



I N S U R A N C E

**Annual Report and
Financial Statements
2008**

Contents

	Page
Report of the directors	2
Statement of directors' responsibility in respect of the financial statements	6
Independent Auditors' Report to the Members	7
Profit and loss account - Technical account – general business	9
Profit and loss account - Non-technical account	10
Statement of total recognised gains and losses	11
Balance sheet	12
Accounting policies	14
Notes to the financial statements	17

Report of the Directors

For the Year Ended 31 December 2008

The directors of MMA Insurance plc submit the annual report and financial statements of the Company for the year ended 31 December 2008.

Directors

Chairman

Scott Nelson

Graham Doswell

Jean Fleury

Gilles Mongis

Garry Fearn

Barry Hulbert

Bertrand Lefebvre

Bruno Mercier

George Nixon

Jean-Michel Pescheux

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:

	2008	2007
	£ 000	£ 000
Gross written premium	250,502	246,301
Operating profit on technical account	269	11,410
Total (loss) / profit after tax	(8,111)	12,303
Invested funds	335,742	347,054
Shareholders' funds	92,821	106,836

Gross written premium increased by just over £4m (2%) on the previous year to £250.5m. Property and commercial business continue to develop and grew by £6m. Miscellaneous income also grew by £3m. Despite significant rate rises being applied private motor income fell by £4m. 2009 will see particular emphasis being placed on developing commercial lines business.

Operating profit was significantly down on last year at £0.2m (2007 - £11.4m) largely reflecting the performance of the Private Motor account.

Report of the Directors continued

For the Year Ended 31 December 2008

The Private Motor market in the UK continues to be under priced and the increasing prominence of price comparison sites reinforces this trend. We have not been immune to this market position.

Investment conditions have of course been extremely difficult given the global financial crisis. However the combination of relatively modest holdings in equities and an insistence on the highest quality security for our bond portfolio have enabled us to limit our capital losses to less than 3% of our opening fund in 2008. Our policyholder funds remain entirely covered by bonds and money market cash. We will continue to be prudent in our approach during 2009.

The 2007 final dividend, paid in 2008 amounted to £3.7m (24.7 pence per share) (2006, paid in 2007 £3.8m – 25.3 pence per share). The directors are not proposing a final dividend in respect of the financial year ended 31 December 2008.

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 actively addressed these business challenges through information technology development and distribution management.

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.

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.

Report of the Directors continued

For the Year Ended 31 December 2008

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 has considerable regulatory surplus capital resources available; as a consequence, the 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 accounts.

Directors

The directors named on page 1 served throughout the year.

Garry Fearn, Michel Roux and Steven Whittaker 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 1985. Such qualifying third party indemnity provision remained in force as at the date of approving the directors' report.

Charitable Contributions

Contributions totalling £19k were made during the year. This mainly includes a £10k donation to The Prince's Trust for annual membership, £0.7k donation to Shelter and other various small donations made for charity purposes.

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

Report of the Directors continued

For the Year Ended 31 December 2008

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 2008 the amount outstanding in other creditors did not exceed agreed payment terms, which are most commonly thirty days from date of invoice.

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 2008 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 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.

Statement of Directors' Responsibilities in Respect of the Financial Statement

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.

Company law requires the directors to prepare accounts 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 accounts, 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 accounts 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 1985. 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
16 March 2009

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 2008, which comprise the Technical Account – General Business, Non-Technical Account, Balance Sheet, Statement of Total Recognised Gains & Losses, the accounting policies and the related notes 1 to 23. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statements of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

We read the Director's report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent Auditors' Report to the Members of MMA Insurance plc

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 at 31 December 2008, 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.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Company as at 31 December 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
Bristol

March 2009

Profit & Loss Account

For the Year Ended 31 December 2008

	Notes	2008		2007	
		£ 000	£ 000	£ 000	£ 000
Technical Account - General Business					
Earned premiums, net of reinsurance					
Gross premiums written	1		250,502		246,301
Outward reinsurance premiums			(9,457)		(30,328)
Net premiums written			241,045		215,973
Change in the gross provisions for unearned premiums			(8,300)		(14,339)
Change in the provision for unearned premiums, reinsurers' share			(12,210)		(3,260)
Change in the net provision for unearned premiums			(20,510)		(17,599)
Earned premiums, net of reinsurance			220,535		198,374
Allocated investment return transferred from the non-technical account			18,525		19,315
Claims incurred, net of reinsurance			239,060		217,689
Gross amount			(195,556)		(180,162)
Reinsurers' share			36,323		20,290
Net of reinsurance			(159,233)		(159,872)
Change in the provision for claims					
Gross amount			20,416		(5,780)
Reinsurers' share			(25,719)		9,748
Net of reinsurance			(5,303)		3,968
Claims incurred, net of reinsurance			(164,536)		(155,904)
Change in the equalisation provision	16		(2,477)		8,846
Other technical income			2,549		2,817
Net operating expenses	2		(74,327)		(62,038)
Balance on the general business technical account			269		11,410

