MUNICIPAL MUTUAL INSURANCE LIMITED

(In Scheme of Arrangement)

Annual Report and Accounts

for the year ended
30 June 2015

Registered number: 76678 England

Website: www.mminsurance.co.uk

Municipal Mutual Insurance Limited
(In Scheme of Arrangement)

Annual Report and Accounts
for the year ended 30 June 2015

CONTENTS

Municipal Mutual Insurance Limited

(In Scheme of Arrangement)

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of the Company will be held at 3rd Floor, 23 College Hill, London EC4 on Thursday, 8 October 2015 at 1.30pm for the following purposes:

Ordinary resolutions

1. To receive and adopt the Annual Report and Accounts for the year ended 30 June 2015.

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

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

4. To authorise the Director to fix the remuneration of the auditors.

On behalf of the Board
I A Willett
Director
3 September 2015

Registered Office
23 College Hill
London
EC4R 2RP

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 1.30pm on 6 October 2015.

Municipal Mutual Insurance Limited
(In Scheme of Arrangement)

SCHEME ADMINISTRATOR

G H Hughes, FCA (Partner Ernst & Young LLP)

DEPUTY SCHEME ADMINISTRATOR

B Cairns, ACA (Partner Ernst & Young LLP)

DIRECTOR

I A Willett

SENIOR MANAGEMENT

S Laird – Financial Controller

R Luck – Claims & Reinsurance Manager

CREDITORS' COMMITTEE MEMBERS AND THEIR ORGANISATIONS

M B A Walker, Borough Solicitor and Assistant Director of Administration (Chairman)	London Borough of Wandsworth Council
J Butler	National Housing Federation
H Dunn, CPFA	City of Edinburgh Council
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
P Towey	Hertfordshire County Council

SCHEME ADMINISTRATOR'S STRATEGIC REVIEW

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.

The Scheme was triggered by the Directors on 13 November 2012 (the "Trigger Date") because they could no longer foresee a solvent run-off with full payment of agreed claims.

Since the Trigger Date, I have exercised 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.

The Trigger Event denoted the commencement of the Levy Period under the terms of the Scheme. During the Levy Period my responsibilities are 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.

Results for the year

The loss of £38.4 million for the year (2014: loss of £47.4 million), which in combination with prior losses results in a balance sheet deficit of £114.6 million as at 30 June 2015, is very disappointing. It is primarily due to further worsening in the estimated costs of future mesothelioma and abuse claims projected by the Company's actuarial advisers, KPMG LLP. 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 KPMG and reduced to the current payment percentage of 85%.

Levy on Scheme Creditors

Following my assumption of responsibilities for the management of the Company's affairs, I undertook a review of the financial position of the Company. On 1 January 2014, I raised an initial Levy against qualifying Scheme Creditors of 15% amounting to £104.5 million of which £104.3 million has been received to date.

Since the levy was raised the Company's results have deteriorated further and I will carry out a further review in consultation with our financial advisers and the Scheme Creditors Committee in the second half of this year. I am particularly concerned about the continuing deterioration in mesothelioma claims together with the substantial increase in numbers of abuse claims which have resulted in the current balance sheet deficit.

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. Almost 58% of the portfolio is invested in gilts, conventional and index-linked, with the balance remaining invested in corporate bonds, floating rate notes and cash deposits.

Property

I appointed Savills to manage the office sale and relocation project and I am pleased to advise that following an intense bidding process the freehold of 29 Buckingham Gate was sold for the sum of £3.67 million. Completion of the sale has enabled the head office team to be relocated into smaller leasehold premises at 23 College Hill, in the City of London.

Creditors Committee

Meetings of the Creditors Committee were held on 7 October 2014 and 19 March 2015, at which Committee members were updated fully on all aspects of the progress of the run-off of the Company's business. I extend my thanks to the Committee for their continuing support in my role as Scheme Administrator, and in particular to Mr Martin Walker, the Chairman, who has served on the Committee since its inception. Pauline Tinnelly retired from Hertfordshire County Council, during the year and, subject to ratification by the Committee at its next meeting, she will be succeeded by Mr Patrick Towey, who is Head of Specialist Accounting at the County Council.

