MUNICIPAL MUTUAL INSURANCE LIMITED

(In Scheme of Arrangement)

Annual Report and Accounts

for the year ended 30 June 2023

Registered number: 00076678 England

Website: www.mminsurance.co.uk

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NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of the Company will be held online using Microsoft Teams on Tuesday, 21 November 2023 at 12:30 for the following purposes:

Ordinary resolutions

1. To receive and adopt the Annual Report and Accounts for the year ended 30 June 2023.
2. To re-appoint Grant Thornton UK LLP as the independent auditors of the Company.
3. To authorise the directors to fix the remuneration of the auditors.
4. To re-appoint Martin Walker as a director.

On behalf of the Board
G H Hughes
Director

28 September 2023

Registered Office
23 College Hill
London
EC4R 2RP

Notes:

Any person entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his or her stead. A proxy must be a member of the Company. A form of proxy is enclosed. This form of proxy, duly completed, and the power of attorney (if any) under which it is signed, must reach the registered office of the Company not later than 12:30 p.m. on 20 November 2023.

To receive an electronic invitation to join the meeting any person entitled to attend and vote at the meeting, or an appointed proxy, should e-mail their contact details to members@mminsurance.co.uk no later than 12.30 p.m. on 20 November 2023.

Municipal Mutual Insurance Limited
(In Scheme of Arrangement)

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

SCHEME ADMINISTRATOR

R Barker, FCCA

DEPUTY SCHEME ADMINISTRATOR

S Edel

BOARD OF DIRECTORS

S J Ellis, ACA

K Gill, ACA, ACII

M B A Walker

G H Hughes, FCA

S Laird, ACA

COMPANY SECRETARY

S J Ellis, ACA

SENIOR MANAGEMENT

R Luck, ACII – Claims Technical Director

CREDITORS' COMMITTEE MEMBERS AND THEIR REPRESENTATIVES

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

STRATEGIC REPORT

Review of the business

The Company is an insurance company limited by guarantee which wrote commercial and personal lines of business until September 1993 when it was placed in run-off. On 5 January 1994, a Scheme of Arrangement (the 'Scheme') under section 425 of the Companies Act 1985 (now section 899 of the Companies Act 2006) was approved by Order of the Court. The Scheme came into effect on 21 January 1994. The Scheme was a contingent Scheme which was held in reserve until the occurrence of a Trigger Event. The Scheme was triggered by the directors on 13 November 2012 (the 'Trigger Date') because, in the light of information provided by the Company's actuaries at that time, the directors concluded that a solvent run-off could no longer be foreseen. The Scheme trigger is irrevocable.

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

(a) manage the run-off of the Company's business;

(b) hold and, in due course, realise the assets of the Company and apply them for the benefit of the Scheme Creditors and the Financial Services Compensation Scheme ('FSCS'), and other creditors of the Company in accordance with the Scheme; and

(c) supervise and ensure the carrying out of the Scheme.

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

(a) within 90 days of the Trigger Date complete a review of the assets and liabilities of the Company and when appropriate, set a Levy and Payment Percentage rate to be applied to amounts paid to Scheme Creditors since the Record Date (30 September 1993) in order to eliminate the Company's financial deficit; and

(b) not less than once every year, review the Levy and Payment Percentage rate and adjust it if required.

The Scheme Administrator is Richard Barker, a Partner of Ernst & Young LLP. Simon Edel, a Partner of Ernst & Young LLP, is the Deputy Scheme Administrator.

Directors Duties

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

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

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

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

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

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

Strategic Report *continued*

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

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

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

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

Risk management

Risk management processes are embedded in all aspects of the corporate governance and decision-making processes. The Company is a Solvency II regulated firm, and the effective identification, evaluation management and mitigation of risks is a core function of the management of the business. The directors consider the impact of strategic decisions on the likely ultimate outcome for Scheme Creditors and policyholders by preparing, updating and regularly reviewing a runoff forecast and applying a range of risk parameters to consider estimated outcomes. This includes insurance and financial risk, see further detail in note 7 to the accounts.

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

Our people and key suppliers

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

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

Members, Scheme Creditors, and policyholders

The Company consults regularly with the Creditors' Committee in respect of all matters that may potentially affect the outcome of the Scheme, this includes insurance risk, see further detailed note in note 7 to the accounts.

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

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

The run-off forecast

The run-off forecast is prepared using low, mid and high actuarial projections so a range of possible outcomes can be shared with the Creditors' Committee. These outcomes do not constitute an upper or lower ultimate range of outcomes but represent a potential range of possible outcomes based on flexed assumptions. The run-off forecast prepared for 2023/24 indicates that under the mid-IBNR forecast MMI's assets are sufficient to pay all its forecast expenses and insurance liabilities at the current Payment Percentage of 75%.

Strategic Report *continued*

The ORSA

The annual ORSA report assesses the possible range of run-off outcomes through a stress test analysis of the assumptions underlying the run-off forecast. The 2023 ORSA indicated that the Scheme of Arrangement would continue to deliver the best outcome for Scheme Creditors even in the event of a 1 in 200-year shock to the insurance reserves.

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

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

Results for the year

Profit for the year was £nil (2022: £nil). Net assets are £nil (2022: £nil).

Under the terms of the Scheme, any surplus assets of the Company will ultimately be returned to Scheme Creditors through an adjustment to the Payment Percentage (see note 26). For the year ended 30 June 2023, the Company has recognised a decrease in the provision to return levy monies of £13.3 million (2022: £0.5 million increase). This reduction is due to an increase in the IBNR claim provision reflecting the estimated impact of a recent Scottish judgment regarding the rights of family members to bring loss of society claims following the death from mesothelioma of a claimant who had previously settled a plural plaques claim on a full and final basis, and a reduction in the market value of the Company's bond investments in the year due to increases in interest rates.

The Company purchases investment assets with maturity dates that are closely matched to the projected claims liability profile of the Company to provide interest rate protection as on a discounted basis the value of the Company's long tail liabilities will also reduce if interest rates increase. The Company's accounting policy in prior years did not apply discounting to the technical provision. Following a review, the directors have approved a change of policy and discounting has been applied to the technical provision in the financial statements ended 30 June 2023 and the comparative accounts. The directors believe that this presentation provides information which is more useful for the economic decision making of the readers of these accounts.

The Company has followed a consistent policy by including the gross mid-range figure for IBNR (incurred but not reported) claims in its accounts, as calculated by the Company's external actuarial adviser, KPMG LLP ('KPMG'). This calculation is reviewed and approved by the directors.

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

Further details regarding results for the year can be found in the Directors' Report on page 9.

Payment percentage and levy on Scheme Creditors

In accordance with the terms of the Scheme, the financial position of the Company was reviewed in March 2023, and the Scheme Administrator concluded that the current Payment Percentage rate of 75%, set on 1 April 2016, remained appropriate. No further changes to the payment percentage and the levy rate are currently anticipated.

Investment policy

The Company's cash assets are invested by its investment managers, Aviva Investors Limited ('Aviva'), who continue to follow a risk-averse strategy on behalf of the Company with the aim of generating income and capital growth matched to the estimated cost and timing of current and forecast future liabilities. 63.3% of the current investment portfolio is invested in gilts, 33.4% is invested in corporate bonds and floating rates notes, with the balance held as cash. Further information is set out in note 7(ii).

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

Creditors' Committee

Meetings of the Creditors' Committee were held on 22 November 2022 and 23 May 2023, at which Committee members were updated fully on all aspects of the progress of the run-off of the Company's business.

Strategic Report *continued*

The next meeting of the Creditors' Committee will take place on 21 November 2023, prior to the Annual General Meeting.

Principal risks and uncertainties

The key business risks affecting the Company are as follows:

1. **Reserve risk - claims volatility**

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

   Significant uncertainty also remains regarding future liability for historic abuse claims due to the unknown impact of factors such as: increased public awareness arising from publicity surrounding high profile abuse cases, the associated police and public body investigations, the Independent Inquiry into Child Sexual Abuse, the enactment of the Limitations (Childhood Abuse) (Scotland) Bill and the Supreme Court decisions regarding local authorities' vicarious liability in respect of children abused by foster carers. Further information is set out in note 6(ii).

2. **Investment risk – market and counterparty risk**

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

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

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

3. **Financial risk – liquidity**

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

4. **Outsourcing risk**

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

   The Board closely monitors the outsourced functions and considers that in the event of a function becoming unavailable it could arrange alternative providers with minimal disruption to the Company.