Profit & Loss Account continued

For the Year Ended 31 December 2008

	Notes	2008		2007	
		£ 000	£ 000	£ 000	£ 000
Non – Technical Account					
Earned premiums, net of reinsurance					
Balance on the general business technical account			269		11,410
Total investment return	3	5,902		23,697	
Allocated investment return transferred to the technical account - general business		(18,525)		(19,315)	
			(12,623)		4,382
Expected return on pension fund assets		2,103		1,917	
Interest on pension scheme liabilities		(1,565)		(1,371)	
			538		546
Exchange adjustments			(265)		(2)
(Loss)/Profit on ordinary activities before tax			(12,081)		16,336
Tax on profit for the financial year	7		3,970		(4,033)
(Loss)/Profit for the financial year			(8,111)		12,303

There are no discontinued operations.

Statement of Total Recognised Gains and Losses

For the Year Ended 31 December 2008

Notes	2008		2007	
	£ 000	£ 000	£ 000	£ 000
(Loss)/profit after tax for the financial year		(8,111)		12,303
Pension fund actuarial (loss)/gain	(3,062)		1,272	
Corporation tax @ 28% on pension fund actuarial (loss)/gain (2007 28%)	858		(356)	
		(2,204)		916
Currency variation on the carrying value of the French branch	-		(9)	
Corporation tax @28% (2007 30%)	-		3	
		-		(6)
Total recognised (losses)/gains for the year		(10,315)		13,213

Statement of Historical Cost Profit

For the Year Ended 31 December 2008

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

As at 31 December 2008

	Notes	2008		2007	
		£ 000	£ 000	£ 000	£ 000
Assets					
Investments					
Investments in group undertakings and participating interests		1		1	
Other financial investments		323,515		344,019	
	9		323,516		344,020
Reinsurers' share of technical provisions					
Provision for unearned premiums		3,119		15,330	
Claims outstanding	15	41,407		67,077	
			44,526		82,407
Debtors					
Debtors arising out of direct insurance operations	10	56,756		49,876	
Debtors arising out of reinsurance operations		1,221		2,578	
Other debtors	11	8,157		9,702	
			66,134		62,156
Other assets					
Tangible fixed assets	12	757		777	
Cash at bank and in hand		12,226		3,034	
			12,983		3,811
Prepayments and accrued income					
Accrued interest		4,046		3,806	
Deferred acquisition costs		40,048		34,115	
Other prepayments and accrued income		2,029		1,927	
			46,123		39,848
Total assets excluding pension fund asset					
			493,282		532,242
Pension fund asset	20	402		2,494	
Total Assets			493,684		534,736

Balance Sheet continued

As at 31 December 2008

	Notes	2008		2007	
		£ 000	£ 000	£ 000	£ 000
Liabilities					
Capital and reserves					
Called up share capital	13	15,000		15,000	
Profit and loss account	14	77,821		91,836	
Total equity shareholders' funds			92,821		106,836
Technical provisions					
Provisions for unearned premiums		139,952		131,652	
Claims outstanding	15	239,273		263,037	
Equalisation provision		2,873		396	
			382,098		395,085
Deferred taxation	17		570		643
Creditors					
Creditors arising out of direct insurance operations		33		92	
Creditors arising out of reinsurance operations		2,791		11,606	
Other creditors including taxation and social security	18	9,376		8,979	
			12,200		20,677
Accruals and deferred income	19		5,995		11,495
Total Liabilities			493,684		534,736

These financial statements were approved by the Board of Directors on 16 March 2009 and were signed on its behalf by:

Garry Fearn
Chief Executive, MMA Insurance plc

Accounting Policies

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

Basis of Preparation

The financial statements have been prepared in accordance with the provisions of Section 255 A and of Schedule 9A to, the Companies Act 1985, and with the recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 by the Association of British Insurers (the ABI SORP).