The next meeting of the Creditors' Committee will take place on 8 October 2015, prior to the Annual General Meeting.

Principal risks and uncertainties

In my opinion 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 monitored with numbers and values both of newly reported claims and claims settlements being reported on a monthly basis. The provision for claims incurred but not reported is determined after careful consideration of the recommendation made by the Company's actuarial advisers, KPMG, at each year end. The uncertainty in this area is accentuated by changes in law, legal interpretation and industry practices.

   The Employers Liability claims for mesothelioma have shown a continuing worsening trend over the past few years and there continues to be much uncertainty regarding the eventual outcome. In addition, the Company has experienced a significant increase in historical child abuse claims over the past year. Claims for child abuse will undoubtedly be affected by the growing public awareness following the publicity surrounding the activities of Jimmy Savile and other high profile individuals together with the growing number of public body and police investigations. The Company anticipates claims will arise from the Independent Inquiry into Child Sexual Abuse established by the Home Secretary but the extent is, as yet, impossible to predict with any degree of certainty. Any significant worsening in estimated cost of claims can be covered by revising the current Levy percentage.

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

   Throughout the run-off period the Company has followed a risk-averse investment strategy, as set out in the original discretionary management agreement with its fund managers Aviva. 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".

   My discussions with Aviva concerning a new discretionary investment management agreement are nearing completion and, subject to final legal approval, will be implemented before the end of 2015. In addition, a new custodian agreement has been arranged with State Street to satisfy current regulatory requirements.

   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.

   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 Insurance and Aviva, 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)

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

1. Collection of Levy from Scheme Creditors

After Levy Notices were issued, collection of the outstanding amounts was closely monitored to ensure that as far as possible, Scheme Creditors remitted the amounts due in accordance with the terms of settlement. Allowing for claims payments falling for protection under the terms of the Financial Services Compensation Scheme, less than £200,000 remains outstanding. Unless a Scheme Creditor has a genuine query in relation to the amount of Levy due, interest on outstanding amounts is charged in accordance with the terms of the Scheme at 4% per annum over Nat West base rate. Any unpaid Levy will be deducted from future claims payments.

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 2014, there were 3252 outstanding reported claims. In the year ended 30 June 2015, there were 1373 newly reported claims, and the number of outstanding reported claims at that date was 3308.

3. Investment income

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

	2015 £000	2014 £000
Investment funds at 1 July	196,931	105,310
Investment funds at 30 June	197,373	196,931
Average	197,152	151,120
Investment income	5,488	4,287
Investment income as a percentage of average investment funds	2.78%	2.84%

Outlook

Following the initial Levy of 15% imposed on Scheme Creditors in accordance with the Levy Notices the Company will continue to pay claims at 85% of the agreed settlement amount for affected Scheme Creditors, and pay claims at 100% for non-Scheme Creditor policyholders. Since the initial Levy was set there has been a further deterioration in claims resulting in a balance sheet deficit of £114.6 million as at 30 June 2015. This deficit is such that I currently anticipate that it will be necessary to raise a further levy in due course.

Gareth Hughes
Scheme Administrator

3 September 2015

REPORT OF THE DIRECTOR

The Director presents his report and the audited accounts of the Company (registered number: 76678 England) for the year ended 30 June 2015. The Company is a company limited by guarantee and has no 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. Future Company developments are presented in the Outlook section of the Scheme Administrator's 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. 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 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 set out in the Scheme Administrator's Strategic Review on page 4.

Results for, and review of, the year to 30 June 2015

The results for the year ended 30 June 2015 are set out in the accounts on pages 12 to 22 and show a loss of £38.4 million (2014: loss of £47.4 million), which was attributable mainly to the Public Liability class of business, the largest part of which is the abuse account. The employers Liability account also showed a loss for the year, mainly due to deterioration on the mesothelioma 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 Director received and accepted actuarial advice from KPMG LLP (KPMG) to assist in establishing the undiscounted claims provisions as at 30 June 2015. This advice took into account all 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 decision taken with regard to the level of outstanding claims provisions to be included in the financial statements for the year ended 30 June 2015.

Claims handling responsibilities continue to be shared between the Company and Zurich Insurance (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 head office staff and the claims teams of Zurich to ensure that service standards are maintained.

