



I N S U R A N C E

Annual Report and Financial Statements 31 December 2010

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Report of the Directors

For the Year Ended 31 December 2010

The directors of MMA Insurance plc submit the annual report and audited financial statements of the Company for the year ended 31 December 2010.

Directors

Colin Batabyal	(Appointed 6th October 2010)
Graham Doswell	Chairman
Garry Fearn	
Jean Fleury	
Barry Hulbert	
Bertrand Guerinon	(Appointed 22nd March 2010)
Henry Kenyon	(Appointed 6th October 2010)
Bertrand Lefebvre	
Gilles Mongis	
George Nixon	
Jean-Michel Pescheux	(Resigned 22nd March 2010)
Derek Plummer	
Michel Roux	
Dominique Salvy	
Steven Whittaker	

Secretary

Steven Whittaker

Principal Activity

The principal activity of the Company continues to be the underwriting of non-life insurance business in the United Kingdom. The business conducted is principally motor, fire and other damage to property and liability.

Review of the Business

The Company has followed the recommendations of the ABI Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005.

The Company's key performance indicators during the year were as follows:

	2010	2009
	£ 000	£ 000
Gross written premium	220,453	227,073
Operating profit/(loss) on technical account	454	(24,225)
Total profit/(loss) after tax	1,139	(9,634)
Invested funds	319,869	323,306
Shareholders' funds	89,285	78,159

Report of the Directors continued

For the Year Ended 31 December 2010

Gross written premium reduced by some £6m (3%) on the previous year to £220.5m principally as a result of planned contraction on the Private Motor account. Property and commercial income has risen by some £6m (7%) over last year. 2011 will see particular emphasis being placed on developing commercial lines business.

Operating profit amounts to £0.5m (2009 – a loss of £24.2m). A positive run-off principally on the liability accounts has largely offset the additional weather losses arising from the exceptional weather in the last few weeks of 2010.

The Private Motor market in the UK continues to be extremely competitive but the actions we have taken leave us well placed to take advantage of recent increases in rates.

On the Home account, market rate increases have largely failed to materialise. However the recent weather losses provide increased focus on this area.

Investment performance has again been strong during the year. In particular the Company has benefited from excellent equity market returns in 2010. We continue to insist on high quality security for our bond portfolio and as previously our claims reserves remain entirely covered by bonds and money market deposits. We will continue to be prudent in our approach during 2011.

The directors are not proposing a final dividend in respect of the financial year ended 31 December 2010 (2009: nil).

Principal Risks and Uncertainties

The Board is responsible for approving the Company's

strategy and the Company's risk appetite in the implementation of that strategy. The Company has established a risk management framework whose primary objectives are to protect the Company from events that hinder the achievement of the Company's performance objectives. The principal risks and uncertainties facing the Company are classified under strategic, insurance, financial and compliance.

Strategic

The Company operates in a highly competitive market which has changed in structure substantially over recent years particularly so far as distribution and technology are concerned. The Company has sought to address these challenges in its strategic approach.

Insurance

Pricing and reserving risks are inherent in general insurance.

So far as pricing is concerned there is a risk that premiums may not reflect the technical exposure with a consequent impact on results. Pricing is reviewed on a regular basis to ensure this risk is minimised.

For reserving there is a risk that claims reserves are insufficient to match the future claims payments. There is always uncertainty in the estimation of general insurance claim reserves as this process involves the projection of future events that are uncertain. Actual results will therefore vary from our estimates. Settlements can be affected by recent and future changes to court awards and changes to legal and court procedures. Case estimates are reviewed on a regular basis and overall account reserves are subject to internal actuarial review quarterly. This is supplemented by external independent review twice a year.

Report of the Directors continued

For the Year Ended 31 December 2010

Financial Risks

The Company manages liquidity risk through regular cash flow forecasts and monitoring. It also holds a substantial investment fund. This represents the funds covering liabilities to policyholders, and the shareholders' assets. The Company is exposed to the risk of adverse fluctuations in the market value of these investments and/or variations in the income from them. To address this, a prudent investment approach is adopted with the majority of the funds invested in bonds or the money market.

The Company provides credit to intermediaries in connection with the arrangement of insurance contracts. The Company actively monitors overdue debt and has procedures in place to minimise exposure in the event of default.

Compliance

The Company falls under the regulatory regime of the Financial Services Authority (FSA) and must meet the operational, financial and reporting requirements of that Authority. These include capital adequacy and other financial requirements together with a range of customer facing obligations under the general requirement of "treating customers fairly". The Company has a Legal and Compliance function which has established and oversees a Compliance Framework and liaises with the FSA on regulatory matters.

Future Trading

The Company's business activities, risk management objectives, details of its exposures to insurance, financial and other risks, together with the factors likely to affect its future development, performance and position are set out in the Directors' report above.

The Company and its directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the directors have a reasonable expectation that the company has adequate resources for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Directors

The Directors who served during the period and up to the date of signing the financial statements are disclosed on page 2 of this annual report.

Gilles Mongis, Graham Doswell and Jean Fleury retire by rotation and, being eligible, offer themselves for re-election.

None of the directors had an interest in the share capital of the Company or its parent Companies during the year.

Directors' qualifying third party indemnity provisions

The ultimate parent company has purchased insurance to indemnify one or more of the company's directors against liability in respect of proceedings brought by third parties, against them in their capacity as a director, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remained in force as at the date of approving the directors' report.