The financial statements have also been prepared in accordance with applicable accounting standards and under Historical Cost accounting rules, modified to include the revaluation of investments.

Consolidation

As the Company is ultimately owned by an EU Parent, the Company has not prepared consolidated accounts (see note 22).

Basis of Accounting

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.

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

Accounting Policies continued

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 9A to the Companies Act 1985 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.

Investments

Investments, consisting of listed investments, units in authorised unit trusts, units in a fund of hedge funds and deposits with credit institutions, are stated at their current values at the end of the year. The hedge fund is denominated in Euros and a currency forward is held to hedge the currency risk of the fund of hedge funds.

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.

Accounting Policies continued

Taxation

The taxation charge in the non-technical account is based on the taxable losses or profits for the year.

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 administrative 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.

Pension Costs

The Company operates a defined contribution scheme. Contributions are charged to the profit and loss account as they become due under the rules of the scheme. The Company also operates a defined benefits pension scheme, which is now closed to new members. Pension costs are assessed in accordance with the advice of independent qualified actuaries based on the last full actuarial assessment as at 1 January 2006. This has been updated to 31 December 2008 as required by FRS 17 using the projected unit method. The company has borne all expenses relating to the scheme.

The pension surplus recognised in the balance sheet is the value of the scheme's assets less the present value of the scheme's liabilities.

The pension cost for the scheme is analysed between current service cost, past service cost and net return on pension scheme. Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each period. Past service costs, relating to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits, are recognised in the profit and loss account on a straight-line basis over the period in which the increase in benefits vest. Net expected return on the pension asset comprises the expected return on the pension scheme assets less interest on scheme liabilities.

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

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 2008

1 Segmental Reporting

- (a) All contracts of insurance were concluded in the United Kingdom (2007 - 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
2008	£ 000	£ 000	£ 000	£ 000	£ 000
Gross written premiums	109,843	96,453	22,545	21,661	250,502
Gross earned premiums	110,307	93,028	22,903	15,964	242,202
Gross incurred claims	(109,688)	(61,535)	(2,595)	(1,322)	(175,140)
Gross operating expenses	(24,820)	(32,271)	(7,034)	(13,952)	(78,077)
Gross technical result	(24,201)	(778)	13,274	690	(11,015)
Reinsurance result	(877)	(3,514)	(2,697)	(225)	(7,313)
Net technical result	(25,078)	(4,292)	10,577	465	(18,328)
Equalisation provision	-	(2,477)	-	-	(2,477)
Allocated investment return	9,112	4,703	3,595	1,115	18,525
Other technical income	1,628	425	264	232	2,549
Balance on technical account	(14,338)	(1,641)	14,436	1,812	269
Net technical provisions excluding equalisation reserves	168,979	82,733	53,192	29,795	334,699

The gross claims incurred figure is reduced by £6.9m (£6.8m after reinsurance) (2007 - £13.9m - £10.4m after reinsurance) due to the favourable difference between the loss provision made at the beginning of the year for outstanding claims incurred in previous years and the loss provision shown at the end of the year in respect of such outstanding claims, less payments made during the year.

The motor and accident and death benefit quota share reinsurance contracts were not renewed in 2008.

Notes to the Financial Statements *continued*

For the Year Ended 31 December 2008

1 continued Segmental Information

	Motor	Fire and other damage to property	Liability	Others	TOTAL
2007	£ 000	£ 000	£ 000	£ 000	£ 000
Gross written premiums	112,558	89,279	23,409	21,055	246,301
Gross earned premiums	112,331	85,915	23,235	10,481	231,962
Gross incurred claims	(96,165)	(85,170)	(3,046)	(1,561)	(185,942)
Gross operating expenses	(27,037)	(28,220)	(7,137)	(8,212)	(70,606)
Gross technical result	(10,871)	(27,475)	13,052	708	(24,586)
Reinsurance result	(4)	10,729	(5,666)	(41)	5,018
Net technical result	(10,875)	(16,746)	7,386	667	(19,568)
Equalisation provision	-	8,846	-	-	8,846
Allocated investment return	9,368	5,745	3,781	421	19,315
Other technical income	1,500	777	244	296	2,817
Balance on technical account	(7)	(1,378)	11,411	1,384	11,410
Net technical provisions excluding equalisation reserves	160,344	81,409	59,145	11,384	312,282