5. **Human resource risk**

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

6. **Regulatory risk**

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

Strategic Report *continued*

Key performance indicators (KPIs)

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

1. Outstanding claims

A comparison of the number of outstanding claims at the beginning and end of the year, after allowing for newly reported claims in the year, gives an indication of the progress made towards completion of the run-off. In the year ended 30 June 2023, 492 new claims were reported (2022: 383). As at 30 June 2023 the number of outstanding claims was as follows:

	Year ended 30 June 2023	*Year ended 30 June 2022*
Employers' Liability	413	*552*
Public Liability	421	*430*
Total Claims	834	*982*

2. Income from investments

Investment income as a percentage of average investment funds gives an indication of the level on investment return in the year. In the year ended 30 June 2023, investment income as a percentage of average investment funds was 2.73% (2022: 2.30%)

	Year ended 30 June 2023 £000	*Year ended 30 June 2022 £000*
Investment funds at beginning of period	189,181	*229,140*
Investment funds at end of period	158,704	*189,181*
Average	173,943	*209,161*
Investment Income	4,749	*4,751*
Investment Income as a percentage of average investment funds	2.73%	*2.27%*

3. Run-off model

The Company prepares a run-off forecast to assist the Scheme Administrator in the setting of the Levy and Payment Percentage rate. The forecast prepared as at 30 June 2023, using mid-IBNR claim projections, indicates that under current assumptions, a long-term Levy rate of 25% will enable the Company to pay its adjusted liabilities in full. The forecast assumes that the run-off will continue until the year 2060 when the final claim will be received.

Outlook

In accordance with the Levy Notices, the Company expects to continue to pay claims at 75% of the agreed settlement amount for affected Scheme Creditors and pay claims at 100% for non-Scheme Creditor policyholders.

G H Hughes
Director

28 September 2023

DIRECTORS' REPORT

The directors present their report and the audited accounts of the Company (registered number: 00076678 England) for the year ended 30 June 2023. The Company is a company limited by guarantee and has no share capital. It is owned by its members.

Having assessed the principal risks and uncertainties (page 7 of The Strategic Report), the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements. Further details are presented in note 3(i) to the financial statements.

Activities

The principal activity of the Company during the year continued to be the run-off of its general insurance liabilities on policies issued up to 30 September 1992, the date on which the Company ceased to write general insurance business. Future Company developments are presented in the Outlook section of the Strategic Review.

Scheme of Arrangement

The Company is subject to a Scheme of Arrangement ('the Scheme') under section 425 of the Companies Act 1985 (now section 899 of the Companies Act 2006) which became effective on 21 January 1994.

Results for the year ended 30 June 2023

The results for the year ended 30 June 2023 are set out in the accounts on pages 22 to 38 and show a profit of £nil (2022: £nil), which is net of a decrease in the provision to return monies to Scheme Creditors of £13.3 million (2022: £0.5 million increase), as reported within the balance of technical provisions. The loss in the year, prior to this provision movement, is £13.3 million and primarily attributable to unrealised losses on fixed income investments due to market value movements.

Claims recovered, net of reinsurance was £11.7 million for the year ended 30 June 2023 (2022: £27.9 million), of which £15.0 million was due to positive reserve movements in respect of discounting (2022: £20.7 million).

In accordance with the Company's normal practice, the directors received and approved actuarial advice from KPMG to assist in establishing the undiscounted claims provisions as at 30 June 2023. This advice considers the relevant factors which affect MMI's liability in relation to abuse, asbestos related disease and other claims and the estimated future incidence thereof. The Scheme Administrator agreed with the directors' decision regarding the value of the outstanding claims provisions to be included in the financial statements for the year ended 30 June 2023.

Reported net investment income in the year is a loss of £22.6 million (2022: £25.1 million loss). This year-on-year loss is significant and can be attributed to substantial falls in the fixed income markets in response to increased expectations of future interest rate rises. These expectations are driven by supply side inflationary pressures. Municipal Mutual Insurance's investment strategy is to hold fixed income investments to maturity to provide a hedge against the movement in the value of future claims liabilities due to interest rate changes. Despite market value volatility the fixed income streams generated by these investments remain largely unchanged and therefore the reported losses do not impact the Company's run-off forecast or its projected Payment Percentage.

Other operating expenses were £1.9 million (2022: £1.8 million).

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

Events since the balance sheet date

The directors have reviewed events since the balance sheet date, and these are considered in note 23 to the accounts.

Financial Instruments

Information on the use of financial instruments by the Company and its management of financial risk is disclosed in note 7 to the financial statements. The Company's exposures to interest rate risk, credit risk and liquidity risk are separately disclosed in that note.

Directors' Report *continued*

Directors

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

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

Indemnity insurance

A policy of indemnity insurance cover to the benefit of the directors and Officers of the Company has been in force during the year ended 30 June 2023 and at the date of this report.

Greenhouse Gas Emissions

The Company has assessed its energy consumption for the year ended 30 June 2023 to be less than 40,000 KWH and is, therefore, categorised as a Low Energy User and exempt from the greenhouse gas emission disclosure requirements under The Companies Act 2006 and The Companies (Directors Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

Statement of Directors' responsibilities

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

Company law requires directors to prepare financial statements for each financial year. Under that law, the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, directors must not approve the financial statements unless satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose, with reasonable accuracy at any time, the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and, hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure of information to auditors

The directors confirm that:

(a) so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and

(b) the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Independent auditors

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

Approved by the Board on 28 September 2023 and signed on its behalf.

G H Hughes
Director

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

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Municipal Mutual Insurance Limited (the 'Company') for the year ended 30 June 2023, which comprise the Statement of Income and Retained Earnings, the Statement of Financial Position, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2023 and of its result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

We draw attention to Note 7 (i) (a) & Note 7 (i) (b) to the financial statements which describe the significant uncertainties involved in estimating the valuation of IBNR provision. This is particularly the case for mesothelioma and abuse claims, as demonstrated in the sensitivity analyses in note 7(i)(a) of the financial statements. The final settlement value of such claims can vary materially from the amount at which these are currently recorded in the financial statements. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

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

- Obtaining and checking the arithmetical accuracy of the management prepared forecasts;
- Consideration of the appropriateness of the going concern period to 30 September 2024;
- Inspection of Company board minutes for board approval of the forecasts;
- Consideration and challenge of management assumptions made in their budgets and forecasts to determine whether the assumptions made were in line with our understanding of the business;
- Consideration of the accuracy of management's forecasts prepared for prior periods. Testing included the comparison of prior year forecast figures to the actual results and assessment of any impact on management's current year forecasts;
- Challenge of sensitivity scenarios modelled by management and associated available mitigating actions;

Independent Auditor's report *continued*

- Challenge of management's assessment of the significant uncertainties with respect to claims outstanding and assessment of the impact of this on the overall going concern status of the Company;
- Assessment of the Scheme of Arrangement ("the Scheme" or "the SOA") and whether it continues to operate in the best interests of the Scheme's creditors; and
- Assessment of the appropriateness of the disclosures in the financial statements relating to going concern.

In our evaluation of the directors' conclusions, we considered the inherent risks associated with the Company's business model (including consideration of the finite nature of the Company's resources and that the ability to operate as a going concern is also dependent on the Scheme being able to operate in the best interests of the Scheme's creditors), we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

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

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Our approach to the audit

Overview of our audit approach

Overall materiality: £1,767,000, which represents 1% of the Company's total liabilities at the planning stage of the audit.

Key audit matters were identified as:

- Valuation of the claims incurred but not reported ('IBNR') provision (same as previous year); and
- Change of accounting policy – discounting of IBNR provision reserves (new).

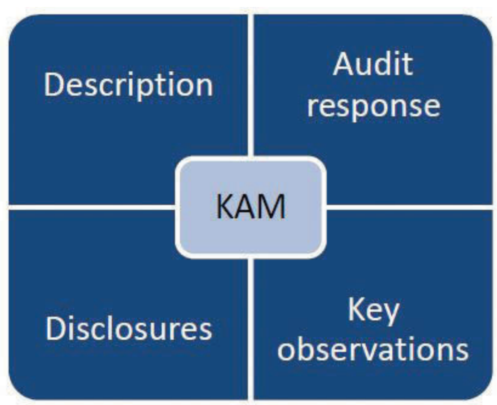
Our auditor's report for the year ended 30 June 2022 included no key audit matters that have not been reported as key audit matters in our current year's report.

In the current year, management have changed their accounting policy regarding their technical provisions which now incorporate discounting the reserves. In the current year, we assessed the appropriateness of this change and engaged our internal actuarial experts to challenge and assess the appropriateness of management's methodology regarding the discounting applied, including the timing of cashflows.

