greatest financial risk to MMI relates to the deterioration of the projected claims volumes and costs for two of the most volatile causes of claims: mesothelioma and child abuse. These are tested by modelling a number of simultaneous adverse movements on key claims cost drivers, being claims numbers, settlement values, inflationary growth and rate of claim development. These results are translated into the change required from the current payment percentage of 75% to still achieve equilibrium of assets and liabilities over the life of the run-off.

The second key test is a reverse stress test, whereby changes in the payment percentage are mapped against the implied shock to net assets that would be consistent with the given payment percentage achieving equilibrium of assets and liabilities over the remaining life of the run-off.

C.7 Any Other Information

Other information

All material information regarding MMI's Risk Profile is disclosed in sections C1-C6.

D: Valuation for Solvency Purposes

The Solvency II balance of reserves for the year ended 30 June 2019 was as follows:

All figures in £000s	**2019**	**2018**
Total assets	258,100	257,429
Technical provisions	(317,280)	(307,430)
Other liabilities	(2,355)	(909)
Excess/(Deficit) of assets over liabilities	**(61,535)**	**(50,910)**

Table vi

D.1 Assets

Assets held by the Company as at 30 June 2019 were as follows:

All figures in £000s	**Per Financial Statements**	*Reclassify Accrued Interest*	*Discounting (risk free rate)*	**Per Solvency II**
Investments in government and corporate bonds	**236,123**	*1,704*		**237,827**
Reinsurance recoverables	**17,125**		*(1,534)*	**15,591**
Cash and cash equivalents	**3,837**			**3,837**
Insurance and intermediaries' receivables	**410**			**410**
Other	**2,139**	*(1,704)*		**435**
TOTAL	**259,634**	-	*(1,534)*	**258,100**

Table vii

Investments in government and corporate bonds are all valued at fair value in the financial statements and under Solvency II, being the quoted market price on close of business 30 June 2019, plus any accrued interest. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, or similar platform, and those prices represent actual and regularly occurring market transactions on an arm's length basis. All gilts and bonds held are investment grade and are traded on either the London Stock Exchange or the Euroclear settlement system. All these assets have therefore been deemed as being traded in active markets.

Cash and cash equivalents are valued at carrying value on 30 June 2019 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 £1,534k 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 Scheme's payment percentage mechanism 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 £1,704k difference between Solvency II and UK GAAP represents a reclassification of sundry interest receivable balances from other to investment in government and corporate bonds.

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

The Company has been working with its lawyers in relation to the presentation and allocation of mesothelioma reinsurance claims in light of the Supreme Court ruling in Zurich Insurance PLC UK Branch v International Energy Group Limited. This process has included arbitration proceedings against one of the Company's reinsurers. The resulting decision of the arbitration, which was appealed in 2019 by the reinsurer in the Court of Appeal is subject to a further appeal in the Supreme Court in 2020. If the Company is successful in relation to this dispute and were it to apply this basis across all its reinsurers, it would have recognised an additional £37,675k of undiscounted reinsurance recoverables in the financial statements as at 30 June 2019. This contingent asset is not reported in template S.03.01.

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 2019 were £257,279k 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)	332,090
Estimated Levy recoveries	(74,811)
Outstanding Claims per financial statements	**257,279**

Table viii

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	**2019**	**2018**
Technical provision per Financial Statements	**(257,279)**	**(258,029)**
Add: Items per SII not in Financial Statements		
Allocated administrative expenses	(28,204)	(32,991)
Events not in data	(4,025)	(4,164)
Discounting	32,676	42,982
Best Estimate	**(256,832)**	**(252,202)**
Add: Risk Margin	(60,448)	(55,228)
Technical provision per Solvency II	**(317,280)**	**(307,430)**

Table ix

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 2019-20 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. The year on year decline is due a reforecast of future legal and professional fees and of future staff costs.

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 discounted claims less discounted 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 2019. 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 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.

