MUNICIPAL MUTUAL INSURANCE LIMITED

(In Scheme of Arrangement)

Annual Report and Accounts

for the year ended 30 June 2013

Registered number: 76678 England

Website: www.mminsurance.co.uk

Municipal Mutual Insurance Limited

(In Scheme of Arrangement)

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for the year ended 30 June 2013

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(In Scheme of Arrangement)

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of the Company will be held at the Crowne Plaza Hotel, Buckingham Gate, London SW1 on Tuesday, 8 October 2013 at 12.00 noon for the following purposes:

Ordinary resolutions

1. To receive and adopt the Annual Report and Accounts for the year ended 30 June 2013.

2. To re-elect Mr I A Willett as a Director.

3. To re-elect Mr R G Bax as a Director.

4. To re-appoint PricewaterhouseCoopers LLP as the auditors of the Company.

5. To authorise the Directors to fix the remuneration of the auditors.

By order of the Board
T C Groocock
Company Secretary

3 September 2013

Registered Office
29 Buckingham Gate
Westminster
London
SW1E 6NF

Note:

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 12.00 noon on 6 October 2013.

Municipal Mutual Insurance Limited
(In Scheme of Arrangement)

SCHEME ADMINISTRATOR

G H Hughes, FCA

DEPUTY SCHEME ADMINISTRATOR

B Cairns, ACA

BOARD OF DIRECTORS

T C Groocock, FCA

I A Willett, ACII (Claims Director)

R G Bax, FCA (Finance Director)

Company Secretary
T C Groocock, FCA

CREDITORS' COMMITTEE MEMBERS AND THEIR ORGANISATIONS

The Rev. W J Church (Chairman)	Hertfordshire County Council
J Butler	National Housing Federation
K Jefferies	Financial Services Compensation Scheme
J Jopling, CPFA	Gateshead Council
D J Marshall-Rowan, LLB(Hons)	Leicestershire County Council
A Prior, MA(Cantab)	Surrey County Council
H Dunn, CPFA	City of Edinburgh Council
M B A Walker, Borough Solicitor and Assistant Director of Administration	London Borough of Wandsworth Council

STATEMENT BY THE SCHEME ADMINISTRATOR

Introduction

I was appointed Scheme Administrator under the Scheme of Arrangement ("the Scheme") entered into by the Company and 729 of its principal insurance creditors ("the Scheme Creditors") under section 425 of the Companies Act 1985 (now section 899 of the Companies Act 2006), which was approved by Order of the Court on 5 January 1994 and came into effect on 21 January 1994.

The Scheme was a contingent Scheme, being held in reserve until the occurrence of a Trigger Event. Until that time, the Directors continued to carry on the Company's business without interruption and I attended Board meetings as an observer only.

Trigger Event

On 13 November 2012, the Scheme was triggered by the Directors because they could no longer foresee a solvent run-off with full payment of agreed claims. This was mainly attributable to the adverse effect on the Company of the judgement handed down by the Supreme Court on 28 March 2012 in the Employers' Liability Policy Trigger Litigation, which related to the interpretation of the wordings of the Company's EL policies in respect of mesothelioma claims.

The Trigger Event denoted the commencement of the Levy Period under the terms of the Scheme. During the Levy Period I shall:

(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.

After the occurrence of a Trigger Event, I have general powers of management and control of the business, affairs and assets of the Company, all of such powers being in substitution for, and to the exclusion of, the powers of the Directors.

Decisions taken after the Trigger Event

After the Trigger Event occurred, I reviewed the Company's financial position. As a result of my review I have signified my intention to impose a Levy of 15% on Scheme Creditors, based on claims payments made since 30 September 1993, after deduction in each case of the first £50,000. The percentage was agreed with the members of the Creditors Committee in February 2013.

The Levy has not been imposed at the time of writing because the systems and procedures required to handle claims payments to Scheme Creditors at 85% of the agreed settlement value after the Levy Notices have been issued are in the course of development and have proved more complex than at first thought. It is anticipated that Levy Notices will be issued before the end of 2013 and I will provide an update at the Annual General Meeting on 8 October.

Although the Levy Notices have not yet been issued, the accounts include a best estimate of £100 million of the amount to be raised from Scheme Creditors, on the basis of the information currently available.

The next meeting of the Creditors' Committee will take place on 8 October, prior to the Annual General Meeting.

I am pleased to report that Mr Ben Cairns, a fellow partner at Ernst & Young LLP, has been appointed to act as Deputy Scheme Administrator. His appointment has been approved by the regulator.

Staffing

I should like to take this opportunity of expressing my gratitude to all the Directors and staff for their efforts in what has been a difficult transitional period for the Company. My best wishes go to those who have left the Company since the Scheme was triggered, in particular to former Directors Chris Winslet and Allan Castle, and to the former Chairman, Sir John Lovill, who served the Company for 20 years with the greatest dedication and professionalism.