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

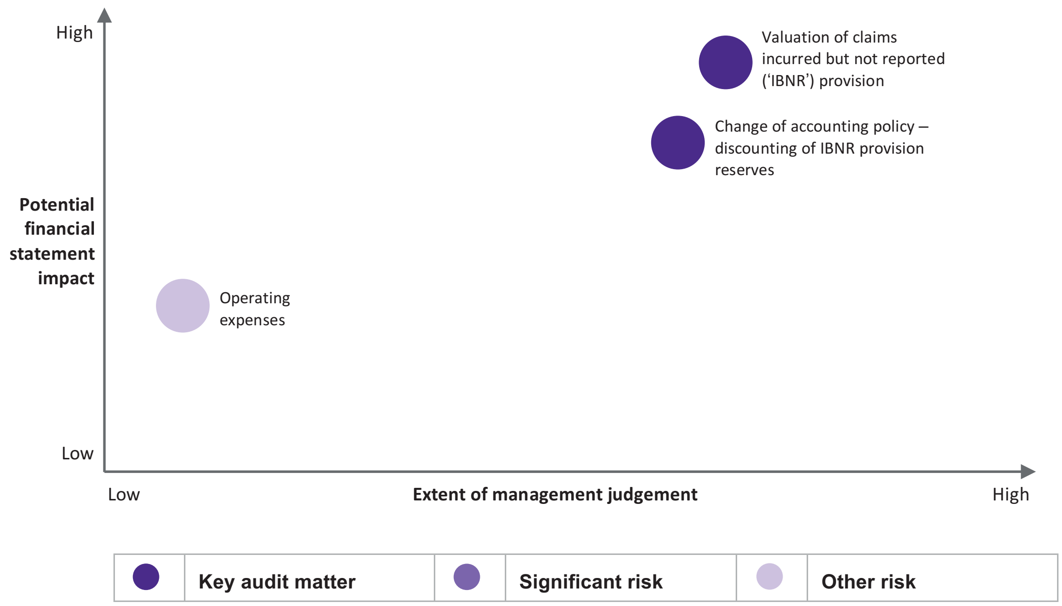
Key Audit Matters

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



Independent Auditor's report *continued*

In the graph below, we have presented the key audit matters, significant risks and other risks relevant to the audit.



Key Audit Matter

Valuation of the claims incurred but not reported ("IBNR") provision

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

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

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

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

Discounting:

The IBNR reserves are discounted using a risk-free rate The rate used to discount the reserves is a key factor in the final valuation of the provision.

The discounting of the technical provisions is derived from the timing of the future cashflows which is a key estimate coming from the valuation of the IBNR.

How our scope addressed the matter

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

Related procedures performed by our actuarial experts are listed below:

Reserving methodology:

- Evaluated the reasonableness of management's methodology, key assumptions and any changes to those from prior period used for the determination of the valuation of the IBNR provision;
- Challenged management's judgement and assumptions with respect to reserving and the discounting methodology;
- Benchmarked management's reserving methodology to standard industry practice;
- Challenged management on the application of inflation in relation to the timing of cashflow projections and the reasonableness of the discounting rate used;
- The audit team have checked the mathematical accuracy of the reserve calculations used.

Independent Auditor's report *continued*

Key Audit Matter	*How our scope addressed the matter*
Number of claims: The expected number of future claims is a key variable used in projecting claims expenses arising in future years. The number of claims is uncertain. *Future cost per claim:* The key assumptions used in assessing the future cost per claim are age bands and inflation. There is limited industry specific data available in this regard, which further increases the overall uncertainty in the valuation of the IBNR provision. *Mesothelioma claims:* There are long inactive periods associated with mesothelioma claims, which along with future claims cost assumptions makes the valuation of the IBNR provision significantly uncertain. *Abuse:* The nature of abuse claims and assumptions used in the projections for abuse claims makes it an area of significant uncertainty within the IBNR provision.	*Management's experts:* ● Held meetings with management's experts to understand their IBNR valuation process and other key aspects to their role; ● Assessed the competence, capabilities, objectivity and experience of management's experts involved in the valuation of the IBNR provision. *Data:* ● The audit team tested the completeness and accuracy of the data that management's experts used in assessing the valuation of the IBNR provision by corroborating to audited source data, including reconciling data back to management's experts' report. *Controls:* ● Obtained an understanding of and assessed the design and implementation of controls with respect to the reserving process and valuation of the IBNR provision. *Disclosures:* ● Assessed the disclosures related to the technical provisions in the financial statements. This included evaluating against the standards and reporting requirements as set out by FRS 102 and FRS 103.
Relevant disclosures in the Annual Report and Accounts Financial statements: Note 7(i)(a), Management of Insurance and financial risk	*Key observations:* Based on our audit work, including our actuarial assessment of management's methodology and the key assumptions involved in management's calculation of the IBNR provision, we did not identify any material misstatements in the valuation of the IBNR provision. Our audit work identified that, whilst the assumptions used are not unreasonable, there are significant uncertainties involved in the IBNR provision estimation, particularly related to mesothelioma and abuse claims. The final settlement of such claims can vary materially from recorded balances at as at the year-end. We draw attention to Note 7(i)(a) in the financial statements, which describe the significant uncertainties involved in estimating the valuation of IBNR provision, as concluded within our Emphasis of Matter paragraph.

Independent Auditor's report *continued*

Key Audit Matter	*How our scope addressed the matter*
Change of accounting policy – discounting of IBNR provision reserves In previous financial years, management did not discount the IBNR provision. In the current year, management have applied a change in accounting policy which discounts the IBNR provision using a risk-free interest rate. We identified the change in accounting policy as one of the most significant assessed risks of material misstatement due to error. There is also an increased risk that the change of policy does not comply with financial reporting standards, FRS 103 paragraph 26c. The discounting of the IBNR provision reserves is derived from the timing of future cashflows which is a key estimate in the valuation of the IBNR. In discounting the IBNR provision reserves, management have made a number of key judgements such as the risk-free rate and inflationary rates applied to future cashflows. The change of accounting policy has required significant auditor attention in performing the current year audit. *Relevant disclosures in the Annual Report and Accounts* Financial statements: Note 5, Restatement of Prior Year and Note 7(i)(a) and (b) Management of Insurance and financial risk – Sensitivity analysis of claims estimation, Note 8, Supplementary Information Regarding Classes of Business.	In responding to the key audit matter, we performed the following audit procedures: ● Inquired and obtained management's assessment paper to understand the basis for introducing the change of accounting policy; ● Challenged management regarding the appropriateness of the change of accounting policy and discounting basis; ● Inquired with management and management's expert to understand the discounting approach taken; ● Assessed the change of accounting policy disclosure in line with FRS 102 section 10 and evaluated the application in line with FRS 103 paragraph 26c; ● Utilised internal actuarial experts to evaluate the appropriateness of the risk-free rate used by management; and ● Utilised internal actuarial experts to assess the appropriateness of the timing of projected cashflows by evaluating the work performed by management's expert. *Key observations:* Based on our audit work we did not identify any material misstatements in the change in accounting policy.

Independent Auditor's report *continued*

Our application of materiality

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

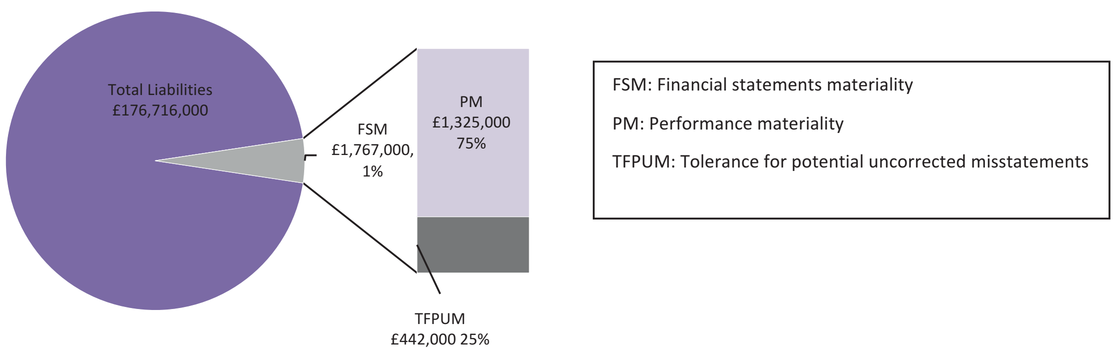
Materiality was determined as follows:

Materiality measure	***Company***
Materiality for financial statements as a whole	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.
Materiality threshold	£1,767,000, which is 1% of the Company's total liabilities, determined at the planning stage of the audit.
Significant judgements made by auditor in determining the materiality	In determining materiality, we made the following significant judgments: ● We have consistently used total liabilities as the benchmark. Whilst profit before tax might typically be used for an insurance-based entity, the Company is in run-off after the Scheme of Arrangement (SOA) was triggered in 1992. Since the signing of this agreement, the objectives of the Company are to perform under the SOA and therefore this overrules the original business objectives. The Company aims to pay off its Scheme creditors throughout its run-off period. ● On this basis, we have taken into consideration the key stakeholders and users of the financial statements. The Scheme members are the key parties interested in the future existence of the Company and its ability to meet future claims payments. In line with the purpose of the SOA, they will be interested in the solvency position of the Company and its ability to pay future claim costs. The key driver behind the solvency position is the total liabilities figure. ● Our use of a 1% measurement percentage is based on the level of risk associated with the Company, which is a public interest entity. This percentage falls in the middle of the permissible range for the firm's higher risk audit engagements, allowing for the Company not being a listed entity. Materiality for the current year is lower than the level that we determined for the year ended 30 June 2022 to reflect the decrease in total liabilities.
Performance materiality used to drive the extent of our testing	We set performance materiality at an amount less than materiality for the financial statements as a whole, to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.
Performance materiality threshold	£1,325,000, which is 75% of financial statement materiality.
Significant judgements made by auditor in determining the performance materiality	In determining performance materiality, we made the following significant judgments: ● Our risk assessment – evaluation of the results of our risk assessment procedures with regard to the Company's overall control environment; and ● Our experience of auditing the financial statements of the Company in previous years – based on no misstatements identified in prior years, and also management's attitude to correcting identified control points raised. ● Our experience of auditing the financial statements of the Company in previous years, including the limited number and quantum of misstatements and significant control deficiencies identified, and also management's attitude to correcting identified control points.

Independent Auditor's report *continued*

Materiality measure	*Company*
Specific materiality	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
Specific materiality	We determined a lower level of specific materiality for the following areas: ● Directors' remuneration ● Related party transactions
Communication of misstatements to the audit committee	We determine a threshold for reporting unadjusted differences to the audit committee.
Threshold for communication	£88,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

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



An overview of the scope of our audit

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

Understanding the Company, its environment, including controls

- Holding discussions with management to obtain an understanding of the key changes to the business and reinforce our understanding of the Company's environment and key risk areas;
- Obtaining an understanding of relevant internal controls relating to the claims handling operations of both the Company and claims handling third-party service providers, including performing an assessment of the design and implementation of the Company's internal claims handling system; and
- Obtaining an understanding and evaluating the design and implementation of controls relating to the day-to-day management of the Company's investment portfolio and the custody of its investments, which are outsourced to third-party service providers. This included obtaining and evaluating internal controls reports prepared by third party auditors in respect of the independent custodian and the investment management operations provided by the investment manager.

Independent Auditor's report *continued*

Performance of our audit (including how it addressed key audit matters)

- Based on large level of estimation uncertainty and management judgement in the valuation of the IBNR provision, we noted this area could reasonably be expected to have a significant material impact on the financial statements. We involved our actuarial experts to audit various assumptions and judgements made in relation to the valuation of the IBNR provision; please refer to the key audit matter section of the report for details of procedures and results of work performed;
- In the current year management have applied a change in accounting policy which discounts the IBNR provision using a risk-free interest rate. This area was classified as one of the most significant assessed risks of material misstatement due to error. There was also an increased risk that the change of policy did not comply with FRS 103 paragraph 26c. We involved our actuarial experts to evaluate the appropriateness of the risk-free rate used by management. The audit team also assessed the change of accounting policy disclosure in line with FRS 102 section 10 and evaluated the application in line with FRS 103 paragraph 26c, please refer to the key audit matter section of the report for details of procedures and results of work performed;
- The audit strategy for the measurement of claims outstanding other than the IBNR provision included assessing the design and implementation of controls, testing the operating effectiveness of relevant controls and performing substantive audit testing;
- Performing testing of other risk areas, account balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the design and implementation of controls over individual systems and management of specific risks; and
- Assessing the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements as described above. We did not identify any key audit matters relating to irregularities, including fraud;

Changes in approach from previous period

- In the current year management have introduced a change in accounting policy whereby they are discounting their reserves using a risk-free rate. In the current year we engaged our internal actuarial experts to challenge and assess the appropriateness of management's methodology regarding the discounting applied including timing of cashflows. Please refer to the key audit matter section of the report for details of procedures and results of work performed.

Other information

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

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

We have nothing to report in this regard.

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

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

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

Independent Auditor's report *continued*

Matters on which we are required to report by exception

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

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

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- We obtained an understanding of the legal and regulatory frameworks applicable to the Company and the industry in which it operates. We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the directors, management and the internal auditors. We determined that the most significant laws and regulations were the Financial Conduct Authority (FCA) handbook, Prudential Regulation Authority (PRA) handbook and those that relate to the financial reporting framework, being United Kingdom Accounting Standards, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', FRS 103 'Insurance Contracts' and the Companies Act 2006 to which the Scheme of Arrangement is included under section 425, together with UK tax legislation;
- We enquired of the directors and management, including internal audit, to obtain an understanding of how the Company is complying with those legal and regulatory frameworks and whether there were any instances of non-compliance with laws and regulations and whether they had any knowledge of actual or suspected fraud. We corroborated the results of our enquiries by inspecting the minutes of the Company's board and audit committee meetings, inspection of legal and regulatory correspondence and reports to the regulators, being the PRA and the FCA;
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by evaluating management's incentives and opportunities for manipulation of the financial statements. This included an evaluation of the risk of management override of controls. Audit procedures performed by the engagement team in connection with the risks identified included:
    - evaluation of the design and implementation of controls that management has put in place to prevent and detect fraud;
    - testing journal entries, including manual journal entries processed at the year-end for financial statements preparation; and
    - challenging the assumptions and judgements made by management in its significant accounting estimates.

Independent Auditor's report *continued*

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it;
- The engagement partner's assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
  - understanding of, and practical experience with, audit engagements of a similar nature and complexity, through appropriate training and participation;
  - knowledge of the industry in which the Company operates; and
  - understanding of the legal and regulatory frameworks applicable to the Company.
- We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including internal experts, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Company's operations, including the nature of its revenue sources, products and services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement;
  - the rules and interpretative guidance issued by the Financial Conduct Authority and Prudential Regulation Authority applicable to the Company and the scope of its authorisation; and
  - the Company's control environment, including the policies and procedures implemented to comply with the requirements of its regulator, including the adequacy of the training to inform staff of the relevant legislation, rules and other regulations of the regulator, the adequacy of procedures for authorisation of transactions, internal review procedures over the Company's compliance with regulatory requirements, the authority of, and resources available to the compliance officer and procedures to ensure that possible breaches of requirements are appropriately investigated and reported.

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

Other matters which we are required to address

We were appointed by the Audit Committee on 22 November 2022 to audit the financial statements for the year ended 30 June 2023. Our total uninterrupted period of engagement is 5 years, covering the years ended 30 June 2019 to 30 June 2023.

The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 5 years covering the periods ending 30 June 2019 to 30 June 2023.