Charitable Contributions

Contributions totalling £8k were made during the year, comprising various small donations made for charity purposes.

Report of the Directors continued

For the Year Ended 31 December 2010

Employees

Disabled Persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Employee Involvement

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Company as a whole. Communication with all employees continues through the Company intranet, briefing groups and the distribution of the annual report.

Creditor Payment Policy

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with. At 31 December 2010 the amount outstanding in other creditors did not exceed agreed payment terms, which are most commonly thirty days from date of invoice (2009:Thirty days.)

Disclosure of Information to the Auditors

Each of the persons who is a director at the date of this report confirms that:

1. so far as each of them is aware, there is no information relevant to the audit of the Company's financial statements for the year ended 31 December 2010 of which the auditors are unaware; and
2. the director has taken all steps that he ought to have taken in his duty 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.

Auditors

The auditors, PricewaterhouseCoopers LLP, were re-appointed during the year and have indicated their willingness to continue in office and a resolution that they be re-appointed will be proposed at the annual general meeting.

Report of the Directors continued

For the Year Ended 31 December 2010

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

Statement of Directors' Responsibilities in Respect of the Financial Statement

Company law requires the directors to prepare financial statements for each financial year, which 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 those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the board

S WHITTAKER
Secretary
22 March 2011

Independent Auditors' Report to the Members of MMA Insurance plc

We have audited the financial statements of MMA Insurance plc for the year ended 31 December 2010, which comprise the Technical Account – General business, Non-Technical Account, Balance Sheet, Statement of Total Recognised Gains and Losses, the Accounting policies 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 Directors' Responsibilities Statement set out on page 6, 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.

Emphasis of Matter – Equalisation Provisions

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation provisions. The nature of equalisation provisions, the amounts set aside as at 31 December 2010 and the effect of the movement in those provisions during the year on shareholders' funds, the balance on the general business technical result and profit before tax, are disclosed in the accounting policy and in note 16.

Independent Auditors' Report to the Members of MMA Insurance plc continued

For the Year Ended 31 December 2010

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 31 December 2010 and of its profit 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.

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.

Craig Gentle (Senior Statutory Auditor)

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
Bristol

March 2011

Profit & Loss Account

For the Year Ended 31 December 2010

	Notes	2010		2009	
		£ 000	£ 000	£ 000	£ 000
Technical Account - General Business					
Earned premiums, net of reinsurance					
Gross premiums written	1		220,453		227,073
Outward reinsurance premiums			(16,351)		(23,355)
<hr/>					
Net premiums written			204,102		203,718
Change in the gross provisions for unearned premiums			5,666		15,025
Change in the provision for unearned premiums, reinsurers' share			(3,503)		384
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Change in the net provision for unearned premiums			2,163		15,409
<hr/>					
Earned premiums, net of reinsurance			206,265		219,127
Allocated investment return transferred from the non-technical account			13,703		15,897
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Claims incurred, net of reinsurance			219,968		235,024
Gross amount			(162,048)		(181,225)
Reinsurers' share			8,965		14,531
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Net of reinsurance			(153,083)		(166,694)
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Change in the provision for claims					
Gross amount			10,591		(8,350)
Reinsurers' share			(1,307)		(3,990)
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Net of reinsurance			9,284		(12,340)
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Claims incurred, net of reinsurance			(143,799)		(179,034)
Change in the equalisation provision	16		3,055		(2,726)
Other technical income			2,272		3,392
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Net operating expenses	2		(81,042)		(80,881)
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Balance on the general business technical account			454		(24,225)

Profit & Loss Account *continued*

For the Year Ended 31 December 2010

	Notes	2010		2009	
		£ 000	£ 000	£ 000	£ 000
Non – Technical Account					
Balance on the general business technical account			454		(24,225)
Total investment return	3	14,364		22,409	
Allocated investment return transferred to the technical account - general business		(13,703)		(15,897)	
			661		6,512
Expected return on pension fund assets	20	1,782		1,491	
Interest on pension scheme liabilities		(1,782)		(1,570)	
		-		(79)	
Gain on curtailment		-		3,756	
			-		3,677
Exchange adjustments			121		(67)
Profit / (Loss) on ordinary activities before tax			1,236		(14,103)
Tax on profit / (loss) on ordinary activities	7		(97)		4,469
Profit / (Loss) for the financial year			1,139		(9,634)

There are no discontinued operations.

Statement of Total Recognised Gains and Losses

For the Year Ended 31 December 2010

Notes	2010		2009	
	£ 000	£ 000	£ 000	£ 000
Profit / (Loss) after tax for the financial year		1,139		(9,634)
Pension fund actuarial loss	(16)		(6,983)	
Deferred tax @ 28% on pension fund actuarial loss (2009: 28%)	4		1,955	
		(12)		(5,028)
Total recognised profits / (losses) for the year		1,127		(14,662)

Statement of Historical Cost Profit

For the Year Ended 31 December 2010

There are no differences between the result on ordinary activities before taxation and the result for the financial period as shown above and the historical cost equivalent.