The profit on the non-technical account was £6.9 million for the year ended 30 June 2015, compared to a loss of £1.7 million for the previous year. This net improvement in profit of £8.6 million is attributable to two main factors; the sale of 29 Buckingham Gate for a profit of £1.9 million, and gains from the sale and appreciation of investments of £3.0 million (2014 £2.9 million loss).

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 financial statements for the year ended 30 June 2015 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 was placed into Compulsory Liquidation on 20 February 2015 with the Official Receiver acting as Liquidator. The Company has no expectation of a distribution at the end of the liquidation process.

Directors

The present Director is shown on page 3.

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.

Director's interests

Mr I A Willett is not a member of the Company and has no other interests to declare.

Statement of Directors' responsibilities

Directors are responsible for preparing the Strategic Report, Report of the Directors 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 Director has 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;
- 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

In the case of the Director at the date 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 2015 and signed on its behalf.

I A Willett
Director

DIRECTOR'S STRATEGIC REPORT

Since the Scheme of Arrangement was triggered by the Directors on 13 November 2012 control of the Company passed to the Scheme Administrator who has exercised 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. The Strategic Report with which the Director fully concurs is included in the Scheme Administrator's Strategic Review on page 4.

Approved by the Board on 3 September 2015 and signed on its behalf.

I A Willett
Director

INDEPENDENT AUDITORS' REPORT

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

Report on the financial statements

Our opinion

In our opinion, Municipal Mutual Insurance Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 30 June 2015 and of its loss 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 disclosures made in Note 14 to the financial statements. Note 14 to the financial statements concerns the significant uncertainties in estimating gross claims outstanding, in particular for mesothelioma and abuse claims. The ultimate cost of claims could vary materially from the amounts recorded in the financial statements.

What we have audited

The financial statements comprise:

- the Balance Sheet as at 30 June 2015;
- the Profit and loss account for the year then ended;
- the Cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Report of the Director for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' responsibilities set out on page 8, 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) ("ISAs (UK & 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Philip Watson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London

14 September 2015

(a) 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..

(b) 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 2015

	Note	2015		*2014*	
		£000	£000	*£000*	*£000*
Technical account					
Claims (paid)					
Gross amount		(11,701)		*(7,834)*	
Reinsurers' share		2,842		*2,544*	
Net claims (paid)		(8,859)		*(5,290)*	
Change in provision for claims					
Gross amount		(36,426)		*(42,203)*	
Reinsurers' share		(50)		*1,750*	
Change in net provision for claims		(36,476)		*(40,453)*	
Claims (incurred) net of reinsurance	3		(45,335)		*(45,743)*
Balance on the technical account for general business			(45,335)		*(45,743)*
Non-technical account					
Investment income					
Income from investments		5,488		*4,287*	
Gain/(loss) on realisation of investments		3,148		*(229)*	
			8,636		*4,058*
Unrealised loss on investments			(112)		*(2,626)*
Investment expenses and charges			(162)		*(86)*
Other Income	4		1,881		*–*
Other charges	5		(3,296)		*(2,992)*
(Loss) on ordinary activities before tax			(38,388)		*(47,389)*
Tax on profit/(loss) on ordinary activities	10		–		*–*
(Loss) on ordinary activities after tax	17		(38,388)		*(47,389)*

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 2015

	Note	2015		*2014*	
		£000	**£000**	*£000*	*£000*
Investments					
Other financial investments	12		**196,129**		*194,338*
Reinsurers' share of technical provisions					
Claims outstanding	14		**13,950**		*14,000*
Debtors					
Debtors arising out of direct insurance operations		–		*186*	
Debtors arising out of reinsurance operations		**511**		*358*	
Other debtors	15	**2,115**		*3,621*	
			2,626		*4,165*
Other assets					
Tangible fixed assets	11	**284**		*1,712*	
Cash at bank and in hand		**1,244**		*2,593*	
			1,528		*4,305*
Total assets			**214,233**		*216,808*
Technical provisions					
Gross amount of claims outstanding	14	**(328,153)**		*(291,727)*	
Creditors					
Other creditors including taxation and social security	16	**(649)**		*(1,262)*	
Total liabilities			**(328,802)**		*(292,989)*
Net liabilities			**(114,569)**		*(76,181)*
Profit and loss account	17		**(114,569)**		*(76,181)*