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

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

Independent Auditor's report *continued*

Use of our report

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

Paul Flatley
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

28 September 2023

STATEMENT OF INCOME AND RETAINED EARNINGS
for the year ended 30 June 2023

	Note	2023		*2022 restated*[1]	
		£000	**£000**	*£000*	*£000*
Technical account					
Claims (paid)/recovered					
Gross amount		**(12,438)**		*(11,272)*	
Reinsurers' share	8	**1,877**		*5,001*	
Net claims (paid)			**(10,561)**		*(6,271)*
Change in provisions for claims					
Gross amount		**24,848**		*38,237*	
Reinsurers' share	8	**(2,575)**		*(4,109)*	
Change in net provisions for claims			**22,273**		*34,128*
Claims recovered net of reinsurance			**11,712**		*27,857*
Changes in other technical provisions			**13,327**		*(481)*
Net Operating Expenses					
Administrative Expenses			**(544)**		*(493)*
Balance on technical account for general business	8		**24,495**		*26,883*
Non-technical account					
Investment Income					
Income from investments	18	**4,749**		*4,751*	
Net (loss) on realisation of investments		**(5,880)**		*(1,318)*	
			(1,131)		*3,433*
Net unrealised (loss) on investments		**(21,299)**		*(28,327)*	
Investment expenses and charges		**(212)**		*(196)*	
			(21,511)		*(28,523)*
Net Investment (loss)			**(22,642)**		*(25,090)*
Other charges	11		**(1,853)**		*(1,793)*
Profit on ordinary activities before tax			–		–
Tax on profit on ordinary activities	16		–		–
Profit on ordinary activities after tax			–		–
Total comprehensive income			–		–
Retained earnings					
Retained earnings brought forward			–		–
Profit on ordinary activities after tax			–		–
Retained earnings carried forward			–		–

1 Refer to note 5 regarding restating of prior year balances

STATEMENT OF FINANCIAL POSITION
as at 30 June 2023

	Note	2023		*2022 Restated*[2]	
		£000	**£000**	*£000*	*£000*
Intangible Assets	3(vi)				
Development costs	17		**196**		*281*
Investments					
Other financial investments	18		**158,704**		*189,181*
Reinsurers' share of technical provisions					
Claims outstanding	3(iii)		**9,246**		*11,821*
Debtors					
Debtors arising out of reinsurance operations	10	**582**		*1,043*	
Other debtors	19	**2,039**		*2,350*	
			2,621		*3,393*
Other assets					
Tangible fixed assets	20	**5**		*11*	
Cash and cash equivalents	22	**5,530**		*9,837*	
			5,535		*9,848*
Total Assets			**176,302**		*214,524*
Technical provisions					
Gross amount of claims outstanding	7	**(142,905)**		*(167,753)*	
Other technical provisions	9	**(32,781)**		*(46,108)*	
			(175,686)		*(213,861)*
Creditors					
Other creditors including taxation and social security	21		**(616)**		*(663)*
Total liabilities			**(176,302)**		*(214,524)*
Net assets			**–**		*–*
Retained earnings brought forward			**–**		*–*
Profit on ordinary activities after tax			**–**		*–*
Profit and loss account			**–**		*–*

The financial statements on pages 22 to 38 were approved by the Board of Directors on 28 September 2023 and signed on its behalf by

S Laird
Director

S J Ellis
Director

2 Refer to note 5 regarding restating of prior year balances

STATEMENT OF CASH FLOWS
for the year ended 30 June 2023

	Note	2023	2022
		£000	£000
Net cash (outflow) from operating activities	22	**(12,225)**	*(9,914)*
Investing activities			
Interest received		**4,620**	*4,825*
Purchases of tangible fixed assets		**–**	*(1)*
Payments to acquire investments: UK gilts, debentures and floating rate notes		**(24,656)**	*(37,115)*
Receipts from sales of investments: UK gilts, debentures and floating rate notes		**27,954**	*47,429*
Net cash flow from investing activities		**7,918**	*15,138*
(Decrease)/increase in cash and cash equivalents		**(4,307)**	*5,224*
Cash and cash equivalents at 1 July		**9,837**	*4,613*
(Decrease)/increase in cash and cash equivalents in period		**(4,307)**	*5,224*
Cash and cash equivalents at 30 June	22	**5,530**	*9,837*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

1 General information

Municipal Mutual Insurance Limited is a private company, limited by guarantee and incorporated and domiciled in England. The address of its registered office is 23 College Hill, London EC4R 2RP.

2 Statement of compliance

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

3 Summary of significant accounting policies

(i) Going Concern

The Company ceased writing insurance business on 30 September 1992. In 1993, to ensure an orderly run-off, a contingent Scheme of Arrangement (the 'Scheme') under section 425 of the Companies Act 1985 (now section 899 of the Companies Act 2006) was agreed with the Company's largest insurance creditors (the 'Scheme Creditors'). Under the terms of the Scheme, Scheme Creditors have agreed to share any ultimate shortfall in the Company's capital proportionally to qualifying claims payments received. This is managed through the imposition by the Scheme Administrator of a levy on claims paid since 30 September 1993 and the application of a payment percentage to future projected claims at a rate that makes the Company's estimated assets equal to its estimated liabilities. As at 30 June 2023, the Scheme Administrator had imposed a levy of 25% and a payment percentage of 75% therefore reducing amounts paid on Scheme Creditors' claims by 25%. Creditors other than Scheme Creditors continue to be paid in full throughout the run-off period.

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

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

(ii) Claims (incurred)/recovered

Claims (incurred)/recovered comprise claims and related expenses paid in the year and changes in provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses. Claims recovered include the amount receivable from Scheme Creditors in respect of the levy imposed by the Scheme Administrator. Outstanding claims, including provisions for claims incurred but not reported have been reduced to reflect the effect of the levy. Where applicable, deductions are made for recoveries.

The provision for outstanding claims comprises the estimated cost of claims notified but not settled at the date of the balance sheet together with the estimated cost of claims incurred but not reported at that date, after reduction to reflect the effect of the Levy. Claims provisions are calculated gross of any reinsurance recoveries. They are discounted at the risk-free interest rate, from their expected payment dates. Risk free rates are as published by the Bank of England for the respective period end. Independent actuarial advice has been received to assist the directors in establishing the provision for claims incurred but not yet reported at the date of the balance sheet. Note 7 gives further details of the basis on which provision is made.

(iii) Reinsurance

Reinsurers' share of technical provisions are estimates based upon gross provisions for outstanding claims, having due regard to collectability (note 7) and calculated in accordance with valuation methods agreed with reinsurers, where applicable. Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of claims reported to date, adjusted to reflect changes in the nature and extent of the Company's reinsurance programme over time. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each of the reinsurance companies. Reinsurers' share of technical provisions are discounted at the risk-free interest rate. The reinsurers' share of claims incurred, in the profit and loss technical account, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the period.

(iv) Taxation

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

3 Summary of significant accounting policies *continued*

(a) Current tax

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

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

(b) Deferred tax

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

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

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

(v) Tangible fixed assets

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

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

(vi) Intangible Assets

Intangible assets comprise of software costs incurred in the development of the Company's claims handling system, Pierian. This system went live on 01 October 2020. Development costs are amortised in equal instalments over 5 years.

(vii) Cash and cash equivalents

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

(viii) Financial assets

Financial assets represent debt and other fixed income securities held in the form of gilts, debentures and floating rate notes. In accordance with the provisions of FRS102, Section 11, the Company has elected to value these assets at fair value, with all gains and losses taken through the profit or loss.

(a) Investment income

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

(b) Investment gains and losses

Realised gains and losses on investments are calculated as the difference between sales proceeds and the cost of acquisition, together with any diminution in the value of the Company's assets which is considered to be permanent.

The movement in unrealised gains and losses on investments represents the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current year. The aggregate realised and unrealised surplus or deficit is taken to the profit and loss non-technical account.

(ix) Pensions

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

(x) Operating Leases

The Company has a sole operating lease, being the leasehold agreement for part of the Third Floor, 23 College Hill. This lease commenced on 11 February 2015 and has a 10-year term.

4 Effects of triggering the Scheme of Arrangement

After carrying out a review of the Company's assets and liabilities as at the Trigger Date of 13 November 2012, in January 2014 the Scheme Administrator imposed an initial levy on Scheme Creditors amounting to £104.5 million being 15% of aggregate claims payments made since 30 September 1993, after deduction of the first £50,000 of such payments to each Scheme Creditor which is free of levy. The levy has been accounted for through claims (paid)/recovered in the statement of income and retained earnings. From 1 April 2016, this levy percentage was raised from 15% to 25% and additional levy notices issued amounting to £72.6 million. The provision for outstanding claims, including claims incurred but not reported, has been reduced in line with this payment percentage.

5 Restatement of Prior Year

The directors recognise that the principal readers of the annual Report and Accounts will be the Scheme Creditors - primarily local authorities - who have been paying levy monies on claims payments made since the inception of the Scheme of Arrangement in 1993, and that the fundamental objective of the financial statements is to provide information which is useful for the economic decision making of those users of the accounts.

During the year, the directors have reviewed the Company's accounting policies to determine if they meet this fundamental objective and have identified one accounting policy and one reclassification where changes would, in their opinion, better reflect this fundamental objective. They are:

- **The application of discounting of technical provisions for outstanding claims and reinsurance reserves**

The key investment management policy of the Company is to meet the liability cashflows under the run-off forecast, and investment assets are acquired to match, as far as practicable, the timing and magnitude of forecast liabilities. Investments are valued at fair value, so are inherently discounted. In recent years, several external events - covid, Brexit, war in Ukraine - have led to much interest/inflation led volatility in the valuation of fixed asset investments, not similarly reflected in claims reserves, which have remained undiscounted.