Gareth Hughes
Scheme Administrator

3 September 2013

REPORT OF THE DIRECTORS

The Directors present their report and the audited accounts of the Company (registered number: 76678 England) for the year ended 30 June 2013.

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

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.

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. The Scheme was held in reserve until 13 November 2012. On that date, the Directors resolved that a solvent run-off with full payment of agreed claims could no longer be foreseen and the Scheme was triggered, with responsibility for the Company's management passing to the Scheme Administrator, Mr Gareth Hughes of Ernst & Young LLP.

The main reason for triggering the Scheme was the judgement handed down by the Supreme Court on 28 March 2012 in the Employers Liability Policy Trigger Litigation, which was concerned with the interpretation of the wordings of the Company's Employers Liability policies relating to mesothelioma claims. The effect of the judgement was unfavourable to the Company and reference to the judgement was made in the Annual Report and Accounts for the year ended 30 June 2012.

The Scheme trigger is irrevocable and the Directors undertook this course of action after concluding that it was in the best interests of Scheme Creditors, i.e. 729 of the largest insurance creditors who together formed the other party to the Scheme. In the opinion of the Directors, there were no viable alternatives to avoiding insolvent liquidation which might have been more advantageous to creditors.

The main consequences of triggering the Scheme of Arrangement are:

The Scheme Administrator has general powers of management and control of the business, affairs and assets of the Company for the purpose of implementing the Scheme, in substitution for, and to the exclusion of, the powers of the Directors.

1. A Levy will be imposed by the Scheme Administrator on Scheme Creditors, calculated as a percentage of the total claims payments made to each Scheme Creditor since 30 September 1993 in excess of the first £50,000 which will be exempt.
2. Future claims payments to Scheme Creditors will be made at less than 100% of the full settlement amount, i.e. at 100% less the percentage Levy imposed by the Scheme Administrator.

Details of the specific effects of triggering the Scheme are set out below in the section dealing with the Company's results for the year to 30 June 2013.

Creditors' Committee

A list of the present members of the Creditors Committee and the organisations which they represent, is shown on page 3.

In accordance with the terms of the Scheme, a meeting was held with the Creditors' Committee in February 2013. At this meeting, Committee members were briefed on the consequences of the Scheme being triggered by the Directors on 13 November 2012 and agreed with the proposal by the Scheme Administrator to impose a Levy of 15% on claims payments made to Scheme Creditors since 30 September 1993. A further meeting with the Creditors' Committee will be held preceding the Annual General Meeting of the Company on 8 October 2013.

Results for, and review of, the year to 30 June 2013

The results for the year ended 30 June 2013 are set out in the accounts on pages 13 to 22 and show a profit of £124.0 million. This profit reflects the adjustments arising from triggering the Scheme of Arrangement, as follows:

	£m
Technical	
Estimated amount receivable from Scheme Creditors in respect of the Levy to be imposed by the Scheme Administrator of 15%	100.0
Reduction in outstanding claims, including IBNR claims, to reflect future payments at 85%	40.2
Non-Technical	
Write-back of provision for run-off costs no longer required	15.5
Total	155.7

The loss for the year prior to the above adjustments amounted to £31.7 million, compared to the loss prior to the adjustment for run-off costs of £65.3 million for the previous year.

The loss on the technical account, before crediting the adjustments associated with triggering the Scheme, was £31.6 million which was attributable mainly to the Employers Liability class of business, the largest part of which is the mesothelioma account. Significant losses were also sustained on deafness claims. The Public Liability account also showed a loss for the year, mainly due to serious adverse development on the abuse account. The Company's outstanding book of business is comprised substantially of Employers' Liability and Public Liability claims, where the Company continues to have significant risk exposure under the categories referred to above.

In accordance with the Company's normal practice, the Directors received and accepted actuarial advice from KPMG LLP (KPMG) to assist in establishing the undiscounted claims provisions as at 30 June 2013. This advice took into account all the relevant factors which affect MMI's liability in relation to asbestos related disease and other claims and the estimated future incidence thereof. The Scheme Administrator agreed with the decision taken by the Board with regard to the level of outstanding claims provisions to be included in the accounts for the year ended 30 June 2013.

Claims handling responsibilities continue to be shared between the Company and Zurich under the 1995 agreement. This service is provided, free of charge to the Company, until the conclusion of the run-off, and close liaison is maintained between the Company's claims staff and the claims teams of Zurich to ensure that service standards are maintained.

Since the triggering of the Scheme, work has been proceeding, in conjunction with Zurich, to develop computer systems capable of handling the payment of future claims at 85% of the agreed settlement value. It is now anticipated that the Levy Notices should be issued in the next financial year and that the inflow of funds from Scheme Creditors should commence soon afterwards.