Gareth Hughes
Scheme Administrator

The financial statements on pages 12 to 22 were approved by the Board of Directors on 3 September 2015 and signed on its behalf by

I A Willett
Director

MUNICIPAL MUTUAL INSURANCE LIMITED
(In Scheme of Arrangement)

CASH FLOW STATEMENT
for the year ended 30 June 2015

	Note	2015		2014	
		£000	£000	£000	£000
Net cash (outflow)/inflow from operating activities	18(i)		(11,879)		90,934
Return on investments and servicing of finance					
Interest received	18(ii)		5,992		3,542
Capital Expenditure	18(ii)		3,293		–
Net cash (outflow)/inflow			(2,594)		94,476
Cash flows were applied as follows:					
Decrease in cash holdings			(1,349)		(866)
Net portfolio investments	18(ii)				
UK Gilts and debentures and floating rate notes			(1,245)		95,342
Net application of cash flows			(2,594)		94,476
Movement in opening and closing portfolio investments net of financing	18(iii)				
Net cash outflow for year		(1,349)		(866)	
Cash flow					
Portfolio investments		(1,245)		95,342	
Movement arising from cash flows		(2,594)		94,476	
Changes in market value and exchange rates		3,036		(2,855)	
Total movement in portfolio investments net of financing			442		91,621
Portfolio investments net of financing at 1 July			196,931		105,310
Portfolio investments net of financing at 30 June			197,373		196,931

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

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 relating to insurance companies, and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 2005 as amended in December 2006; and

(ii) UK GAAP, 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 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 and subsequently in each calendar year. 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 imposed an initial Levy on Scheme Creditors of 15% based on claims payments since 30 September 1993.

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. The provision for outstanding claims (including claims incurred but not reported) is reported net of this 15%, equivalent to £55.4 million.

Given the further deterioration in the Company's financial position it may become necessary for a further Levy on Scheme Creditors to be raised by the Scheme Administrator.

The Director is of the opinion that the balance sheet deficit at 30 June 2015 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 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 was 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.

MGI was placed into Compulsory Liquidation on 20 February 2015 with the Official Receiver acting as Liquidator. The Company has no expectation of a distribution at the end of the liquidation process. The Company has no obligation to support or fund MGI and therefore its investment in MGI is valued at nil at 30 June 2015 (2014: 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 imposed on Scheme Creditors by the Scheme Administrator.

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 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 14 gives further details of the basis on which provision is made.

1 Accounting policies *continued*

Reinsurance

Reinsurers' share of technical provisions are estimates based upon gross provisions for outstanding claims, having due regard to collectability (note 14). 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.

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.

Tangible Assets

Freehold land and buildings are valued by the Director with the assistance of independent advice. During the year the Company disposed of its sole freehold asset.

Other tangible 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

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.

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 with a mutual break at 19 May 2020. From 20 Nov 2019 to 19 May 2020 there is a rent free period. The benefit of this rent free period is incurred evenly over the initial rental term, 11 February 2015 to 19 May 2020. In the event of the mutual break not being exercised the Company is entitled to a further 3 months rent free period from the date of the break.

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, 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 on the profit and loss account, with the balance of Levy outstanding of £200,000 being fully provided for. The provision for outstanding claims, including claims incurred but not reported, has been reduced in line with the Levy percentage

3 Segmental information

(Incurred)/recovered claims	**2015** Gross £000	Reinsurance ceded £000	Net £000	*2014* *Gross £000*	*Reinsurance ceded £000*	*Net £000*
Third party liability	**(56,508)**	**2,792**	**(53,716)**	*(64,147)*	*4,294*	*(59,853)*
Other direct	**(19)**	**–**	**(19)**	*(26)*	*–*	*(26)*
Levy adjustment	**8,400**	**–**	**8,400**	*14,136*	*–*	*14,136*
	(48,127)	**2,792**	**(45,335)**	*(50,037)*	*4,294*	*(45,743)*

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 12. All business results from contracts concluded in the UK.