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**	**Diff**
Trade Payables	2,355	2,355	-

Table x

Trade payable comprise of trade accruals, trade payables due and sundry amounts due to Her Majesty's Revenue & Customs. The balance of £2,355k 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 £24k (2017: £188k) measured at the end of the reporting period.

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

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 set an initial payment percentage of 85% and imposed an initial levy on Scheme Creditors of 15%. The payment percentage was decreased to 75% from 1 April 2016 and an additional 10% Levy was billed at that date. As at 30 June 2019, £194,131k has been collected from Scheme Creditors via the Levy mechanism (2018: £190,300k).

The Company reflects the requirement to repay this liability to the extent that it would otherwise hold surplus reserves. The future levy recoverable element of claims outstanding at 30 June 2019, per the statutory accounts, of £74,811k (2018: £78,712k) includes an offset of £5,639k (2018: £3,313k) in respect of these surplus reserves.

Taking account of historical and future levy/payment percentage deductions, the liabilities of the Company have consequently been reduced by £268,842k (2018: £268,998k), equivalent to £262,055k once adjusted for discounting. Part, or all of these liabilities, could become payable to Scheme Creditors if the financial position of the company improves and the payment percentage is consequently increased.

Under the terms of the Scheme of Arrangement, Scheme Creditors are also entitled to additional payments of up to £30 million from any surplus reserves once all other liabilities have been met in full. This 'Commission for Risk' represents compensation to the Scheme Creditors for assuming the risk under the Scheme of having to make payments to the Company to satisfy the imposition of a Levy by the Scheme Administrator, or of having insurance claims payments reduced.

The Company'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	(61,535)	(61,535)	-	-	-
Deficit of Own Funds	**(61,535)**	**(61,535)**	**-**	**-**	**-**

Table xi

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 accordance with the Scheme of Arrangement 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 2059, 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:

All figures in £000s	2019	2018
Total of reserves and retained earnings from financial statements	**-**	**-**
Difference in the valuation of assets	(1,534)	(1,509)
Difference in the valuation of technical provisions	(60,001)	(49,401)
Reserves from financial statements adjusted for Solvency II valuation differences	**(61,535)**	**(50,910)**
Excess of assets over liabilities attributable to basic own fund items	-	-
Excess of assets over liabilities	**(61,535)**	**(50,910)**

Table xii

All differences in the reconciliation between reserves per the financial statements and the excess of assets over liabilities per Solvency II arise as a result from differences in the preparation bases of Solvency II and UK GAAP. The reconciliation between the opening and closing balances of Excess/(deficit) of assets over liabilities is as follows:

All figures in £000s	2019	2018
Excess/(deficit) of assets over liabilities B/F	**(50,910)**	**(57,199)**
(Increase)/decrease in Best Estimate technical provision, gross of reinsurance	(4,630)	19,238
Technical flows on gross technical provision	(12,257)	(15,979)
(Increase)/decrease in Risk Margin	(5,221)	2,343
Variation due to reinsurance recoveries	3,684	(1,165)
Variation due to investments	12,432	4,489
Other expenses during the year	(4,633)	(2,637)
Excess/(deficit) of assets over liabilities CF	**(61,535)**	**(50,910)**

Table xiii

E.2 Minimum Capital Requirement and Solvency Capital Requirement

MMI uses the Standard Formula to calculate its SCR.

All figures in £000s

SCR - Overview	30 JUN 2019	30 JUN 2018
Reserve Risk	79,610	79,286
Market Risk	3,291	3,732
Counterparty Default Risk	843	2,091
Undiversified Basic SCR	83,744	85,109
Diversification	(2,819)	(3,732)
Basic SCR	**80,925**	**81,377**
Operational Risk	7,705	7,566
Final SCR	**88,630**	**88,943**
MCR cap	39,883	40,025
MCR floor	22,157	22,236
Linear MCR	**24,848**	**24,747**

Table xiv

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, lesser, risk types, some simplifying assumptions 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 an approximation, 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.