The profit on the non-technical account was £15.4 million for the year ended 30 June 2013, compared to a loss of £14.7 million for the previous year. The profit was largely due to the writing back of a provision of £15.5 million for run-off costs which had been created in the previous year but which was no longer required following the triggering of the Scheme.

No provision has been made for payment of any part of the £30 million commission for risk to Scheme Creditors as such a payment arises only in the event of a solvent run-off.

Consolidated accounts for the year ended 30 June 2013 have not been prepared. This is consistent with the accounting policy followed in previous accounting periods because the Company has no day to day control over the assets and management of its sole remaining subsidiary undertaking, Municipal General Insurance Limited (MGI). MGI remains in provisional liquidation, which commenced on 9 March 1994 and is subject to a Scheme of Arrangement which was sanctioned by the Court under section 425 of the Companies Act 1985 (now section 899 of the Companies Act 2006) on 18 December 2003 and which became effective on 15 January 2004. The Company has no expectation of a distribution at the end of the liquidation process.

Principal risks and uncertainties

By triggering the Scheme of Arrangement, some of the principal risks and uncertainties have been removed.

The management of the business and the execution of the Company's strategy are now the direct responsibility of the Scheme Administrator, who has power to raise a Levy on Scheme Creditors and to pay their future claims at less than 100% where applicable.

A paper covering significant risk areas is submitted annually to the Board at the time when the annual accounts are reviewed.

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

1. **Claims volatility**

   Claims volatility represents a continuing threat to the Company. Claims activity is continually monitored, with numbers and values both of newly reported claims and claims settlements being reported at each Board meeting. The provision for claims incurred but not reported is determined after careful consideration of the recommendations made by the Company's actuarial advisers, KPMG, at each year end. The uncertainty in this area is accentuated by changes in law and legal interpretation including notably those considered in the Employers' Liability Policy Trigger Litigation but any significant worsening in the estimated cost of claims can be covered by revising the original Levy percentage.

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

   Throughout the run-off period the Company has followed a risk-adverse investment strategy, as set out in the discretionary management agreement with its fund managers Aviva Investors Limited. 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, high quality bonds, debentures, floating rate notes and certificates of deposit, with the remainder in cash deposits.

   Counterparty risk is reduced by imposing a limit on deposits placed with any single institution, and by permitting deposits to be placed only with double-A and triple-A rated institutions. The assets of the Company are invested to match the estimated timing of the payment obligations. By so doing the investment risk is further reduced. Fluctuations in the value of longer dated securities will ultimately be eliminated as and when the stocks are redeemed at maturity.

3. **Outsourcing and business interruption**

   The Company has received assurances from third parties, in particular Zurich and Aviva Investors, that appropriate recovery plans are in existence in the event of unforeseen extended interruptions to the services which are provided to the Company.

4. **Staffing**

   The Company takes action to ensure that staffing levels remain in line with its level of activity and to this end has appropriate terms and conditions of employment.

Key performance indicators (KPIs)

As mentioned earlier in this report, the Scheme was triggered by the Directors on 13 November 2012 because a solvent run-off with full payment of agreed claims could no longer be foreseen.

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

1. **Collection of Levy from Scheme Creditors**

   Levy Notices have not yet been issued to Scheme Creditors, the amount of £100 million included in these accounts being an estimate based on the Scheme Administrator's choice of 15% on claims payments made since 30 September 1993.

   After Levy Notices have been issued, collection of the outstanding amounts will be closely monitored to show the periods being taken by Scheme Creditors to remit the amounts due. The sooner the Levy is received by the Company, the sooner the funds can be invested and hence the greater will be the interest earned.

2. 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. At 30 June 2012, there were 2,379 outstanding reported claims. In the year ended 30 June 2013, there were 1,263 newly reported claims, and the number of outstanding reported claims at that date was 2,571.

3. Investment income

The statistics relating to the investment income for the past two years are as follows:

	2013 £000	2012 £000
Investment funds at 1 July	125,369	138,997
Investment funds at 30 June	105,310	125,369
Average	115,339	132,183
Investment income	3,957	4,461
Investment income as a percentage of average investment funds	3.43%	3.37%

Outlook

Further to the triggering of the Scheme of Arrangement, it is anticipated that the Levy of 15% proposed by the Scheme Administrator will be collected from Scheme Creditors in accordance with the Levy Notices to be issued in due course, and that thereafter the Company will continue to pay claims at 85% of the agreed settlement amount. This arrangement will continue until the Scheme Administrator sees fit to revise the Levy percentage either upwards or downwards as required.

Directors

A list of the present Directors is shown on page 3, all of whom served throughout the year except for Mr R G Bax, who was appointed as a Director on 1 June 2013.

Mr C J Winslet and Mr A C D Castle served as Directors until 31 December 2012 and 31 May 2013 respectively. Since the year end, Sir John Lovill, who served as Chairman of the Company with distinction since 1 December 1993, left on 31 August 2013.