Notes to the Financial Statements continued

For the Year Ended 31 December 2008

2 Net Operating Expenses

	2008 £ 000	2007 £ 000
Acquisition costs		
Commission in respect of direct insurance	64,370	57,343
Others	3,315	3,674
	67,685	61,017
Change in gross deferred acquisition costs	(5,932)	(6,271)
	61,753	54,746
Administration expenses	13,200	12,896
Motor Insurers Bureau levy	3,114	3,091
Financial Services Compensation Scheme	10	(127)
Gross operating expenses	78,077	70,606
Reinsurance commissions	1,485	(7,624)
Change in deferred reinsurance commission	(5,235)	(944)
	74,327	62,038

Included in administration expenses is auditor's remuneration in respect of audit services amounting to £100,600, (2007 - £96,000) and in respect of non-audit services amounted to £108,000 (2007 - £22,000).

Administrative expenses also include:

	2008 £ 000	2007 £ 000
Depreciation of tangible assets	498	552
Operating lease rentals	1,170	1,163

Notes to the Financial Statements continued

For the Year Ended 31 December 2008

3 Investment Return

	2008 £ 000	2007 £ 000
Investment Income		
Income from other financial investments	14,573	17,997
Gains on the realisation of equity investments	12	1,888
Movement in net unrealised (losses)/gains on investments	(8,683)	3,812
	5,902	23,697

Notes to the Financial Statements continued

For the Year Ended 31 December 2008

4 Allocated Investment Return

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

(a) Assumptions

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

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

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

	2008 %	2007 %
Equities	7.0	7.0
UK Fixed interest gilts	4.6	4.8
UK Index linked gilts	4.4	4.6
Corporate bonds	5.1	5.1

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 2008 a change of one percent in the longer-term investment return used for equities would produce a change of £597,219 in the investment income transferred to the general business technical account.

(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 2004 to 31 December 2008 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 longer term rate of return described above:

Notes to the Financial Statements *continued*

For the Year Ended 31 December 2008

4 Allocated Investment Return *continued*

	2004 - 2008 £ 000	2003 - 2007 £ 000
Actual investment return attributable to shareholders dealt with in profit on ordinary activities in the non-technical account	92,852	103,830
Longer term investment return attributable to shareholders credited to operating profit and to the technical account general business	(90,807)	(86,527)
Surplus	2,045	17,303
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	2,900	2,724

5 Directors' Emoluments

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

	2008 £ 000	2007 £ 000
Aggregate emoluments and benefits	967	982
Contributions to pension fund in respect of directors	95	96
	1062	1078
Highest paid director :		
Aggregate emoluments and benefits	428	447
Pension contributions	65	64
	493	511

Two directors are accruing retirement benefits under the Company's defined benefits pension scheme. The highest paid director's accrued pension at 31 December 2008 was £236,000 (2007 - £221,000).

Notes to the Financial Statements continued

For the Year Ended 31 December 2008

6 Staff Numbers and Costs

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

	2008 £ 000	2007 £ 000
Non-executive Directors	11	11
Executive Directors / Senior Management	5	5
Actuarial	7	7
Commercial	85	71
Customer Services	143	128
Finance	60	57
Business Services	42	39
	353	318
	2008 £ 000	2007 £ 000
The aggregate payroll costs in respect of these persons were as follows:		
Wages and salaries	9,714	8,585
Social security costs	974	811
Other pension costs	1,296	1,224
	11,984	10,620

Notes to the Financial Statements *continued*

For the Year Ended 31 December 2008

7 Taxation

	2008 £ 000	2007 £ 000
(a) Current tax UK Corporation Tax (recoverable) / payable	(3,894)	4,419
Tax (over)/under provided in prior years	(28)	70
Total current tax	(3,922)	4,489
Deferred tax Unrealised gains	(34)	(460)
Other timing differences	(14)	4
Deferred tax (note 17)	(48)	(456)
Pension contributions	-	-
Tax (recovery) / charge for year	(3,970)	4,033
Deferred tax Statement of recognised gains and losses Actuarial (loss) / gain	(858)	356
(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 28.5% (2007 30%). Differences as below:		
(Loss) / Profit on ordinary activities before tax	(12,081)	16,336
(Loss) / Profit on ordinary activities at 28.5% (2007 30%)	(3,443)	4,901
Expenses not deductible for tax purposes	106	147
Income on which no tax is payable	(565)	(673)
Unrealised gains	34	64
Pension contributions	(44)	(36)
Other timing differences	18	16
Tax (under)/over provided in prior years	(28)	70
Total current tax (Note 7a)	(3,922)	4,489

(c) Utilisation of tax losses

The Company intends to surrender £1,351,000 of tax losses to its immediate parent company, MMA Holdings UK plc, for the sum of £385,000 (calculated at 28.5%). The balance of tax losses will be recovered from HMRC by applying carry back relief.