Balance Sheet

For the Year Ended 31 December 2010

	Notes	2010		2009	
		£ 000	£ 000	£ 000	£ 000
Assets					
Investments					
Investments in group undertakings and participating interests		1		1	
Other financial investments		303,762		292,857	
	9		303,763		292,858
Reinsurers' share of technical provisions					
Provision for unearned premiums		-		3,503	
Claims outstanding	15	36,107		37,414	
			36,107		40,917
Debtors					
Debtors arising out of direct insurance operations	10	50,294		53,838	
Debtors arising out of reinsurance operations		1,058		1,853	
Other debtors	11	5,898		9,086	
			57,250		64,777
Other assets					
Tangible fixed assets	12	830		764	
Cash at bank and in hand		16,107		30,449	
			16,937		31,213
Prepayments and accrued income					
Accrued interest		3,756		3,810	
Deferred acquisition costs		39,257		41,124	
Other prepayments and accrued income		1,450		1,733	
			44,463		46,667
Total Assets			458,520		476,432

Balance Sheet continued

For the Year Ended 31 December 2010

	Notes	2010		2009	
		£ 000	£ 000	£ 000	£ 000
Liabilities & Shareholders funds					
Capital and reserves					
Called up share capital	13	25,000		15,000	
Profit and loss account	14	64,286		63,159	
Total equity shareholders' funds			89,286		78,159
Technical provisions					
Provisions for unearned premiums		119,261		124,927	
Claims outstanding	15	235,846		247,266	
Equalisation provision		2,544		5,599	
			357,651		377,792
Deferred taxation	17		-		266
Creditors					
Creditors arising out of direct insurance operations		149		30	
Creditors arising out of reinsurance operations		2,053		2,566	
Other creditors including taxation and social security	18	4,883		9,920	
			7,085		12,516
Accruals and deferred income	19		4,498		5,623
Pension fund liability	20		-		2,076
Total Liabilities			458,520		476,432

These financial statements were approved by the Board of Directors on 22 March 2011 and were signed on its behalf by:

Garry Fearn
Chief Executive
MMA Insurance plc

Accounting Policies

For the Year Ended 31 December 2010

Basis of Preparation

The financial statements have been prepared in accordance with the requirements of Schedule 3 and Schedule 6 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance groups made under the Companies Act 2006, and with the recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers (the ABI SORP).

The financial statements have also been prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of investments and in accordance with the Companies Act 2006 and applicable accounting standards.

Consolidation

The Company is a subsidiary company owned by an EU parent and is exempt from the requirement to prepare group accounts by virtue of Section 400 of the Companies Act 2006 (see note 22).

Basis of Accounting

The principal accounting policies followed by the Company are set out below.

The results are determined on an annual basis whereby the incurred cost of claims, commissions and related expenses are charged against the proportion of premiums, net of reinsurance as follows:

a) Premiums

Written premiums comprise the total premiums receivable for the whole period of cover under contracts incepting during the financial year, together with adjustments arising in the financial year to premiums receivable in respect of business written in previous financial years.

All premiums are shown gross of commission payable to intermediaries and are exclusive of taxes and duties levied thereon.

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards reinsurance business being reinsured.

b) Unearned Premiums

Written premiums are recognised as earned income over the period of the policy on a time apportionment basis, having regard, where appropriate, to the incidence of risk. The provision for unearned premium is calculated on a daily pro rata basis.

c) Claims Incurred

Claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

The provision for claims outstanding is made on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred, but not reported at the balance sheet date. The number of claims expected and their anticipated final cost are projected from the Company's statistical history. Projections are made separately for each class of business, based on information available up to one month after the balance sheet date. It is assumed that the Company's statistical history will provide a suitable base for projection, and that trends included in the data will be maintained. The impacts of case law and legislation are also taken into account. Their impact on the statistical base and current reserves is assessed. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. Any differences between provisions and subsequent settlements are dealt with in the technical account - general business of later years.

Accounting Policies continued

For the Year Ended 31 December 2010

d) Acquisition Costs

Acquisition costs, comprising commission and other costs related to the acquisition of insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

e) Unexpired Risks Provision

Provision is made where the cost of claims and expenses arising after the end of the financial year from contracts concluded before that date is expected to exceed the provision for unearned premiums, net of deferred acquisition costs. The assessment of whether a provision is necessary is made by considering separately each category of business on the basis of information available up to one month after the balance sheet date. Investment income is taken into account in calculating the need for, and amount of, any provision.

f) Equalisation Provision

Amounts are set aside as equalisation provisions in accordance with the FSA's Handbook for the purpose of mitigating exceptionally high loss ratios in future years. The amounts provided are not liabilities because they are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. Notwithstanding this, they are required by Schedule 3 and Schedule 6 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance groups (made under the Companies Act 2006) to be included within technical provisions in the balance sheet.

g) Reinsurance

Contracts entered into by the Company with reinsurers, under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial instruments. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts, provided there is significant transfer of insurance risk.

The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability. Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, 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 account, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the period. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the profit and loss account as 'Outward reinsurance premiums' when due.

h) Investment Return

Dividends are included as investment income when the investments to which they relate are declared 'ex-dividend'. Rents and interest income are recognised on an accruals basis, as are investment expenses.

Investment return, comprising investment income and realised and unrealised investment gains and losses, and investment expenses are included initially within the non-technical account.

Realised investment gains and losses are calculated as the difference between net proceeds on disposal and their purchase price, or latest carrying value if investments are carried at amortised cost.

Investment return is allocated from the non-technical account to the technical account - general business so as to reflect the longer term investment return on investments attributable to the general insurance business in the technical account - general business. The allocation is based on the longer-term rate of investment return on investments supporting the technical provisions and shareholders' funds.

Accounting Policies continued

For the Year Ended 31 December 2010

Investments

Investments, consisting of listed investments, units in authorised unit trusts and deposits with credit institutions, are stated at their current values at the end of the year.