Mr I A Willett retires by rotation in accordance with Article 34 of the Articles of Association and, being eligible, is recommended for re-election.

Mr R G Bax retires by rotation in accordance with Article 39 of the Articles of Association and, being eligible, is recommended for re-election.

Directors' interests

Mr T C Groocock is a member of the Company and thus entitled to participate in any surplus upon the final winding-up of the Company after payment of up to £30 million to Scheme Creditors as a commission for risk, for which no provision has been made in the accounts at 30 June 2013 because such a payment only arises in the event of a solvent run-off.

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are 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 these financial statements, the 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 United Kingdom 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.

The 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

In the case of each of the persons who is a Director at the date of approval of this report:

(a) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(b) the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

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

Approved by the Board on 3 September 2013 and signed on its behalf.

T C Groocock
Company Secretary

REPORT OF THE INDEPENDENT AUDITORS

Independent auditors' report to the members of Municipal Mutual Insurance Limited

We have audited the financial statements of Municipal Mutual Insurance Limited for the year ended 30 June 2013 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2013 and of its profit and cash flows 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.

Emphasis of Matter – significant uncertainties in estimating gross claims outstanding

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in Note 13 to the financial statements. Note 13 to the financial statements concerns the significant uncertainties in estimating gross claims outstanding. The ultimate cost of claims could vary materially from the amounts recorded in the financial statements.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, 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.

Thomas Robb (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London

3 September 2013

Notes:

The maintenance and integrity of the Municipal Mutual Insurance Limited website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

MUNICIPAL MUTUAL INSURANCE LIMITED
(In Scheme of Arrangement)

PROFIT AND LOSS ACCOUNT
TECHNICAL AND NON-TECHNICAL ACCOUNT
for the year ended 30 June 2013

	Note	**2013**		*2012*	
		£000	**£000**	*£000*	*£000*
Technical account					
Claims recovered/(paid)					
Gross amount		**82,457**		*(14,933)*	
Reinsurers' share		**424**		*887*	
Net claims recovered/(paid)		**82,881**		*(14,046)*	
Change in provision for claims					
Gross amount		**25,742**		*(55,266)*	
Reinsurers' share		**–**		*3,250*	
Change in net provision for claims		**25,742**		*(52,016)*	
Claims recovered/(incurred) net of reinsurance	3		**108,623**		*(66,062)*
Balance on general business technical account			**108,623**		*(66,062)*
Non-technical account					
Investment income					
Income from investments		**3,957**		*4,461*	
Loss on realisation of investments		**(91)**		*(26)*	
			3,866		*4,435*
Unrealised (loss)/gains on investments			**(1,611)**		*1,670*
Investment expenses and charges			**(130)**		*(152)*
Other charges	4		**(2,230)**		*(5,214)*
Run-off provision	15		**15,523**		*(15,523)*
Operating profit/(loss) before taxation			**124,041**		*(80,846)*
Tax relating to ordinary activities	9		**–**		*–*
Profit/(loss) on ordinary activities after taxation	17		**124,041**		*(80,846)*

All of the above items relate to discontinued activities.

The Company has no recognised gains and losses other than those included in the results above and therefore no separate statement of recognised gains and losses has been presented.

MUNICIPAL MUTUAL INSURANCE LIMITED
(In Scheme of Arrangement)

BALANCE SHEET
as at 30 June 2013

	Note	**2013**		*2012*	
		£000	**£000**	*£000*	*£000*
Fixed assets					
Land and buildings	10		**1,712**		*1,712*
Investments					
Other financial investments	11		**101,851**		*118,583*
			103,563		*120,295*
Reinsurers' share of technical provisions					
Claims outstanding	13		**12,250**		*12,250*
Debtors					
Direct insurance operations		**186**		*186*	
Reinsurance operations		**1,053**		*1,461*	
Other	14	**101,644**		*1,830*	
			102,883		*3,477*
Other assets					
Cash at bank and in hand			**3,459**		*6,786*
Total assets			**222,155**		*142,808*
Technical provisions					
Gross claims outstanding	13	**(249,524)**		*(275,266)*	
Run-off provision	15	–		*(15,523)*	
Creditors					
Other creditors	16	**(1,423)**		*(4,852)*	
Total liabilities			**(250,947)**		*(295,641)*
Net liabilities			**(28,792)**		*(152,833)*
Accumulated deficit	17		**(28,792)**		*(152,833)*

Gareth Hughes
Scheme Administrator

The financial statements on pages 13 to 22 were approved by the Board of Directors on 3 September 2013 and signed on its behalf by

T C Groocock
Director & Company Secretary

R G Bax
Finance Director

MUNICIPAL MUTUAL INSURANCE LIMITED
(In Scheme of Arrangement)