Notes to the Financial Statements continued

For the Year Ended 31 December 2008

8 Dividend

	2008 £ 000	2007 £ 000
Amount paid to equity shareholders	3,700	3,800

The 2007 final dividend, paid in 2008 amounted to £3.7m (24.7 pence per share) (2006, paid in 2007 £3.8m – 25.3 pence per share)

The directors are not proposing a final dividend in respect of the financial year ended 31 December 2008.

9 Other Financial Investments

	Market value		Cost	
	2008 £ 000	2007 £ 000	2008 £ 000	2007 £ 000
Equities	48,438	65,259	51,030	47,415
Bonds	249,116	245,420	239,413	248,176
Deposits with credit institutions	25,961	33,340	25,961	33,340
Subsidiary company	1	1	1	1
	323,516	344,020	316,405	328,932
Listed investments included in the above	297,554	310,679	290,443	295,591

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

10 Debtors Arising Out Of Direct Insurance Operations

	2008 £ 000	2007 £ 000
Amounts owed by policyholders	44,994	23,418
Amounts owed by intermediaries	11,762	26,458
	56,756	49,876

Notes to the Financial Statements *continued*

For the Year Ended 31 December 2008

11 Other Debtors

	2008 £ 000	2007 £ 000
Salvage and subrogation recoveries	4,021	7,623
Amounts owed by group undertakings	299	1,142
Corporation tax recoverable	3,461	-
Other debtors	376	37
	8,157	9,702

12 Tangible Assets

	Information Technology systems £ 000	Fixtures, fittings and equipment £ 000	Motor vehicles £ 000	Total £ 000
Cost				
At 1 January 2008	2,962	2,499	419	5,880
Additions	324	29	154	507
Disposals	(262)	(186)	(132)	(580)
At 31 December 2008	3,024	2,342	441	5,807
Depreciation				
At 1 January 2008	2,454	2,370	279	5,103
Charge for the year	289	91	118	498
Elimination in respect of disposals	(262)	(186)	(103)	(551)
At 31 December 2008	2,481	2,275	294	5,050
Net Book Value				
At 31 December 2008	543	67	147	757
At 31 December 2007	508	129	140	777

Notes to the Financial Statements continued

For the Year Ended 31 December 2008

13 Share Capital

	2008 £ 000	2007 £ 000
Authorised ordinary shares 40,000,000 (2007: 40,000,000) Ordinary shares of £1 each	40,000	40,000
Allotted, called up and fully paid 15,000,000 (2007: 15,000,000) Ordinary shares of £1 each	15,000	15,000

14 Profit and Loss Account

	2008 £ 000	2007 £ 000
As at 1 January	91,836	82,423
Retained (loss) / profit for the year	(8,111)	12,303
Dividend paid	(3,700)	(3,800)
Exchange differences	-	(6)
Actuarial (loss) / gain on pension fund	(2,204)	916
As at 31 December	77,821	91,836

Notes to the Financial Statements *continued*

For the Year Ended 31 December 2008

15 Claims Outstanding

2008	Gross £ 000	Reinsurance £ 000	Net £ 000
Notified outstanding claims	197,090	34,826	162,264
Provision for claims incurred but not reported	40,439	6,581	33,858
	237,529	41,407	196,122
Claims handling expenses	1,744	-	1,744
	239,273	41,407	197,866

2007	Gross £ 000	Reinsurance £ 000	Net £ 000
Notified outstanding claims	197,275	54,227	143,048
Provision for claims incurred but not reported	63,521	12,850	50,671
	260,796	67,077	193,719
Claims handling expenses	2,241	-	2,241
	263,037	67,077	195,960

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 9A to the Companies Act 1985 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 a decrease in the general business - technical account result and the profit before taxation of £ 2,477,000 (2007 - increase of £8,846,000).