Unrealised investment gains and losses are calculated as the difference between the valuation at the balance sheet date and their valuation at the last balance sheet date or purchase price, if acquired during the year. Unrealised investment gains and losses include adjustments in respect of unrealised gains and losses recorded in prior years which have been realised during the year and are reported as realised gains and losses in the current profit and loss account.

Associated and subsidiary companies are included at cost.

Cash Flow Statement

In accordance with Financial Reporting Standard 1, the Company has not presented a cash flow statement as the Company's cash flows have been consolidated with those of its ultimate parent company La Mutuelle du Mans Assurances IARD (see Note 22.)

Taxation

The taxation charge in the non-technical account is based on the taxable profit for the year. In the previous year, the taxation credit in the non-technical account was based on the taxable losses.

Deferred Tax

Provision is made for deferred tax liabilities, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the profit and loss account. Deferred tax is calculated at the rates at which it is expected that the tax will arise. Deferred tax is recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of total recognised gains and losses. Deferred tax balances are not discounted.

Resultant deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Tangible Assets

Expenditure on computer equipment, motor vehicles and fixtures, fittings and office equipment is capitalised and depreciated over the estimated useful economic lives of the assets on a straight-line basis. The periods used are as follows:

Computer Equipment	-	3 to 5 years
Motor Vehicles	-	3 to 5 years
Fixtures, Fittings and Office Equipment	-	5 years

Depreciation is charged to the technical account - general business and is included in net operating expenses.

Foreign Currencies

The UK pound is the functional currency of all activities with the exception of the French branch whose functional currency is the Euro.

Transactions in foreign currencies are recorded at the rate ruling at 31 December each year or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. Exchange differences arising from transactions are taken to the profit and loss account. Exchange differences arising from the retranslation of the opening net investment in foreign business operations are taken to the statement of realised gains and losses.

Operating Leases

Rentals payable under operating lease are charged to the profit and loss account over the lease terms.

Accounting Policies continued

For the Year Ended 31 December 2010

Pension Costs

The Company operates a defined contribution scheme.

The defined benefit pension scheme which the Company operated was closed to further benefit accrual on 31 December 2009. The Company continues to operate a defined contribution scheme for its members as at year end. Pension costs are assessed in accordance with the advice of independent qualified actuaries based on the last full actuarial assessment as at 1 January 2009. This has been updated as at 31 December 2010 as required by FRS 17 using the projected unit method. The Company has borne all expenses relating to the scheme.

The actuarial gains and losses which arise from a valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are taken to the statement of total recognised gains and losses for the period to the extent they are attributable to shareholders. The attributable deferred taxation is shown separately in the statement of total recognised gains and losses. Curtailment gains recognised in the prior year were taken to the non-technical account

Dividends

Interim dividends are recognised when paid and final dividends are booked as a liability when they are approved by the members passing a written resolution.

Notes to the Financial Statements

For the Year Ended 31 December 2010

1 Segmental Reporting

- (a) All contracts of insurance were concluded in the United Kingdom (2009 - same).
- (b) Analysis of gross written premiums, gross earned premiums, gross incurred claims, gross operating expenses and the reinsurance result.

	Motor	Fire and other damage to property	Liability	Others	TOTAL
2010	£ 000	£ 000	£ 000	£ 000	£ 000
Gross written premiums	66,735	115,548	19,689	18,481	220,453
Gross earned premiums	69,272	113,748	20,199	22,900	226,119
Gross incurred claims	(63,198)	(80,857)	(1,816)	(5,586)	(151,457)
Gross operating expenses	(15,863)	(42,982)	(7,884)	(15,729)	(82,458)
Gross technical result	(9,788)	(10,091)	10,498	1,585	(7,796)
Reinsurance result	(64)	(7,152)	(2,082)	(1,483)	(10,781)
Net technical result	(9,853)	(17,243)	8,416	102	(18,577)
Equalisation provision	-	3,055	-	-	3,055
Allocated investment return	6,463	4,311	2,182	748	13,703
Other technical income	1,469	498	104	202	2,273
Balance on technical account	(1,921)	(9,379)	10,702	1,052	454
Net technical provisions excluding equalisation reserves	134,160	114,003	44,657	26,180	319,000

Notes to the Financial Statements continued

For the Year Ended 31 December 2010

1 Segmental Information continued

	Motor	Fire and other damage to property	Liability	Others	TOTAL
2009	£ 000	£ 000	£ 000	£ 000	£ 000
Gross written premiums	77,947	108,282	20,643	20,201	227,073
Gross earned premiums	98,500	102,503	21,379	19,716	242,098
Gross incurred claims	(104,437)	(70,384)	(10,826)	(3,928)	(189,575)
Gross operating expenses	(23,599)	(38,131)	(7,547)	(13,972)	(83,249)
Gross technical result	(29,536)	(6,012)	3,006	1,816	(30,726)
Reinsurance result	(934)	(8,211)	(917)	-	(10,062)
Net technical result	(30,470)	(14,223)	2,089	1,816	(40,788)
Equalisation provision	-	(2,726)	-	-	(2,726)
Allocated investment return	7,858	4,011	2,593	1,435	15,897
Other technical income	2,583	502	74	233	3,392
Balance on technical account	(20,029)	(12,436)	4,756	3,484	(24,225)
Net technical provisions excluding equalisation reserves	152,397	93,820	53,552	31,507	331,276

Notes to the Financial Statements *continued*

For the Year Ended 31 December 2010

2 Net Operating Expenses

	2010 £ 000	2009 £ 000
Acquisition costs		
Commission in respect of direct insurance	61,284	62,440
Others	3,108	3,715
	64,392	66,155
Change in gross deferred acquisition costs	1,867	(1,076)
	66,259	65,079
Administration expenses	15,175	16,096
Motor Insurers Bureau levy	935	1,598
Financial Services Compensation Scheme	89	476
Gross operating expenses	82,458	83,249
Reinsurance commissions	(611)	(2,517)
Change in deferred reinsurance commission	(805)	149
	81,042	80,881

Included in administration expenses is auditor's remuneration in respect of audit services amounting to £105,250, (2009 - £105,300) and in respect of non-audit services amounted to £19,315 (2009 - £17,600).