CASH FLOW STATEMENT
for the year ended 30 June 2013

	Note	**2013** £000	**2013** £000	*2012* £000	*2012* £000
Net cash (outflow) from operating activities	18(i)		**(22,500)**		*(20,028)*
Return on investments and servicing of finance					
Interest received	18(ii)		**4,143**		*4,756*
Net cash outflow			**(18,357)**		*(15,272)*
Cash flows were applied as follows:					
Decrease in cash holdings			**(3,327)**		*(207)*
Net portfolio investments	18(ii)				
UK Gilts and debentures and floating rate notes			**(15,030)**		*(15,065)*
Net application of cash flows			**(18,357)**		*(15,272)*
Movement in opening and closing portfolio investments net of financing	18(iii)				
Net cash (outflow) for year		**(3,327)**		*(207)*	
Cash flow					
Portfolio investments		**(15,030)**		*(15,065)*	
Movement arising from cash flows		**(18,357)**		*(15,272)*	
Changes in market value and exchange rates		**(1,702)**		*1,644*	
Total movement in portfolio investments net of financing			**(20,059)**		*(13,628)*
Portfolio investments net of financing at 1 July			**125,369**		*138,997*
Portfolio investments net of financing at 30 June			**105,310**		*125,369*

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

1 Accounting policies

The financial statements have been prepared in accordance with:

(i) the provisions of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers dated December 2005 as amended in December 2006; and

(ii) applicable accounting standards together with the historical cost accounting rules modified to include the revaluation of certain assets.

A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of preparation

(a) Going concern

The Company ceased writing insurance business on 30 September 1992. In order 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 put in place and became effective on 21 January 1994. Under the terms of the Scheme, the Directors continued to pay all creditors in full until they resolved on 13 November 2012 that a solvent run-off with full payment of agreed claims could no longer be foreseen. On that date, the Scheme was triggered and responsibility for the Company's management passed to the Scheme Administrator, Mr Gareth Hughes of Ernst & Young LLP.

The main reason for triggering the Scheme was the judgement handed down by the Supreme Court on 28 March 2012 in the Employers Liability Policy Trigger Litigation, which was unfavourable to the Company, and to which reference was made in the Annual Report and Accounts for the year ended 30 June 2012.

The Scheme trigger is irrevocable and the Directors undertook this course of action only after concluding, that there were no viable alternatives to avoiding insolvent liquidation which might have been more advantageous to creditors than triggering the Scheme.

As a consequence of triggering the Scheme, up to 729 of the largest insurance creditors, the Scheme Creditors, of the Company have undertaken to accept partial payment of agreed claims, i.e. at less than 100% of the full settlement amount. Recoveries in respect of past claims paid since 30 September 1993 will be achieved by means of one or more percentage Levies imposed by the Scheme Administrator on Scheme Creditors after having undertaken a review of the Company's assets and liabilities as at the trigger date of 13 November 2012. The first £50,000 of claims payments to each Scheme Creditor is exempt from Levy. Future claims payments will be reduced by equivalent percentages. Creditors other than Scheme Creditors will continue to be paid in full throughout the run-off period.

The Scheme Administrator has indicated his intention to impose an initial Levy on Scheme Creditors of 15% based on claims payments since 30 September 1993, and this Levy is estimated to raise approximately £100 million. The provision for outstanding claims (including claims incurred but not reported) has also been reduced by 15%, equivalent to £40.2 million.

In arriving at the Levy percentage of 15%, assumptions have been made with regard to the level of provision made for outstanding claims, future investment income and operating costs, all of which factors are subject to varying degrees of uncertainty. In the event of a deterioration in the Company's financial position in the future it may become necessary for a further Levy on Scheme Creditors to be raised by the Scheme Administrator.

Because of the need to ensure that the computer systems both of the Company and Zurich, who continue to be responsible for claims handling free of charge on the Company's behalf pursuant to the agreement concluded in 1995, are able to handle claims payments at less than 100%, the Levy Notices are anticipated to be issued to Scheme Creditors in the next financial year.

After including the clawback adjustment relating to past claims and the reduction in the provision for outstanding claims in accordance with the Scheme, the Directors are of the opinion that the balance sheet deficit at 30 June 2013 will be eliminated by the end of the run-off period and that it is therefore appropriate for the financial statements to continue to be prepared on the going concern basis.

(b) Non-consolidation of Municipal General Insurance Limited

As in prior years the Company's wholly-owned subsidiary Municipal General Insurance Limited (MGI) has not been consolidated because of severe long-term restrictions which substantially hinder the exercise of the parent undertaking's rights over MGI's assets and management. These restrictions arose upon the appointment of joint provisional liquidators to MGI on 9 March 1994. MGI is now subject to a Scheme of Arrangement under section 425 of the Companies Act 1985 (now section 899 of the Companies Act 2006) which, pursuant to an order of the High Court dated 18 December 2003, became effective on 15 January 2004.

The most recent published accounts for MGI for the year to 31 December 2011 showed zero net worth. The Company has no obligation to support or fund MGI and therefore its investment in MGI is valued at nil at 30 June 2013 (2012 – nil).