The MCR is calculated as follows:

All monetary figures in £000s		MCR
Net Best Estimate Technical Provision	(a)	241,242
TP Factor (α)	(b)	10.3%
MCR (a x b)		**24,848**

Table xv

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 Use of the duration-based equity risk sub-module in the calculation of SCR

The company held no equity during the reporting period.

E.4 Differences between the Standard Model and any Internal Model used

The Company uses the Standard Model to calculate the SCR and no differences exist.

E.5 Non-Compliance with the Minimum Capital Requirement and the Solvency Capital Requirement.

MMI is subject to a Scheme of Arrangement and should be technically regarded as insolvent. It has a deficit of own funds of £61,535k, compared to an MCR of £24,848k and an SCR of £88,630k.

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 30 June 2019, Details are as below:

All figures in £000s	30 Jun 2019
Surplus/(Deficit) of Own Funds	**(61,535)**
SCR	88,630
MCR	24,848
SCR Surplus/(Deficit)	(150,165)
MCR Surplus/(Deficit)	(86,383)

Table xvi

The SCR deficit has increased during the course of the 2018/19 financial year. This is primarily due to a decline in the long term discount rate, which is itself driven by market responses to Brexit and other exogenous factors. MMI also strengthened its IBNR reserves at the end of the year.

E.6 Any Other Information

All material information regarding MMI's capital management is disclosed in sections E1-E5 above.

APPENDIX: QUANTITIVE REPORTING TEMPLATES

This Appendix lists the annual quantitative templates submitted to the PRA on behalf of Municipal Mutual Insurance Limited in respect of the year ended 30 June 2018

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	61
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	237,827
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*	237,827
R0140	*Government Bonds*	192,249
R0150	*Corporate Bonds*	45,578
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:	15,591
R0280	*Non-life and health similar to non-life*	15,591
R0290	*Non-life excluding health*	15,591
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	411
R0370	Reinsurance receivables	0
R0380	Receivables (trade, not insurance)	374
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	3,837
R0420	Any other assets, not elsewhere shown	0
R0500	**Total assets**	258,100

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	317,281
R0520	*Technical provisions - non-life (excluding health)*	317,281
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	256,832
R0550	*Risk margin*	60,448
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)	2,355
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	0
R0900	**Total liabilities**	319,635
R1000	**Excess of assets over liabilities**	-61,535

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)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business								0									0
R0120	Gross - Proportional reinsurance accepted								0									0
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share								0									0
R0200	Net								0									0
	Premiums earned																	
R0210	Gross - Direct Business								0									0
R0220	Gross - Proportional reinsurance accepted								0									0
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share								0									0
R0300	Net								0									0
	Claims incurred																	
R0310	Gross - Direct Business								-11,452									-11,452
R0320	Gross - Proportional reinsurance accepted								0									0
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share								-3,709									-3,709
R0400	Net								-7,743									-7,743
	Changes in other technical provisions																	
R0410	Gross - Direct Business								0									0
R0420	Gross - Proportional reinsurance accepted								0									0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share								0									0
R0500	Net								0									0
R0550	**Expenses incurred**								4,835									4,835
R1200	**Other expenses**																	55
R1300	**Total expenses**																	4,890

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010								
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	0	0	0	0	0	0	0
R0120	Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0
R0130	Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
R0140	Reinsurers' share	0	0	0	0	0	0	0
R0200	Net	0	0	0	0	0	0	0
	Premiums earned							
R0210	Gross - Direct Business	0	0	0	0	0	0	0
R0220	Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0
R0230	Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
R0240	Reinsurers' share	0	0	0	0	0	0	0
R0300	Net	0	0	0	0	0	0	0
	Claims incurred							
R0310	Gross - Direct Business	-11,452	0	0	0	0	0	-11,452
R0320	Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0
R0330	Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
R0340	Reinsurers' share	-3,709	0	0	0	0	0	-3,709
R0400	Net	-7,743	0	0	0	0	0	-7,743
	Changes in other technical provisions							
R0410	Gross - Direct Business	0	0	0	0	0	0	0
R0420	Gross - Proportional reinsurance accepted	0	0	0	0	0	0	0
R0430	Gross - Non-proportional reinsurance accepted	0	0	0	0	0	0	0
R0440	Reinsurers' share	0	0	0	0	0	0	0
R0500	Net	0	0	0	0	0	0	0
R0550	**Expenses incurred**	4,835	0	0	0	0	0	4,835
R1200	**Other expenses**							55
R1300	**Total expenses**							4,890