Administrative expenses also include:

	2010 £ 000	2009 £ 000
Depreciation of tangible assets	395	455
Operating lease rentals	1,491	1,260
Gain on disposals	38	39

Notes to the Financial Statements continued

For the Year Ended 31 December 2010

3 Investment Return

	2010 £ 000	2009 £ 000
Income from other financial investments	10,025	14,643
(Loss)/Gains on the realisation of equity investments	(78)	1,474
Movement in net unrealised gains/(losses) on investments	4,417	6,292
	14,364	22,409

4 Allocated Investment Return

The allocation of investment return is based on the longer term return on investments.

(a) Assumptions for the longer term rate of return

The return on equities is estimated with regard to historical real rates of return for the market and current inflation expectation adjusted for consensus economic and investment market forecasts of investment return.

The investment return on fixed interest securities is calculated using the amortised cost basis with realised gains and losses subject to continuing amortisation over the remaining period to the maturity date.

The investment return on index linked securities is calculated using the projected yield to redemption at the date of purchase.

The allocated returns for other categories of investments are the actual interest income receivable for the year.

Notes to the Financial Statements *continued*

For the Year Ended 31 December 2010

4 Allocated Investment Return *continued*

The principal assumptions underlying the calculation of the investment return are as follows:

	2010 %	2009 %
Equities	7.0	7.0
UK Fixed interest gilts	4.0	4.3
UK Index linked gilts	n/a	4.2
Corporate bonds	4.6	5.0

The directors are of the opinion that these rates of return are appropriate and have been selected with a view to ensuring that returns credited to operating results are not inconsistent with the actual returns which will be earned over the longer term. In respect of 2010 a change of one percent in the longer-term investment return used for equities would produce a change of £508,583 in the investment income transferred to the general business technical account (2009:£523,764).

(b) Comparison of longer term investment return with actual return

The actual return on investments attributable to general business and shareholders in the period from 1 January 2006 to 31 December 2010 is compared below with the aggregate longer term return which would have been recognised in the balance on the technical account - general business over the same period using the rate of return described above:

	2006 - 2010 £ 000	2005 - 2009 £ 000
Actual investment return attributable to shareholders dealt with in profit on ordinary activities in the non-technical account	83,905	95,937
Longer term investment return attributable to shareholders credited to operating profit and to the technical account - general business	(84,708)	(89,601)
(Deficit)/Surplus	(803)	6,336
If the longer term rate of return used for equities was changed by one percent, for all of the five years, the change to the above result would be	2,934	2,964

Notes to the Financial Statements continued

For the Year Ended 31 December 2010

5 Directors' Emoluments

The aggregate amount of emoluments, including benefits in kind, paid to or receivable by directors during the year was as follows:

	2010 £ 000	2009 £ 000
Aggregate emoluments and benefits	1,134	974
Contributions to pension fund in respect of directors	24	108
	1,158	1,082
Highest paid director :		
Aggregate emoluments and benefits	494	449
Pension contributions	-	73
	494	522

Two directors are accruing retirement benefits under the Company's defined benefits pension scheme. The highest paid director's accrued pension at 31 December 2010 was £261,472 (2009 - £252,143).

Notes to the Financial Statements *continued*

For the Year Ended 31 December 2010

6 Staff Numbers and Costs

The average number of persons employed by the Company (including directors) during the year was as follows:

	2010	2009
Non-executive Directors	10	9
Executive Directors / Senior Management	6	6
Actuarial	5	7
Commercial	90	97
Customer Services	145	149
Finance	62	62
Business Services	42	38
	360	368

	2010 £ 000	2009 £ 000
The aggregate payroll costs in respect of these persons were as follows:		
Wages and salaries	11,653	11,075
Social security costs	1,212	1,097
Other pension costs	819	1,123
	13,684	13,295

Notes to the Financial Statements continued

For the Year Ended 31 December 2010

7 Taxation

		2010 £ 000	2009 £ 000
(a) Current tax	UK Corporation Tax (recoverable)	(230)	(4,936)
	Tax (over) provided in prior years	(18)	(221)
	Total current tax	(248)	(5,157)
Deferred tax	Unrealised gains	-	(324)
	Delayed relief for pension contributions	(461)	-
	Other timing differences	(6)	20
	Deferred tax (note 17)	(467)	(304)
	Pension contributions	812	992
	Tax charge/(recovery) for year	97	(4,469)
Deferred tax	Statement of recognised gains and losses		
	Actuarial (loss)	(4)	(1,955)
(b) Factors affecting current tax charge.			
The tax charge in the year is at a lower rate than standard rate of corporation tax in the UK of 28% (2009 28%). Differences as below:			
	Profit/(Loss) on ordinary activities before tax	1,235	(14,103)
	Tax on profit/(loss) on ordinary activities at 28% (2009 28%)	346	(3,949)
	Expenses not deductible for tax purposes	59	78
	Income on which no further tax is payable	(287)	(376)
	Unrealised gains	(15)	323
	Pension contributions	(322)	(992)
	Other timing differences	1	(20)
	Effect of rate change from 28% to 27%	(12)	-
	Tax under provided in prior years	(18)	(221)
	Total current tax (Note 7a)	(248)	(5,157)