Basis of accounting

The technical result is determined on an annual basis and represents the incurred cost of claims, commissions and related expenses, less the Levy which is to be imposed on Scheme Creditors by the Scheme Administrator.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

1. Accounting policies *continued*

Claims recovered/(incurred)

Claims recovered/(incurred) 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 estimated amount receivable from Scheme Creditors in respect of the Levy to be imposed by the Scheme Administrator. Outstanding claims, including provisions for claims incurred but not reported have been reduced to reflect the effect of the Levy. Where applicable, deductions are made for recoveries.

The provision for outstanding claims comprises the estimated cost of claims notified but not settled at the date of the balance sheet together with the estimated cost of claims incurred but not reported at that date, after reduction to reflect the effect of the Levy. Claims provisions are calculated gross of any reinsurance recoveries and are not discounted. Independent actuarial advice has been received to assist the Directors in establishing the provision for claims incurred but not yet reported at the date of the balance sheet. Note 13 gives further details of the basis on which provision is made.

Reinsurance

Reinsurers' share of technical provisions are estimates based upon gross provisions for outstanding claims, having due regard to collectability (note 13). Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of claims reported to date, adjusted to reflect changes in the nature and extent of the Company's reinsurance programme over time. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each of the reinsurance companies. The reinsurers' share of claims incurred, in the profit and loss technical account, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the period.

Run-off provision

The provision for the estimated cost of running off the Company less the investment income that is forecast to arise during the period until cash reserves are exhausted has been written back in the profit and loss account non-technical account as it is no longer required following the triggering of the Scheme.

Provision for commission for risk payable to Scheme Creditors

Under the terms of the Scheme of Arrangement, which was sanctioned by the Court in January 1994, the commission for risk of up to £30 million due to Scheme Creditors is payable at the conclusion of the run-off, when all other liabilities have been met in full. The commission represents compensation to the Scheme Creditors for assuming the risk under the Scheme of having to make payments to the Company in order to satisfy the imposition of a Levy by the Scheme Administrator, or of having insurance claims payments reduced. In the opinion of the Directors the provision for commission for risk payable to Scheme Creditors is a liability in accordance with Financial Reporting Standard 25. The liability is recognised to the extent that net assets are available to pay the commission after all other liabilities of the Company have been met.

Deferred taxation

In accordance with Financial Reporting Standard 19 deferred tax has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation, or a right to pay less taxation, in the future. An asset is not recognised to the extent that the transfer of economic benefits in the future is uncertain. Deferred tax assets and liabilities are not discounted.

Land and buildings

Land and buildings are valued by the Directors with the assistance of independent advice.

Investments

Listed investments are stated at market value at the balance sheet date.

Investment income

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

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.

Pensions

The Company operates a Group Personal Pension Plan, a defined contribution scheme. Contributions to the Group Personal Pension Plan are made by the Company based upon amounts of salary sacrificed by each employee at the employee's sole discretion and are charged to the profit and loss non-technical account as incurred.

2. 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, the Scheme Administrator has indicated his intention to impose an initial Levy on Scheme Creditors amounting to £100 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. This has been accounted for through claims recovered/(paid) on the profit and loss account, with an asset recognised in other debtors on the balance sheet. The provision for outstanding claims, including claims incurred but not reported, was reduced in line with the Levy and the Company's liabilities fell by £40.2 million. This has been accounted for through the gross change in provision for claims on the profit and loss account, with the reduction in liabilities being recognised within gross claims outstanding on the balance sheet.

3. Segmental information

Recovered/(incurred) claims	**2013 Gross £000**	**2013 Reinsurance ceded £000**	**2013 Net £000**	*2012 Gross £000*	*2012 Reinsurance ceded £000*	*2012 Net £000*
Third party liability	**(32,035)**	**424**	**(31,611)**	*(69,894)*	*4,137*	*(65,757)*
Other direct	**19**	**–**	**19**	*(305)*	*–*	*(305)*
Levy adjustment (note 2)	**140,215**	**–**	**140,215**	*–*	*–*	*–*
	108,199	**424**	**108,623**	*(70,199)*	*4,137*	*(66,062)*

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 profit and loss account shown on page 13. All business results from contracts concluded in the UK.

4. Other charges

	2013 £000	*2012 £000*
Administration costs	**2,764**	*1,830*
Employers Liability Policy Trigger Litigation costs	**(534)**	*3,384*
Total other charges	**2,230**	*5,214*

Claims handling for the Company is undertaken by Zurich at no charge and therefore all expenses have been included in the profit and loss non-technical account.

5. Employee information

The monthly average number of persons (including executive Directors) employed by the Company during the year was 6 (2012 – 6). All staff were employed in the run-off administration of the Company.