4 Other Income

	2015 £000	*2014 £000*
Profit on disposal of fixed assets	**1,881**	*–*

This profit on disposal represents the sale of the Company's sole freehold property, 29 Buckingham Gate. On 12 May 2015 this property was sold for net proceeds of £3.59 million.

5 Other charges

	2015 £000	*2014 £000*
Operating lease rentals – leasehold property	**58**	*–*
Other Administration costs	**3,238**	*2,992*
Total other charges	**3,296**	*2,992*

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.

6 Employee information

The monthly average number of persons (including executive Directors) employed by the Company during the year was 5 (2014: 6). All staff are employed in the run-off administration of the Company.

Staff costs for the above persons were:

	2015 £000	*2014 £000*
Wages and salaries, including amounts sacrificed as pension contributions (Note 7)	**1,082**	*593*
Social security costs	**62**	*66*
	1,144	*659*

7 Directors' emoluments

	2015 £000	*2014 £000*
The aggregate emoluments paid to Directors in respect of qualifying services were	**666**	*704*
The amount included above in respect of the highest paid Director was	**269**	*299*
	Number	*Number*
The number of Directors who were accruing benefits under the defined contribution pension scheme was:	**2**	*2*

The emoluments of Directors are subject to the approval of the Scheme Administrator from 13 November 2012. At 30 June 2015, the Company had 1 Director (2014: 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 2015 £000	*Total 2014 £000*
R G Bax (Left 07 October 2014)	**38**	**226**	**5**	**269**	*143*
T C Groocock (Left 31 October 2014)	**18**	**133**	**3**	**154**	*60*
I A Willett	**240**	**–**	**3**	**243**	*202*
	296	**359**	**11**	**666**	*405*

Non-executive Directors

The Company has had no non-executive Directors since 31 August 2013.

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

	Total 2015 £000	*Total 2014 £000*
Sir John Lovill (Chairman, left 31 August 2013)	**–**	*293*
	–	*293*

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

8 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 7 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 £21,000 (2014: £16,000).

9 Auditors' remuneration

	2015 £000	*2014 £000*
Fees payable to the Company's auditors for the audit of the Company	**131**	*153*
Audit related assurance services	**32**	*78*
Actuarial advisory services	**35**	*–*
Tax advisory services	**16**	*27*
	214	*258*

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

10 Tax on (loss)/profit on ordinary activities

The standard rate of Corporation Tax in the UK changed from 21% to 20% with effect from 1 April 2015. The relevant deferred tax balances have been recalculated at 20%. The differences are explained below:

	2015	*2014*
	£000	*£000*
(Loss) on ordinary activities before tax	**(38,388)**	*(47,389)*
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.75% (2014: 22.50%)	**(7,966)**	*(10,660)*
Unrecognised deferred tax on trading losses carried forward/(utilised)	**7,966**	*10,660*
Tax charge in non-technical account	**–**	*–*

There is deferred tax not provided on tax losses of £34.9 million (2014: £28.6 million), 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.

11 Tangible Fixed assets

	Freehold land and building £000	**Fixtures, fittings and office equipment £000**	**Total £000**
Book Cost			
At 1 July 2014	1,712	–	1,712
Additions	–	299	299
Disposals	(1,712)	–	(1,712)
At 30 June 2015	–	299	299
Accumulative depreciation			
At 1 July 2014	–	–	–
Charge for the year	–	15	15
Eliminations in respect of disposals	–	–	–
At 30 June 2015	–	15	15
Net book value			
30 June 2015	**–**	**284**	**284**
30 June 2014	1,712	–	1,712

The charge for depreciation for the year ended 30 June 2014 was £nil.

The freehold land and building represents 29 Buckingham Gate, the Company's sole freehold property. The brought forward book cost is the Director's valuation as at 1 July 2014. On 12 May 2015 this property was sold for net proceeds of £3.59 million.

12 Investments

Other financial investments

	2015		*2014*	
	Market Value £000	**Cost £000**	*Market Value £000*	*Cost £000*
UK Gilts and debentures and floating rate notes	**196,129**	**194,717**	*194,338*	*192,814*

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

13 Subsidiary company

The Company's interest in its sole subsidiary company, Municipal General Insurance Limited (in compulsory liquidation), comprises shares, the estimated realisable value of which is nil (2014: 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).