(c) Utilisation of tax losses

The Company surrendered £0.82m of tax losses to a fellow subsidiary company, for the sum of £0.23m calculated at 28%. (2009 surrendered £17.6m for £4.94m(28%))

Notes to the Financial Statements *continued*

For the Year Ended 31 December 2010

8 Dividend

	2010 £ 000	2009 £ 000
Amount paid to equity shareholders	-	-

No dividend was paid in 2010 in respect of 2009 (2008, paid in 2009 - nil)

The directors are not proposing a final dividend in respect of the financial year ended 31 December 2010.

9 Other Financial Investments

	Market value		Cost	
	2010 £ 000	2009 £ 000	2010 £ 000	2009 £ 000
Equities	52,607	47,731	40,538	40,537
Bonds	193,643	221,605	188,446	215,217
Deposits with credit institutions	57,512	23,521	57,512	23,521
Subsidiary company	1	1	1	1
	303,763	292,858	286,497	279,276
Listed investments included in the above	246,250	269,336	228,984	255,754

The subsidiary company is Gateway Insurance Agency Ltd, registered in England, with a holding of 100% ordinary shares. This company is dormant.

Notes to the Financial Statements continued

For the Year Ended 31 December 2010

10 Debtors Arising Out Of Direct Insurance Operations

	2010 £ 000	2009 £ 000
Amounts owed by intermediaries	43,408	43,322
Amounts owed by policyholders	6,886	10,516
	50,294	53,838

11 Other Debtors

	2010 £ 000	2009 £ 000
Salvage and subrogation recoveries	2,912	3,719
Amounts owed by group companies	1,139	290
Loan to fellow subsidiary	–	4,500
Deferred tax asset	201	–
Other debtors	1,646	577
	5,898	9,086

The loan to a fellow subsidiary, which was interest free, was repaid in two equal instalments in January and April 2010.

Notes to the Financial Statements *continued*

For the Year Ended 31 December 2010

12 Tangible Assets

	Information Technology systems	Fixtures, fittings and equipment	Motor vehicles	Total
	£ 000	£ 000	£ 000	£ 000
Cost				
At 1 January 2010	3,338	2,361	273	5,972
Additions	164	309	-	473
Disposals	(2)	(21)	(140)	(163)
At 31 December 2010	3,500	2,649	133	6,282
Depreciation				
At 1 January 2010	2,719	2,291	198	5,208
Charge for the year	307	53	35	395
Elimination in respect of disposals	(2)	(21)	(128)	(151)
At 31 December 2010	3,024	2,323	105	5,452
Net Book Value				
At 31 December 2010	476	326	28	830
At 31 December 2009	619	70	75	764

Notes to the Financial Statements continued

For the Year Ended 31 December 2010

13 Share Capital

	2010 £ 000	2009 £ 000
Authorised ordinary shares 40,000,000 (2009: 40,000,000) Ordinary shares of £1 each	40,000	40,000
Allotted, called up and fully paid 25,000,000 (2009: 15,000,000) Ordinary shares of £1 each	25,000	15,000

On 28 April 2010, £10m of additional ordinary shares were purchased by MMA Holdings UK plc at £1 each, fully paid.

14 Profit and Loss Account

	2010 £ 000	2009 £ 000
As at 1 January	63,159	77,821
Retained profit/(loss) for the year	1,139	(9,634)
Dividend paid	-	-
Actuarial loss on pension fund	(12)	(5,028)
As at 31 December	64,286	63,159

Notes to the Financial Statements *continued*

For the Year Ended 31 December 2010

15 Claims Outstanding

2010	Gross £ 000	Reinsurance £ 000	Net £ 000
Notified outstanding claims	178,075	27,243	150,832
Provision for claims incurred but not reported	55,483	8,864	46,619
	233,558	36,107	197,451
Claims handling expenses	2,288	-	2,288
	235,846	36,107	199,739
2009	Gross £ 000	Reinsurance £ 000	Net £ 000
Notified outstanding claims	191,447	28,308	163,139
Provision for claims incurred but not reported	53,633	9,106	44,527
	245,080	37,414	207,666
Claims handling expenses	2,186	-	2,186
	247,266	37,414	209,852

16 Equalisation Provision

These provisions, which are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, are required by Schedule 3 and Schedule 6 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance groups (made under the Companies Act 2006) to be included within technical provisions in the balance sheet, notwithstanding that they do not represent liabilities at the balance sheet date. The movement in equalisation provisions during the year resulted in an increase in the general business - technical account result and the profit before taxation of £3,055,000 (2009 – decrease of £2,726,000).

The creation of the equalisation provision has the cumulative effect of decreasing shareholders' funds by £1,832,000 (2009 – decrease of £3,982,000) after taking into account taxation.