Staff costs for the above persons were:

	2013 £000	*2012 £000*
Salaries, including amounts sacrificed as pension contributions (Note 7)	**746**	*568*
Social security costs	**74**	*54*
	820	*622*

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

6. Directors' emoluments

	2013 £000	*2012 £000*
The aggregate emoluments paid to Directors in respect of qualifying services were	**765**	*587*
The amount included above in respect of the highest paid Director was	**260**	*190*
	Number	*Number*
The number of Directors who were accruing benefits under the defined contribution pension scheme was:	**3**	*2*

The emoluments of Directors are subject to the approval of the Scheme Administrator from 13 November 2012. At 30 June 2013, the Board comprised 1 non-executive Director (2012 – 2) and 3 executive Directors (2012 – 3).

An analysis of the remuneration package of each executive Director is set out below:

	Salary £000	Compensation for loss of office £000	Benefits in kind £000	Total 2013 £000	*Total 2012 £000*
A C D Castle (Left 31 May 2013)	**95**	**160**	**5**	**260**	*105*
R G Bax (Appointed 1 June 2013)	**12**	**–**	**–**	**12**	*–*
T C Groocock	**57**	**–**	**7**	**64**	*62*
I A Willett	**218**	**–**	**3**	**221**	*190*
	382	**160**	**15**	**557**	*357*

Non-executive Directors

The level of fees payable to non-executive Directors is in line with that paid by other companies of a similar size. Fees are increased annually on 1 July in line with percentage increases in salaries awarded to executive Directors and staff.

The charge in the accounts for individual non-executive Directors is set out below:

	2013 £000	*2012 £000*
Sir John Lovill (Chairman)	**118**	*115*
S G Errington (Left 22 February 2012)	**–**	*66*
C J Winslet (Left 31 December 2012)	**82**	*39*
	200	*220*

In addition to their fees, non-executive Directors are eligible for reimbursement of expenditure incurred on the provision of private medical insurance and in attendance at Board meetings.

7. Pensions

The Company operates a Group Personal Pension Plan, a defined contributions scheme. Contributions to the Group Personal Pension Plan are made by the Company based upon amounts of salary sacrificed by each employee at the employee's sole discretion. Amounts shown in Note 6 above in respect of executive Directors are the gross salaries to which executive Directors 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 (2012 – £12,000).

8. Auditors' remuneration

	2013 £000	*2012 £000*
Fees for the audit of the Company's annual accounts	136	*116*
Audit related assurance services	63	*47*
Tax services	35	*23*
Insolvency services	8	*7*
	242	*193*

9. Tax relating to ordinary activities

The standard rate of Corporation Tax in the UK changed from 24% to 23% with effect from 1 April 2013. The relevant deferred tax balances have been recalculated at 23%. The differences are explained below:

	2013	*2012*
	£000	*£000*
Profit/(Loss) on ordinary activities before tax	**124,041**	*(80,846)*
Profit/Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.75% (2012 – 25.5%)	**29,460**	*(20,610)*
Unrecognised deferred tax on trading losses (utilised)/carried forward	**(29,460)**	*20,610*
Tax charge in non-technical account	**–**	*–*

There is deferred tax not provided on tax losses of £20,440,000 (2012 – £51,090,000), which will be recovered if the Company makes 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.

10. Fixed assets

Land and buildings

	£000
Directors' valuation at 1 July 2012 and 30 June 2013	**1,712**

This represents the Company's sole property, which is freehold, and is occupied by the Company for its own activities.

11. Investments

Other financial investments

	2013		*2012*	
	Market Value	**Cost**	*Market Value*	*Cost*
	£000	**£000**	*£000*	*£000*
UK Gilts and debentures and floating rate notes	**101,851**	**97,701**	*118,583*	*112,822*

UK Gilts and debentures and floating rate notes are listed on a recognised investment exchange.

12. Subsidiary company

The Company's interest in its sole subsidiary company, Municipal General Insurance Limited (in provisional liquidation), comprises shares, the estimated realisable value of which is nil (2012 – nil). The subsidiary has not been consolidated for the reason given in note 1(b).

The subsidiary is wholly and directly owned by the Company, and incorporated in Great Britain. No value is included in the accounts for this investment for the reason given in note 1(b).

13. Outstanding claims

	2013	*2012*
	£000	*£000*
Gross claims outstanding	**249,524**	*275,266*

Provision is made in the accounts for the estimated cost of claims notified but not settled at the date of the balance sheet and for the estimated cost of claims incurred but not reported at that date. Claims provisions are not discounted for inclusion in the accounts, but are reduced to reflect the effect of the Levy (note 2). Independent actuarial advice has been received to assist the Directors in establishing the undiscounted claims provisions for all classes of business of the Company as at 30 June 2013. A number of different estimation techniques, generally based upon statistical analyses of historical experience and particular claim characteristics including appropriate industry benchmarks, are used to calculate the estimated cost of unpaid claims. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year. Large claims impacting each business class are generally assessed separately on a case by case basis.