The directors have agreed that the technical provisions for outstanding claims and reinsurance reserves should be discounted at the risk-free interest rate, to better match the valuation of these technical provisions to investment assets.

- **Reclassification of the crystalised contingent levy liability balance from gross amounts of claims outstanding to other technical provisions.**

This liability balance represents an obligation of the Company to repay monies previously raised by levy, to the extent that if not included in the accounts, the Company would report surplus net assets. The directors believe it is a key metric for Scheme Creditors in measuring the long-term performance of the Company as it runs-off the business. The directors consider it to be qualitatively different from the outstanding claims reserve, which reflects current and future claims liabilities, and that, accordingly, it should be separately disclosed. Specifically, whilst it is reported within the Claims Outstanding balance, an improvement/decline in the claims forecast position could be similarly offset by a movement in this levy liability balance, leaving the Claims Outstanding little changed and limiting the information presented to the user of the accounts.

The directors believe that both of these changes make the financial statements more relevant and no less reliable to the decision-making needs of the users.

The implementation of these changes require that prior year comparatives be restated. The overall effect on prior year total net assets is £nil and the overall effect on the prior year statement of income and retained earnings, and on the prior year statement of cashflows is also £nil. As such, a full restated statement of financial position as at the beginning of the prior year has not been presented; however, the effect on certain line items in the statement of income and retained earnings, statement of financial position, and notes to the cash flow are detailed below:

2022	As originally reported £000	Effect of restatement £000	Restated amounts £000
Statement of Income and Retained Earnings			
Change in provision for claims			
Gross amount	36,734	1,503	38,237
Reinsurers' share	(3,087)	(1,022)	(4,109)
Changes in other technical provisions	–	(481)	(481)
	33,647	**–**	**33,647**
Statement of Financial Position			
Reinsurers' share of technical provisions			
Claims outstanding	13,760	(1,939)	11,821
Technical provisions			
Gross amount of claims outstanding	(215,800)	48,047	(167,753)
Other technical provisions	–	(46,108)	(46,108)
	(202,040)	**–**	**(202,040)**
Notes to the Statement of cashflows			
Profit/(loss) on operating activities			
(Decrease) in gross claims provision	(36,734)	(1,503)	(38,237)
Increase in other technical provisions	–	481	481
Decrease in reinsurers' share of claims provision	3,087	1,022	4,109
	(33,647)	**–**	**(33,647)**
Statement of Financial Position as at 30 June 2021			
Reinsurers' share of technical provisions			
Claims outstanding	16,847	(916)	15,931
Technical provisions			
Gross amount of claims outstanding	(252,534)	46,543	(205,991)
Other technical provisions	–	(45,627)	(45,627)
	(235,687)	**–**	**(235,687)**

6 Critical accounting judgements and estimation uncertainty

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

(i) Significant judgements in applying the accounting policies

Estimates of insurance liabilities for claims received but not settled are subject to the professional judgement of the claims' handler assigned to handle the claim. Initial estimates are set with due regard to Company guidelines based upon claims settlement history and these estimates are subject to on-going review and refinement as further details of the claims emerge. Claims handling is further discussed in note 7.

(ii) Sources of estimation uncertainty

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

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

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. The carrying amount of the liability is £142.9 million (2022: £167.8 million). Reinsurers' share of technical provisions, at £9.2 million (2022: £11.8 million) is calculated on the basis of these claims' estimates and the reinsurance programmes in place for the cover years in which they are forecast to fall due. The most significant assumptions made relate to the number of future claims and the average cost of future claim settlements. Whilst the directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated based on the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amount provided. Adjustments to the amounts of provision are reflected in the financial statements for the period in which the adjustments are made.

7 Management of Insurance and financial risk

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

(i) Insurance risk

Provision is made in the accounts for the estimated cost of claims notified but not settled at the date of the balance sheet and for the estimated cost of claims incurred but not reported at that date.

Claim provisions have been made with regard to past claim experience, current judicial interpretations of the law and other relevant information. However, no allowance has been made for any new categories of claim not so far reflected in the experience seen. Furthermore, the inherent uncertainty of the insurance process makes it likely that historical data will not be wholly predictive of the actual future emergence and development of claims. A substantial measure of judgement is involved in both establishing the individual claim provisions and in interpreting past claim experience as part of the process of establishing the total claim provision. Certain classes of business, such as Employers' Liability and Public Liability are inherently more uncertain than others and the ultimate cost of such claims is more likely to vary as a result of subsequent developments. Provisions on these classes include substantial amounts for asbestos related and abuse claims. Asbestos related claims can be subject to very long delay in reporting losses, since the onset of illness and disability arising from the exposure to harmful conditions may only become apparent many years later; in cases of mesothelioma this latency period can be anything between 10 and 40 years. The majority of abuse claims relate to child abuse suffered many decades ago. The major risk classes of claims identified by the business are, therefore, mesothelioma and child abuse. Management reviews the development of key claims class reserves on a monthly basis.

Each year-end, the directors instruct their actuarial advisors, KPMG, to produce three range estimates of claims outstanding, corresponding to a high, mid and low forecast of potential future claim liabilities. These estimates do not represent the minimum and maximum estimates of future liability but provide a range of outcomes in which the ultimate liability may reasonably fall. In producing their estimates, the actuaries make use of a range of data sources including historical Company information, industry-wide reports and relevant supplementary population data. KPMG's report includes a high-level summary of current and emerging risks, detailing the issues and the currently adopted approach.

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

(a) Sensitivity analysis of claims estimation

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

		Mesothelioma Assumptions			*Abuse Assumptions*		
	Gross claims outstanding £000	*MSO claims inflation p.a.**	*Average Settlement 2023 (£)***	*No of Future Claims*	*ABU claims inflation p.a.**	*Average Settlement 2023 (£)***	*No of Future Claims*
LOW	**197,724**	*2.50%*	*Base-6.8%*	*736*	*2.50%*	*Base-5.3%*	*953*
MID	**264,324**	*4.00%*	*Base*	*850*	*3.50%*	*Base*	*1,196*
HIGH	**410,724**	*5.50%*	*Base+9.9%*	*1,069*	*4.50%*	*Base+17.1%*	*1,520*

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

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

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

	Gross claims outstanding £000	**Net profit and loss effect £000**
LOW	**197,724**	**31,296**
MID	**264,324**	**–**
HIGH	**410,724**	**(65,968)**

The gain of £31.3 million under the low scenario would be offset by an increase in the liability to repay levy monies previously raised and retained earnings would remain at £nil. The first £32.8 million of the £66.0 million loss under the high scenario would offset the current liability to repay levy monies, with the remaining £33.2 million shown as negative retained earnings. In this circumstance the levy rate would need to be increased by approximately 5%, to 30% in order to return the Company to solvency.

7 Management of Insurance and financial risk *continued*

Technical provisions for claims and reinsurance are discounted at the risk-free rate, and accordingly their valuation changes in response to movements in this rate. The effect of a 100bps increase or decrease in the risk-free rate upon the net valuation of claims and reinsurance provisions as at 30 June 2023 is as follows:

	£000	Change £000
Claims technical provisions, net of reinsurers' share	**133,659**	
Sensitivities:		
Fair value following 100bps increase in interest yields	**124,705**	**(8,954)**
Fair value following 100bps decrease in interest yields	**143,847**	**10,188**

(b) Claims development table

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

	Claims Outstanding – £000				Claims Paid – £000		
financial year ended 30 June	*Gross claims outstanding*	*Reduction for payment percentage*	*Discounting*	**Gross claims outstanding after payment percentage**	*Gross paid claims net of recoveries before levy*	*Reduction for levy and payment percentage*	**Gross claims paid/ (recovered)**
2014	340,899	(49,172)		**291,727**	13,013	(5,179)	**7,834**
2015	383,533	(55,380)		**328,153**	13,892	(2,191)	**11,701**
2016	381,928	(93,065)		**288,863**	14,328	(75,037)	**(60,709)**
2017	362,054	(87,217)		**274,837**	17,713	(5,899)	**11,814**
2018	336,741	(82,024)		**254,717**	17,958	(1,979)	**15,979**
2019	332,090	(80,450)		**251,640**	16,103	(3,845)	**12,258**
2020	321,790	(76,320)		**245,470**	18,595	(4,432)	**14,163**
2021	297,482	(71,988)	(19,503)	**205,991**	19,897	(4,873)	**15,024**
2022	276,342	(67,413)	(41,176)	**167,753**	15,510	(4,238)	**11,272**
2023	264,324	(64,562)	(56,857)	**142,905**	15,967	(3,529)	**12,438**

The Scheme provides a mechanism by which the Company can mitigate its insurance risk, by giving the Scheme Administrator the power to adjust the payment percentage applicable to future and historical claims payments made since the inception of the Scheme. The current payment percentage was set on April 2016 and remains at 75%. Prior to 01 April 2016, the payment percentage was 85% and the reduction in claims paid for levy of £75.0 million for that year reflects monies raised by way of an additional 10% levy on historic claims payments following the decrease in the payment percentage.