Notes to the Financial Statements continued

For the Year Ended 31 December 2010

17 Deferred Taxation

Full provision has been made for deferred taxation, at 27% (2009 - 28%) as follows:

	2010		2009	
	£ 000	£ 000	£ 000	£ 000
Revaluation of investments		422		422
Delayed relief for pension contributions		(461)		-
Other timing differences		(162)		(156)
		(201)		266
Deferred tax liability at beginning of year		266		570
Movements in year on:				
Revaluation of investments	15		(324)	
Delayed relief for pension contributions	(478)		-	
Other timing differences	(11)		20	
	(474)		(304)	
Effect of rate change from 28% to 27%	7		-	
Current taxation (Note 7)		(467)		(304)
Deferred tax (asset)/liability at end of year		(201)		266

The June 2010 Budget Statement proposed further reductions in the rate of corporation tax by 1% per annum to 24% by 1 April 2014 and these are expected to be enacted separately each year starting in 2011. The effect of these further changes upon the Company's deferred tax balances would be to reduce the deferred tax asset by approximately £7,000 per annum, resulting in an estimated charge to the profit and loss account of the same amount

18 Other Creditors Including Taxation And Social Security

	2010 £ 000	2009 £ 000
Corporation taxation payable	102	102
Other taxes including insurance premium tax and social security costs	3,344	2,888
Due to group companies	452	5,820
Other creditors	985	1,110
	4,883	9,920

Notes to the Financial Statements *continued*

For the Year Ended 31 December 2010

19 Accruals and Deferred Income

	2010 £ 000	2009 £ 000
Deferred reinsurance commissions	-	805
Motor Insurers Bureau levy	1,454	1,924
Financial Services Compensation Scheme	444	594
Other accruals and deferred income	2,600	2,300
	4,498	5,623

20 Pension Benefit

The Company operates two pension schemes. The assets of both schemes are held independently and separately from those of the Company in trust administered accounts.

Defined contribution scheme

This scheme is open to employees who became eligible to join on or after 1 January 2001. Former members of the defined benefits scheme, who are current employees, became eligible to join this scheme from 1 January 2010. Benefits are based on contributions made to the scheme by the Company during the employee's membership.

Defined benefit scheme

The Company operates a defined benefit scheme in the UK which closed to further accrual with effect from 31 December 2009. A full actuarial valuation was carried out at 1 January 2009 and updated to 31 December 2010 by a qualified actuary, independent of the scheme's sponsoring employer. The major assumptions used by the actuary are shown below.

The Company made a one off payment of £2,900,000 during the year. This was in accordance with the schedule of contributions agreed under the Recovery Plan with the Pension Scheme trustees. In addition the Company will make four additional annual payments of £406,000 (payable by 31 March each year) with the first payment due by 31 March 2011.

As the defined benefit pension scheme was closed to further benefit accrual as at end of 2009, there will be no further accrual of current service cost and accordingly there is no charge recognised within the profit and loss account. The expected return on assets has been restricted to the interest cost on scheme liabilities as required under FRS 17. Also the net surplus assets arising at the year end have not been recognised on the balance sheet, given there will be no future economic benefits arising in the form of reduced contribution. The net surplus assets cannot be recognised by the company until all benefits have been paid to its members or the scheme is bought out, in agreement with the trustees.

Notes to the Financial Statements continued

For the Year Ended 31 December 2010

20 Pension Benefit continued

FRS 17 disclosures

Present values of scheme liabilities, fair value of assets and surplus (deficit)

	31/12/2010 £'000s	31/12/2009 £'000s	31/12/2008 £'000s
Fair value of scheme assets	35,097	29,240	24,969
Present value of scheme liabilities	(33,780)	(32,124)	(24,411)
Surplus in scheme	1,317	(2,884)	558
Unrecognised surplus	1,317	-	-
(Liability)/asset to be recognised	-	(2,884)	558
Deferred tax	-	808	(156)
Net (liability)/asset to be recognised	-	(2,076)	402

Reconciliation of opening and closing balances of the present value of the scheme liabilities

	Period ending 31/12/2010 £'000s	Period ending 31/12/2009 £'000s
Scheme liabilities at start of period	32,124	24,411
Current service cost	-	702
Interest cost	1,782	1,570
Contributions by scheme participants	-	-
Actuarial losses/ (gains)	498	9,669
Benefits paid and death in service insurance premiums	(624)	(472)
Past service costs	-	-
Liabilities assumed in a business combination	-	-
Losses (gains) on curtailments	-	(3,756)
Liabilities extinguished on settlements	-	-
Scheme liabilities at end of period	33,780	32,124

Notes to the Financial Statements *continued*

For the Year Ended 31 December 2010

20 Pension Benefit *continued*

Reconciliation of opening and closing balances of the fair value of scheme assets

	Period ending 31/12/2010 £ '000s	Period ending 31/12/2009 £ '000s
Fair value of scheme assets at start of period	29,240	24,969
Expected return on scheme assets	1,782	1,509
Actuarial gains/(losses)	1,799	2,668
Contributions by the Group	2,900	566
Contributions by scheme participants	-	-
Benefits paid	(624)	(472)
Assets acquired in a business combination	-	-
Assets distributed on settlements	-	-
Fair value of scheme assets at end of year	35,097	29,240

The actual return on the scheme assets over the period ending 31 December 2010 was £3,581,000.