14 Claims Outstanding

	2015	*2014*
	£000	*£000*
Gross claims outstanding	**328,153**	*291,727*

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 Director in establishing the undiscounted claims provisions for all classes of business of the Company as at 30 June 2015. 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 21%, and long run claims inflation were to increase by 1.0% per annum, there would be a need to add more than £67 million to mesothelioma claims provisions. In the case of child abuse the rate of future notification of claims may vary significantly depending upon the incidence of as yet unreported major cases and the outcomes of the many on-going public inquiries and police investigations. The ultimate cost will also depend on the development of legal liability for such events and the level of future compensation awards. The actuarial range of possible outcomes for this type of claim is extensive and the mid-point selected by the Director and Scheme Administrator has strengthened the provision by £37 million, but the sensitivities of the underlying assumptions are such that an increase of 9% in the number of new claims reported and their average cost together with increases in the assumed average ages of claimants could add a further £35 million to the provision.

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.

15 Other debtors

Other debtors include £28,000 (2014: £1.2 million) regarding the Levy of 15% imposed by the Scheme Administrator and other unpaid Scheme Creditor balances due.

16 Other creditors including taxation and social security

	2015	*2014*
	£000	*£000*
Other creditors including taxation and social security	**649**	*1,262*

17 Profit and loss account

	£000
Loss as at 1 July 2014	76,181
Loss for the year	38,388
Loss as at 30 June 2015	**114,569**

As explained in Note 1(a) Basis of preparation, Going concern, the Scheme Administrator and Directors are of the opinion that the accumulated loss of £114.6 million at 30 June 2015 (2014: loss of £76.2 million) 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.

18 Notes to cash flow statement

(i) Loss on operating activities:

	2015 £000	*2014 £000*
Loss for the financial year	**(38,388)**	*(47,389)*
Depreciation charges	**15**	–
Investment return	**(8,524)**	*(1,432)*
Increase in gross claims provision	**36,426**	*42,203*
Profit on sale of fixed assets	**(1,881)**	–
Decrease/(increase) in reinsurers' share of claims provision	**50**	*(1,750)*
Decrease in other creditors	**(613)**	*(161)*
(Increase)/decrease in amounts due from reinsurers	**(153)**	*695*
Decrease in debtors	**1,189**	*98,768*
Net cash (outflow)/inflow from operating activities	**(11,879)**	*90,934*

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

	2015 £000	*2014 £000*
Interest received	**5,992**	*3,542*

	2015 £000	*2014 £000*
Capital Expenditure		
Payments to acquire tangible fixed assets	**(299)**	–
Receipts from sales of tangible fixed assets	**3,592**	–
	3,293	–

	2015 £000	*2014 £000*
Net portfolio investments		
Purchase of UK Gilts and debentures and floating rate notes	**161,329**	*145,647*
Sale of UK Gilts and debentures and floating rate notes	**(162,574)**	*(50,305)*
Net cash inflow/(outflow) on portfolio investments	**(1,245)**	*95,342*

(iii) Movement in cash, portfolio investments and financing

	At 1 July 2014 £000	**Cash flow £000**	**Changes to market value £000**	**At 30 June 2015 £000**
Cash in hand and at bank and deposits with credit institutions	2,593	(1,349)	–	1,244
UK Gilts and debentures and floating rate notes	194,338	(1,245)	3,036	196,129
Total	**196,931**	**(2,594)**	**3,036**	**197,373**

19 Transactions with related parties

In accordance with the requirements of Financial Reporting Standard 8 there are no related party transactions.

20 Guarantees and financial commitments

Annual commitments in respect of non-cancellable operating leases are as follows:

	Land and buildings 2015 £000	*Land and buildings 2014 £000*
Operating leases which expire:		
Between one and five years	**164**	–
	164	–

21 Contingent liabilities

As a result of the triggering of the Scheme of Arrangement the Scheme Administrator has imposed an initial Levy on Scheme Creditors of 15% (note 2). The liabilities of the Company have consequently been reduced by £163 million (2014: £153 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 2015 (2014: Nil).

22 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 of Arrangement the voting rights exercisable by the Scheme Administrator at general meetings give him effectively overall control of the Company.

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