The creation of the equalisation provision has the cumulative effect of decreasing shareholders' funds by £2,019,000 (2007 - decrease of £248,000) after taking into account taxation.

Notes to the Financial Statements continued

For the Year Ended 31 December 2008

17 Deferred Taxation

Full provision has been made for deferred taxation, at 28% (2007 - 28%) as follows:

	2008		2007	
	£ 000	£ 000	£ 000	£ 000
Revaluation of investments		746		780
Other timing differences		(176)		(162)
Differences on exchange		-		25
		570		643
Deferred tax liability at beginning of year		643		1,102
Movements in year on:				
Revaluation of investments		(34)		(460)
Other timing differences		(14)		4
Current taxation (Note 7)		(48)		(456)
Differences on exchange		(25)		(3)
Deferred tax liability at end of year		570		643

Notes to the Financial Statements *continued*

For the Year Ended 31 December 2008

18 Other Creditors Including Taxation And Social Security

	2008 £ 000	2007 £ 000
Corporation taxation payable	-	2,818
Other taxes including insurance premium tax and social security costs	2,952	3,204
Due to group companies	5,514	2,542
Other creditors	910	415
	9,376	8,979

19 Accruals and Deferred Income

	2008 £ 000	2007 £ 000
Deferred reinsurance commissions	656	5,891
Motor Insurers Bureau levy	3,141	3,227
Financial Services Compensation Scheme	585	407
Other accruals and deferred income	1,613	1,970
	5,995	11,495

Notes to the Financial Statements continued

For the Year Ended 31 December 2008

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. Benefits are based on contributions made to the scheme by the Company during the employee's membership.

Defined benefits scheme

Benefits are based on final pensionable salary. This scheme closed to new members on 31 December 2000. As a consequence the current service cost calculated under the projected unit method can be expected to increase over time, as the average age of the membership increases. A full actuarial valuation was carried out at 1 January 2006 and updated to 31 December 2008 by a qualified actuary, independent of the scheme's sponsoring employer. The major assumptions used by the actuary are shown below.

Employer contributions are currently paid at the rate of 15.9% of pensionable pay.

FRS 17 disclosures

Present values of scheme liabilities, fair value of assets and deficit

	31/12/08 £'000s	31/12/07 £'000s	31/12/06 £'000s
Fair value of scheme assets	24,969	29,806	28,161
Present value of scheme liabilities	(24,411)	(26,342)	(26,088)
Surplus in scheme	558	3,464	2,073
Unrecognised surplus	-	-	-
Asset to be recognised	558	3,464	2,073
Deferred tax	(156)	(970)	(622)
Net asset to be recognised	402	2,494	1,451

Notes to the Financial Statements *continued*

For the Year Ended 31 December 2008

20 *continued* Pension Benefit

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

	Period ending 31/12/08 £ 000s	Period ending 31/12/07 £ 000s
Scheme liabilities at start of period	26,342	26,088
Current service cost	869	919
Interest cost	1,565	1,371
Contributions by scheme participants	-	-
Actuarial (gains)	(3,849)	(1,665)
Benefits paid and death in service insurance premiums	(516)	(371)
Past service costs	-	-
Liabilities assumed in a business combination	-	-
Losses (gains) on curtailments	-	-
Liabilities extinguished on settlements	-	-
Scheme liabilities at end of period	24,411	26,342

Notes to the Financial Statements continued

For the Year Ended 31 December 2008

20 continued Pension Benefit

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

	Period ending 31/12/08 £ 000s	Period ending 31/12/07 £ 000s
Fair value at start of period	29,806	28,161
Expected return on scheme assets	2,103	1,917
Actuarial (losses) / gains	(6,911)	(393)
Contributions by the employer	487	492
Contributions by scheme participants	-	-
Benefits paid and death in service insurance premiums	(516)	(371)
Assets acquired in a business combination	-	-
Assets distributed on settlements	-	-
Fair value of scheme assets at end of year	24,969	29,806

The actual return on the scheme assets over the period ending 31 December 2008 was (£4,808,000).