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				Total Non-Life obligation
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**								0									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									0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross								0									0
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default								0									0
R0150	**Net Best Estimate of Premium Provisions**								0									0
	Claims provisions																	
R0160	Gross								256,832									256,832
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default								15,591									15,591
R0250	**Net Best Estimate of Claims Provisions**								241,242									241,242
R0260	**Total best estimate - gross**								256,832									256,832
R0270	**Total best estimate - net**								241,242									241,242
R0280	**Risk margin**								60,448									60,448
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole								0									0
R0300	Best estimate								0									0
R0310	Risk margin								0									0
R0320	**Technical provisions - total**								317,281									317,281
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**								15,591									15,591
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**								301,690									301,690

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020 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											16,103	16,103	16,103
R0160	2010	0	0	0	0	0	0	0	0	0	0		0	0
R0170	2011	0	0	0	0	0	0	0	0	0			0	0
R0180	2012	0	0	0	0	0	0	0	0				0	0
R0190	2013	0	0	0	0	0	0	0					0	0
R0200	2014	0	0	0	0	0	0						0	0
R0210	2015	0	0	0	0	0							0	0
R0220	2016	0	0	0	0								0	0
R0230	2017	0	0	0									0	0
R0240	2018	0	0										0	0
R0250	2019	0											0	0
R0260												Total	16,103	16,103

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											289,510	256,832
R0160	2010	0	0	0	0	0	0	0	0	0	0		0
R0170	2011	0	0	0	0	0	0	0	0	0			0
R0180	2012	0	0	0	0	0	0	0	0				0
R0190	2013	0	0	0	0	0	0	0					0
R0200	2014	0	0	0	0	0	0						0
R0210	2015	0	0	0	0	0							0
R0220	2016	0	0	0	0								0
R0230	2017	0	0	0									0
R0240	2018	0	0										0
R0250	2019	0											0
R0260												Total	256,832

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	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	-61,535	-61,535			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
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				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	0
R0290	**Total basic own funds after deductions**	-61,535	-61,535	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0			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			0	
R0320	Unpaid and uncalled preference shares callable on demand	0			0	0
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0			0	0
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0			0	
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0			0	0
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0			0	0
R0390	Other ancillary own funds	0			0	0
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	-61,535	-61,535	0	0	0
R0510	Total available own funds to meet the MCR	-61,535	-61,535	0	0	
R0540	Total eligible own funds to meet the SCR	-61,535	-61,535	0	0	0
R0550	Total eligible own funds to meet the MCR	-61,535	-61,535	0	0	
R0580	**SCR**	88,630				
R0600	**MCR**	24,848				
R0620	**Ratio of Eligible own funds to SCR**	-69.43%				
R0640	**Ratio of Eligible own funds to MCR**	-247.65%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	-61,535
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**	-61,535
	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.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	3,291		
R0020	Counterparty default risk	843		
R0030	Life underwriting risk	0	9	
R0040	Health underwriting risk	0	9	
R0050	Non-life underwriting risk	79,610	9	
R0060	Diversification	-2,820		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	80,925		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	7,705
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**	88,630
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	88,630
	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	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

USP Key

For life underwriting risk:
1 - Increase in the amount of annuity benefits
9 - None

For health underwriting risk:
1 - Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non-proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

For non-life underwriting risk:
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life reserve risk
9 - None

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	24,848

		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	241,242	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

	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	24,848
R0310	SCR	88,630
R0320	MCR cap	39,883
R0330	MCR floor	22,157
R0340	Combined MCR	24,848
R0350	Absolute floor of the MCR	3,288
R0400	**Minimum Capital Requirement**	24,848