Discounting reflects an adjustment for the time value of money, from the date at which the claims payment is forecast to be paid. The discount rate is the risk-free interest rate, as published by the Bank of England for the respective period end. Discounting is applied net of the payment percentage and is applied to all general business insurance claims. The mean term of the discounted claims liabilities is 8.8 years (2022: 10.1 years). Figures from discounting are not available prior to 30 June 2021.

Gross claims outstanding of £264.3 million at 30 June 2023 is net of amounts recoverable from third parties of £1.6 million (2022: £2.6 million).

(ii) Financial Risk and management objectives

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

Throughout the run-off period, the Company has followed a risk-averse investment strategy. This strategy is "to acquire secure assets which will generate income and capital growth to meet as far as practicable the cost of current and future liabilities pursuant to the insurance business of the Company".

As the Company has no premium income, the underlying security of the investment portfolio is paramount to ensure that the income generated is available to contribute towards payment of claims and operating expenses. The portfolio is invested in gilts, corporate bonds and floating rate notes, with the remainder in cash deposits.

7 Management of Insurance and financial risk *continued*

(a) Interest Rate Risk

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

The sensitivity of interest rate risk illustrates how the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reported date. A 100bps sensitivity has been selected to reflect the variation which might reasonably be expected in a given twelve-month period.

	2023 £000	**Change £000**	*2022 £000*	*Change £000*
Financial assets at fair value through the profit and loss	**158,704**		*189,181*	
Sensitivities:				
Fair value following 100bps increase in interest yields	**147,761**	**(10,943)**	*174,148*	*(15,033)*
Fair value following 100bps decrease in interest yields	**171,231**	**12,527**	*206,603*	*17,422*

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

(b) Credit risk

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

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

The Company's Investment Management Agreement sets limits on the range of investments the Company's investment managers can make on its behalf, specifically all investments must be AAA or AA rated. Except for UK gilts and supranational bonds, the maximum exposure to any counterparty is limited to the lesser of 5% of the portfolio valuation or £15 million. All investments must be denoted in sterling and the use of derivatives is not permitted under the agreement. Company policy is that all cash balances should be held with parties rated as at least Investment Grade.

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

	2023 £000	*2022 £000*
Gilts	**103,886**	*127,218*
Fixed income corporate bonds	**39,874**	*47,867*
Floating rate notes	**14,944**	*14,096*
Reinsurers' share of technical provisions	**9,246**	*11,821*
Debtors arising out of reinsurance operations	**582**	*1,043*
Cash and cash equivalents	**5,530**	*9,837*
Accrued interest	**1,451**	*1,321*
Amounts owed by Scheme Creditors	**251**	*687*
Other debtors	**337**	*342*
Total assets bearing credit risk	**176,101**	*214,232*
AAA	**48,694**	*54,351*
AA	**124,648**	*156,003*
A	–	*322*
BBB	**519**	*658*
Not Rated	**2,240**	*2,898*
Total assets bearing credit risk	**176,101**	*214,232*

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

7 Management of Insurance and financial risk *continued*

(c) Liquidity Risk

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

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

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

Financial Liabilities and outstanding claims	**<1 year £000**	**Between 1 year and 5 years £000**	**Between 5 years and 10 years £000**	**Between 10 years and 20 years £000**	**>20 years £000**	**Total £000**
At 30 June 2023:						
Outstanding claims	**14,107**	**58,449**	**56,852**	**54,551**	**15,803**	**199,762**
Other Creditors	**616**	**–**	**–**	**–**	**–**	**616**
	14,723	**58,449**	**56,852**	**54,551**	**15,803**	**200,378**

Financial Liabilities and outstanding claims	*<1 year £000*	*Between 1 year and 5 years £000*	*Between 5 years and 10 years £000*	*Between 10 years and 20 years £000*	*>20 years £000*	*Total £000*
At 30 June 2022:						
Outstanding claims	12,217	49,236	56,968	67,768	22,740	208,929
Other Creditors	663	–	–	–	–	663
	12,880	49,236	56,968	67,768	22,740	209,592

Additionally, the Company has a technical provision of £32.8 million (2022: £46.1 million) which represents a provision against surplus net assets potentially repayable to Scheme Creditors upon the conclusion of the Scheme. The timing of and final amount payable in respect of this potential surplus cannot yet be reasonably assessed.

(d) Fair value estimation

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

Level 1 Quoted prices in an active market

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

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

The Company's financial investments of £158.7 million (2022: £189.2 million) comprise of UK gilts, debentures and similar debt securities. They are all categorised as level 1.

8 Supplementary Information Regarding Classes of Business

Balance on technical account for general business	**2023 Gross claims £000**	**2023 Reinsurance recoveries £000**	**2023 Net £000**	*2022 Gross claims £000*	*2022 Reinsurance recoveries £000*	*2022 Net £000*
Employers' liability	**(2,097)**	**(696)**	**(2,793)**	*3,093*	*1,116*	*4,209*
Public liability	**(1,201)**	**704**	**(497)**	*2,117*	*798*	*2,915*
Unallocated claims handling costs	**(1,195)**	**–**	**(1,195)**	*(73)*	*–*	*(73)*
Levy Adjustment	**678**	**–**	**678**	*(338)*	*–*	*(338)*
Discounting movement	**15,681**	**(706)**	**14,975**	*21,673*	*(1,022)*	*20,651*
Movement in other technical provisions	**13,327**	**–**	**13,327**	*(481)*	*–*	*(481)*
	25,193	**(698)**	**24,495**	*25,991*	*892*	*26,883*

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

8 Supplementary Information Regarding Classes of Business *continued*

Reinsurance Recoveries

Reinsurance recoveries are amounts recoverable under excess of loss reinsurance contracts. Reinsurance recoveries for the year ended 30 June 2023 were negative £0.7 million (2022 £0.9 million), being reinsurance monies receivable of £1.9 million, less a reduction of reinsurers' share of technical provisions of £1.9 million and negative £0.7 million as a result of discounting movements.

Gross Claims Outstanding

	2023 £000	2022 £000
Employers' liability	**178,137**	*187,454*
Public liability	**81,505**	*84,857*
Unallocated claims handling provision ('ULAE')	**4,682**	*4,031*
Reduction for Levy/payment percentage	**(64,562)**	*(67,413)*
Discounting of claims and levy balances	**(56,857)**	*(41,176)*
Total claims outstanding	**142,905**	*167,753*

No note on movement in prior years' claims provisions has been presented because the Company is in run-off and, therefore, such information is represented by the Statement of Income and Retained Earnings shown on page 22. All business results from contracts concluded in the UK.

The Company's in-house claims handling system, Pierian, went live on 01 October 2020. As at 30 June 2023, a provision of £4.7 million (2022: £4.0 million) has been made for future claims handling administration costs ('ULAE'), including staffing and maintenance of this claims handling system.

9 Other technical provisions

	2023 £000	2022 £000
Provision for the repayment of levy monies		
Brought Forward	**46,108**	*45,627*
Profit/(loss) for the year transferred to/(from) the provision	**(13,327)**	*481*
Carried Forward	**32,781**	*46,108*

The Company has historically raised monies from Scheme Creditors through the Scheme's payment percentage mechanism. The Company remains liable for all these unpaid liabilities until the conclusion of the run-off of the Company. If there are insufficient assets to pay liabilities in full at conclusion, then final payment will be made to Scheme Creditors on a pro-rata basis.

To the extent that the Company would otherwise report a surplus of net assets, a provision to return these levy monies to Scheme Creditors is accounted for under other technical provisions. Note 26: Contingent liabilities, provides details of levy monies raised to date.

10 Debtors arising out of reinsurance operations

	2023 £000	2022 £000
Debtors arising out of reinsurance operations	**582**	*1,043*

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

11 Other Charges

	2023 £000	2022 £000
Operating lease rentals – leasehold property	**164**	*164*
Other administration costs	**1,689**	*1,629*
Total other charges	**1,853**	*1,793*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

12 Employee information

The monthly average number of persons (including executive directors) employed by the Company during the year was 8 (2022: 8). All staff are employed in the run-off administration of the Company.