The provisions have been made with appropriate prudence having regard to past claims experience, current judicial interpretations of the law and other relevant information including views as to the rate of inflation. 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. In addition, a substantial measure of judgement is involved in both establishing the individual claims provisions and in interpreting past claims experience as part of the process of establishing the total claims provision. By their nature 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.

A significant issue for asbestos claims is the 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. For example cases of mesothelioma usually have a latency period of between 10 and 40 years. There is substantial actuarial sensitivity in the claims assumptions. For example if numbers of future reported claims were increased by 10%, the initial average cost of claims were to increase by £3,000 and long run claims inflation were to increase by 1.5% per annum, there would be a need to add almost £70 million to mesothelioma claims provisions, after taking into account the proposed Levy. In addition, the rate of future notification of abuse claims may vary significantly depending upon the incidence of any as yet unnotified major cases and the ultimate cost will also depend on judicial rulings as to the common law level of damages.

For these and other reasons the ultimate cost of claims could vary, perhaps materially, from the provisions established and therefore affect the financial position disclosed in these financial statements.

Provisions are calculated gross of any reinsurance recoveries. Amounts recoverable from reinsurers are estimated separately, based upon the gross provisions and on a prudent basis having due regard to inherent uncertainties over the amounts and the collectability thereof.

14. Other Debtors

The amount of £101,644,000 includes £100,000,000 regarding the Levy of 15% to be imposed by the Scheme Administrator on Scheme Creditors (note 2).

15. Run-off provision

No provision has been made in these accounts for managing the run-off of the Company to extinction as it is no longer required following the triggering of the Scheme. Last year a provision was made for the estimated cost of £26,021,000 for managing the run-off of the Company to extinction, net of estimated investment income of £10,498,000 which would have arisen up to the date at which the Company's resources were estimated to be exhausted.

16. Other creditors

	2013	*2012*
	£000	*£000*
Other creditors including taxation and social security	**1,423**	*4,852*

17. Accumulated deficit

	£000
At 1 July 2012	152,833
(Surplus) for the year	(124,041)
At 30 June 2013	**28,792**

As explained in Note 1(a) Basis of preparation, Going concern, the Scheme Administrator and Directors are of the opinion that the accumulated deficit of £28.8 million at 30 June 2013 will be eliminated by the end of the run-off period by adjusting the Levy on Scheme Creditors as appropriate, and that it is therefore appropriate for the financial statements to continue to be prepared on a going concern basis.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

18. Notes to cash flow statement

(i) Loss on operating activities:

	2013	*2012*
	£000	*£000*
Profit/(loss) on ordinary activities after taxation	**124,041**	*(80,846)*
Investment return	**(2,255)**	*(6,105)*
(Decrease)/increase in gross claims provision	**(25,742)**	*55,266*
(Decrease)/increase in run-off provision	**(15,523)**	*15,523*
(Increase) in reinsurers' share of claims provision	**–**	*(3,250)*
(Decrease)/increase in other creditors	**(3,430)**	*212*
Decrease/(increase) in amounts due from reinsurers	**408**	*(830)*
Decrease/(increase) in debtors	**(99,999)**	*2*
Net cash outflow from operating activities	**(22,500)**	*(20,028)*

(ii) Analysis of cash flows for headings netted in the cash flow statement:

	2013	*2012*
	£000	*£000*
Interest received	**4,143**	*4,756*

	2013	*2012*
	£000	*£000*
Net portfolio investments		
Purchase of UK Gilts and debentures and floating rate notes	**–**	*(50,831)*
Sale of UK Gilts and debentures and floating rate notes	**15,030**	*65,896*
Net cash outflow on portfolio investments	**15,030**	*15,065*

(iii) Movement in cash, portfolio investments and financing:

	At 1 July 2012 £000	**Cash flow £000**	**Changes to market value and currencies £000**	**At 30 June 2013 £000**
Cash in hand and at bank and deposits with credit institutions	6,786	(3,327)	–	3,459
UK Gilts and debentures and floating rate notes	118,583	(15,030)	(1,702)	101,851
Total	**125,369**	**(18,357)**	**(1,702)**	**105,310**

19. Transactions with related parties

There are no further disclosures required under Financial Reporting Standard 8 in respect of transactions with related parties.

20. Contingent liabilities

As a result of the triggering of the Scheme of Arrangement the Scheme Administrator has indicated his intention to impose an initial Levy on Scheme Creditors of 15% (note 2). The liabilities of the company have consequently been reduced by £140.2 million which could be repayable to Scheme Creditors in whole or in part on a reduction of the Levy. The Company has no other material contingent liabilities at 30 June 2013 (2012 – Nil).

21. Ultimate controlling party

The Company is a company limited by guarantee and does not have a share capital. It is owned by its members and as such there is no single controlling party.

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