Total expense recognised in profit and loss account

	Period ending 31/12/2010 £ '000s	Period ending 31/12/2009 £ '000s
Current service cost	-	702
Interest cost	1,782	1,570
Expected return on scheme assets	(1,782)	(1,509)
Past service cost	-	-
Losses/(gains) on curtailments	-	(3,756)
Losses/(gains) on business combinations	-	-
Losses/(gains) on settlements	-	-
Total (expense) / income recognised in profit and loss	-	(2,993)

Notes to the Financial Statements continued

For the Year Ended 31 December 2010

20 Pension Benefit continued

Statement of total recognised gains and losses

	Period ending 31/12/2010 £ '000s	Period ending 31/12/2009 £ '000s
Difference between expected and actual return on scheme assets : Amount: gain/(loss)	1,799	2,686
Experience gains and losses arising on the scheme liabilities: Amount: gain/(loss)	(185)	(561)
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities: Amount: gain/(loss)	(313)	(9,108)
Total actuarial gains and losses (before restriction due to some of the surplus not being recognisable) Amount: gain (loss)	1,301	(7,001)
Effect of limit on amount of surplus recognised due to some of the surplus not being recognisable: Amount: gain (loss)	(1,317)	-
Total amount recognised in statement of total recognised gains and losses: Amount: gain (loss)	(16)	(7,001)

The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and losses since adoption of FRS17 is a loss of £160,000.

Assets

	31/12/2010 £ '000s	31/12/2009 £ '000s	31/12/2008 £ '000s
Equity	18,781	16,698	13,363
Bonds	4,499	4,110	3,577
Other (cash, etc)	3,979	1,214	674
Gilts	7,140	6,552	6,647
Property	698	666	708
Total Assets	35,097	29,240	24,969

None of the fair values of the assets shown above include any of the Group's own financial instruments or any property occupied by, or other assets used by, the Group.

Notes to the Financial Statements *continued*

For the Year Ended 31 December 2010

20 Pension Benefit *continued***Assumptions**

	31/12/2010 % per annum	31/12/2009 % per annum	31/12/2008 % per annum
Inflation	3.50%	3.70%	3.10%
Salary increases	n/a	3.70%	4.60%
Rate of discount	5.40%	5.60%	6.40%
Allowance for pension in payment increases of RPI or 5% p.a. if less	3.40%	3.70%	3.00%
Allowance for revaluation of deferred pensions of RPI or 5% p.a. if less	3.50%	3.70%	3.10%
Allowance for commutation of pension for cash at retirement	None	None	None

The mortality assumptions adopted at 31 December 2010 imply the following life expectancies:

Male retiring at age 63 in 2010	25.9 years (2009:25.7)
Female retiring at age 63 in 2010	28.4 years (2009:28.3)
Male retiring at age 63 in 2030	28.0 years (2009:27.9)
Female retiring at age 63 in 2030	30.4 years (2009:30.3)

Notes to the Financial Statements continued

For the Year Ended 31 December 2010

20 Pension Benefit continued

Expected long term rates of return

The long-term expected rate of return on cash is determined by reference to bank base rates at the balance sheet dates. The long-term expected return on bonds is determined by reference to UK long dated government and corporate bond yields at the balance sheet date. The long-term expected rate of return on equities is based on the rate of return on bonds with an allowance for out-performance.

The expected long term rates of return applicable at the start of each period are as follows:

	Period commencing 01/01/2010 % per annum	Period commencing 01/01/2009 % per annum
Equity	7.50%	7.20%
Bonds	5.60%	6.40%
Other (cash, etc)	2.50%	3.40%
Gilts	4.50%	3.70%
Property	7.00%	6.70%
Overall for scheme	6.34%	6.04%

Amounts for the current and previous four years

	2010 £ '000s	2009 £ '000s	2008 £ '000s	2007 £ '000s	2006 £ '000s
Fair value of scheme assets	35,097	29,240	24,969	29,806	28,161
Present value of scheme liabilities	33,780	32,124	24,411	26,342	26,088
Surplus / (deficit) in scheme	1,317	(2,884)	558	3,464	2,073
Experience adjustment on scheme assets	1,655	2,686	(6,911)	(393)	718
Experience adjustment on scheme liabilities	(185)	(561)	(112)	(217)	601

Notes to the Financial Statements *continued*

For the Year Ended 31 December 2010

21 Commitments

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

	Land and buildings		Vehicles	
	2010 £ 000	2009 £ 000	2010 £ 000	2009 £ 000
Operating leases which expire within one year	98	73	-	-
Operating leases which expire between one and five years	1,200	1,163	113	-

The Company has an annual commitment of £340k in respect of software licence fees (2009:£174k).

22 Ultimate Parent Company

- (a) The ultimate parent company is MMA IARD Assurances Mutuelles, a company incorporated in France. MMA IARD Assurances Mutuelles is the parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements at 31 December 2010. The consolidated financial statements of MMA IARD can be obtained from the registered office, the address of which is shown on page 40.
- (b) Group company balances

Included in debtors arising out of direct insurance operations are the following:

	2010 £ 000	2009 £ 000
Due from fellow subsidiary companies	3,076	3,432

Included in balances arising out of reinsurance operations are the following:

	2010 £ 000	2009 £ 000
Due to/(from) parent company	340	(285)
Due to/(from) fellow subsidiary companies	68	(388)

Other Group company balances are reflected in notes 11 and 18.

Notes to the Financial Statements continued

For the Year Ended 31 December 2010

23 Related Party Transactions

Advantage has been taken of the exemption within FRS 8 from disclosure of those transactions between the company and fellow members of the MMA group of companies whose voting rights are wholly owned by the ultimate parent.

There were no other material related party transactions.

Report of the Directors

For the Year Ended 31 December 2010

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