Staff costs for the above persons were:

	2023	*2022*
	£000	*£000*
Wages and salaries, including amounts sacrificed as pension contributions (Note 14)	**803**	*737*
Social security costs	**95**	*82*
Other pension costs – contributions by Company	**31**	*29*
	929	*848*

13 Directors' emoluments and Scheme Administrator's fees

	2023	*2022*
	£000	*£000*
The aggregate emoluments paid to directors in respect of qualifying services were	**436**	*355*
The amount included above in respect of the highest paid director was	**190**	*193*
The number of directors who were accruing benefits under the defined contribution pension scheme was	**2**	*2*

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

At 30 June 2023, the Company had 5 directors (2022: 5). An analysis of the remuneration packages of the executive directors is set out below:

	Salary	**Pension contributions**	**Benefits in kind**	**Total 2023**	*Total 2022*
	£000	**£000**	**£000**	**£000**	*£000*
S J Ellis	**181**	**7**	**2**	**190**	*193*
S Laird	**147**	**6**	**3**	**156**	*74*
	328	**13**	**5**	**346**	*267*

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

All key management personnel of the Company are directors.

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

	Total 2023	*Total 2022*
	£000	*£000*
M B A Walker	**45**	*44*
G H Hughes	**45**	*44*
	90	*88*

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

The remaining director, K Gill, did not receive any remuneration in respect of his directorship of MMI. Fees incurred by MMI and payable to Ernst & Young LLP in respect of Mr Gill's role as a director are disclosed in note 24.

14 Pensions

The Company operates a Workplace Pension Scheme which is an auto-enrolment compliant defined contribution scheme. Members of the scheme must contribute a minimum of 5% of gross salary, usually by way of salary sacrifice, with a further 4% of gross salary contributed to the Plan by the Company. Amounts shown in Note 12 in respect of staff and directors are the gross salaries to which they are entitled before deductions by way of salary sacrifice. Contributions made for death in service benefits for both executive directors and staff during the year amounted to £18,000 (2022: £20,000) and contributions for income protection benefits were £13,000 (2022: £14,000).

15 Auditors' remuneration

	2023 £000	2022 £000
Fees payable to the Company's auditors for the audit of the Company	**143**	*124*
Audit related assurance services	**14**	*13*
	157	*137*

The Company's auditors are Grant Thornton UK LLP.

16 Tax on profit/(loss) on ordinary activities

The main rate of Corporation Tax in the UK was set at 25% with effect from 1 April 2023, with a small profits rate of 19% continuing to apply to profits of £50,000 or less. The deferred tax balance for 30 June 2023 has been calculated at 25% (2022: 19%)

	2023 £000	2022 £000
Profit on ordinary activities before tax	**–**	*–*
UK corporation tax at 19.66% after marginal relief (2022: 19%) on taxable (losses)/profit for the period	**(15)**	*12*
Deferred tax on trading losses carried forward/(utilised)	**15**	*(12)*
Tax charge in non-technical account	**–**	*–*

There is deferred tax not provided on tax losses of £15.5 million (2022: £11.8 million), which will be recovered if the Company makes future trading profits. As the Company is in run-off it does not anticipate making future profits. There is no expiry date associated with the utilisation of the losses against future trading profits.

By agreement with the Inspector of Taxes, the Company has been treated as wholly non-mutual for tax purposes from 1993 onwards.

17 Development costs

	Software Costs £000
Book Cost	
At 1 July 2022	423
Additions	–
Disposals	–
At 30 June 2023	**423**
Amortisation	
At 1 July 2022	142
Charge for the year	85
Eliminations in respect of disposals	–
At 30 June 2023	**227**
Net book value	
30 June 2023	**196**
30 June 2022	281

Software costs represents expenditure by the Company in developing its own in-house claims handling system.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

18 Investments

Financial investments comprise of the following

	2023		*2022*	
	Cost £000	**Market Value £000**	*Cost £000*	*Market Value £000*
Financial assets at fair value through the profit or loss	**207,440**	**158,704**	*216,618*	*189,181*
Income from investments		**4,749**		*4,751*

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

19 Other debtors

	2023 £000	*2022 £000*
Accrued interest	**1,451**	*1,321*
Amounts owed by Scheme Creditors	**251**	*687*
Prepayments and other debtors	**337**	*342*
	2,039	*2,350*

20 Tangible fixed assets

	Fixtures, fittings and office equipment £000
Book Cost	
At 1 July 2022	352
Additions	–
Disposals	–
At 30 June 2023	**352**
Accumulative depreciation	
At 1 July 2022	341
Charge for the year	6
Eliminations in respect of disposals	–
At 30 June 2023	**347**
Net book value	
30 June 2023	**5**
30 June 2022	11

The charge for depreciation for the year ended 30 June 2022 was £10,000.

21 Other creditors including taxation and social security

	2023 £000	*2022 £000*
Amounts owed to trade creditors	**51**	*73*
Taxation and social security payable	**31**	*30*
Other operational accruals: non-financing balances	**534**	*560*
	616	*663*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

22 Notes to the statement of cash flows

(i) Profit/ (loss) on operating activities

	2023 **£000**	*2022* *£000* *Restated*
Profit for the financial year	–	–
Depreciation charges	**6**	*10*
Amortisation charges	**85**	*84*
Investment return	**22,430**	*24,894*
(Decrease) in gross claims provision	**(24,848)**	*(38,237)*
(Decrease)/increase in other technical provisions	**(13,327)**	*481*
Decrease in reinsurers' share of claims provision	**2,575**	*4,109*
(Decrease)/increase in other creditors	**(47)**	*7*
Decrease/(increase) in amounts due from reinsurers	**461**	*(763)*
Decrease/(increase) in debtors	**440**	*(499)*
Net cash (outflow) from operating activities	**(12,225)**	*(9,914)*

(ii) Movement in cash and portfolio investments

	At 1 July 2022 £000	*Cash flow £000*	**Realised and unrealised losses £000**	**At 30 June 2023 £000**
Cash in hand and at bank and deposits with credit institutions	9,837	(4,307)	–	5,530
UK Gilts, debentures and floating rate notes	189,181	(3,298)	(27,179)	158,704
	199,018	**(7,605)**	**(27,179)**	**164,234**

23 Events after the reporting period

At the date of signing of the Report and Accounts for the year ended 2023 operations continue as normal. The Company continues to monitor investment market fluctuations during this period; the latest month-end valuation of the Company's investment assets was at the 31 August 2023 at a market value of £159.2 million (30 June 2023: £158.7 million).

24 Transactions with related parties

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

	2023 **£000**	*2022* *£000*
Administering the Scheme of Arrangement	**102**	*135*
Fees paid in respect of director's services	**69**	*52*
Other assurance services	**19**	*30*
Taxation services	**13**	*16*
	203	*233*

As at 30 June 2023, the balance outstanding in respect of these services was £nil (2022: £4,000). All transactions with Ernst and Young LLP have been undertaken on an arm's length basis.

25 Obligations under leases

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

	Land and buildings 2023 £000	*Land and buildings 2022 £000*
Payable within one year	**137**	*137*
Payable between two and five years	**85**	*222*
	222	*359*

26 Contingent liabilities

Upon the triggering of the Scheme, the Scheme Administrator set an initial payment percentage of 85% and imposed an initial levy on Scheme Creditors of 15%. The payment percentage was reduced to 75% from 1 April 2016 and an additional 10% Levy was billed at that date. As at 30 June 2023, £211.2 million has been collected from Scheme Creditors via the Levy mechanism (2022: £207.7 million).

The Company reflects the requirement to repay this liability, to the extent that it would otherwise hold surplus reserves. This balance is reported as Other technical provisions, and the balance provided for as at 30 June 2023 was £32.8 million (2022: £46.1 million)

The future levy recoverable element of claims outstanding at 30 June 2023, after discounting, is £46.1 million (2022: £54.1 million).

Taking account of historical and future levy/payment percentage deductions, less the provision to repay levy monies, the liabilities of the Company have consequently been reduced by £226.8 million (2022: £215.7 million). Part, or all of these liabilities could become payable to Scheme Creditors if the financial position of the Company improves, and the payment percentage is consequently increased.

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

The Company has no other material contingent liabilities at 30 June 2023 (2022: £nil).

27 Ultimate controlling party

The Company is a company limited by guarantee and does not have a share capital. It is owned by its members. In accordance with Article IV (a) and (c) of the Company’s Articles of Association, since the triggering of the Scheme the voting rights exercisable by the Scheme Administrator at general meetings give him effective overall control of the Company.