Total expense recognised in profit and loss account

	Period ending 31/12/08 £ 000s	Period ending 31/12/07 £ 000s
Current service cost	869	919
Interest cost	1,565	1,371
Expected return on scheme assets	(2,103)	(1,917)
Past service cost	-	-
Losses (gains) on curtailments	-	-
Losses (gains) on settlements	-	-
Total expense recognised in profit and loss	331	373

Notes to the Financial Statements *continued*

For the Year Ended 31 December 2008

20 *continued* Pension Benefit

Statement of total recognised gains and losses

	Period ending 31/12/08 £ 000s	Period ending 31/12/07 £ 000s
Difference between expected and actual return on scheme assets : Amount: (loss) / gain	(6,911)	(393)
Experience gains and losses arising on the scheme liabilities: Amount: (loss)	(112)	(217)
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities: Amount: gain	3,961	1,882
Total actuarial gains and losses (before restriction due to some of the surplus not being recognisable) Amount: (loss) / gain	(3,062)	1,272
Effect of limit on amount of surplus recognised due to some of the surplus not being recognisable Amount: gain (loss)	-	-
Total amount recognised in statement of total recognised gains and losses: Amount: gain (loss)	(3,062)	1,272

The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains since adoption of FRS17 is £77,000.

Assets

	31/12/08 £ 000s	31/12/07 £ 000s	31/12/06 £ 000s
Equity	13,363	18,510	17,150
Bonds	3,577	9,856	9,592
Other (property, cash, etc)	674	1,440	1,419
Gilts	6,647	-	-
Property	708	-	-
Total Assets	24,969	29,806	28,161

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

Notes to the Financial Statements continued

For the Year Ended 31 December 2008

20 continued Pension Benefit

Assumptions

	31/12/08 % per annum	31/12/07 % per annum	31/12/06 % per annum
Inflation	3.1%	3.5%	3.3%
Salary increases	4.6%	5.3%	5.1%
Rate of discount	6.4%	5.9%	5.2%
Allowance for pension in payment increases of RPI or 5% p.a. if less	3.0%	3.4%	2.9%
Allowance for revaluation of deferred pensions of RPI or 5% p.a. if less	3.1%	3.5%	3.3%
Allowance for commutation of pension for cash at retirement	None	None	None

The mortality assumptions adopted at 31 December 2008 imply the following life expectancies:

Male retiring at age 63 in 2008	23.8
Female retiring at age 63 in 2008	26.8
Male retiring at age 63 in 2028	25.0
Female retiring at age 63 in 2028	27.8

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.

Notes to the Financial Statements *continued*

For the Year Ended 31 December 2008

20 continued **Pension Benefit**

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

	Period ending 31/12/08 % per annum	Period ending 31/12/07 % per annum	Period ending 31/12/06 % per annum
Equity	7.20%	8.00%	8.00%
UK fixed interest gilts	3.70%		
Bonds	5.80%	5.90%	5.20%
Other (property, cash, etc)	3.40%	3.00%	3.00%
Overall for scheme	5.87%	7.06%	6.80%

Amounts for the current and previous four years

	2008 £ 000s	2007 £ 000s	2006 £ 000s	2005 £ 000s	2004 £ 000s
Fair value of scheme assets	24,969	29,806	28,161	21,160	15,562
Present value of scheme liabilities	24,411	26,342	26,088	25,730	21,061
Surplus / (deficit) in scheme	558	3,464	2,073	(4,570)	(5,499)
Experience adjustment on scheme assets	(6,911)	(393)			
Experience adjustment on scheme liabilities	(112)	(217)			

Notes to the Financial Statements continued

For the Year Ended 31 December 2008

21 Commitments

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

	2008 £ 000	2007 £ 000
Operating leases which expire within one year	72	-
Operating leases which expire between one and five years	1,760	1,163

22 Ultimate Parent Company

(a) The ultimate parent company is MMA IARD Assurances Mutuelles, a company incorporated in France. Copies of the group accounts prepared by the parent company can be obtained from the registered office, the address of which is shown on page 39.

(b) Group company balances

Included in debtors arising out of direct insurance operations:

- Balances due from intermediaries – are the following:

	2008 £ 000	2007 £ 000
Due from fellow subsidiary companies	4,210	3,771

Notes to the Financial Statements continued

For the Year Ended 31 December 2008

22 continued **Ultimate Parent Company**

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

	2008 £ 000	2007 £ 000
Due to parent company	253	346
Due (from)/to fellow subsidiary companies	(300)	4,988

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

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 more 90% owned by the ultimate parent.

There were no other material related party transactions.

Notes to the Financial Statements continued

For the Year Ended 31 December 2008

Registered and Head Office

Norman Place
Reading
RG1 8DA

Registered in England 613259

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