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SUNDERLAND MARINE MUTUAL INSURANCE COMPANY LIMITED

NEW ZEALAND BRANCH

FINANCIAL STATEMENTS

31ST DECEMBER 2009

KPMG

Audit report

To the shareholders of Sunderland Marine Mutual Insurance Company Limited – New Zealand Branch

We have audited the financial statements on pages 4 to 16. The financial statements provide information about the past financial performance of Sunderland Marine Mutual Insurance Company Limited's New Zealand Branch ("the Branch") and its financial position as at 31 December 2009. This information is stated in accordance with the accounting policies set out on pages 7 to 10.

Directors' responsibilities

The Directors of Sunderland Marine Mutual Insurance Company Limited ("the Company") are responsible for the preparation of financial statements which give a true and fair view of the financial position of the Branch as at 31 December 2009 and the results of its operations for the year ended on that date.

Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors of the Company in the preparation of the financial statements; and

- whether the accounting policies are appropriate to the Branch's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. 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 obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm has also provided other services to the Branch in relation to taxation and general accounting services. Partners and employees of our firm may also deal with the Branch on normal terms within the ordinary course of trading activities of the business of the Branch.

KPMG

These matters have not impaired our independence as auditors of the Branch. The firm has no other relationship with, or interest in, the Branch.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Branch as far as appears from our examination of those records;
- the financial statements on pages 4 to 16.
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the Branch as at 31 December 2009 and the results of its operations for the year ended on that date.

Our audit was completed on 13 May 2010 and our unqualified opinion is expressed as at that date.

KPMG

KPMG

Melbourne

13 May 2010

Sunderland Marine Mutual Insurance Company Limited

New Zealand Branch

Annual Report

For the year ended 31 December 2009

The Board of Directors is pleased to present the financial statements of its New Zealand Branch for the year ended 31 December 2009 and the auditor's report thereon.

In the Director's opinion, the financial statements and notes set out on pages 7-16:

a) comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Branch as at 31 December 2009 and the results of operations of the year ended on that date.

b) have been prepared using the appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The Directors believe that proper accounting reports have been kept which enable, with reasonable accuracy, the determination of the financial position of the Branch and facilitate compliance of the financial statements with the Financial Reporting Act 1993 and the Companies Act 1993. There are reasonable grounds to believe that, as at the time this statement is made, the Branch will be able to pay all debtors or claims as and when they are due.

The shareholders of the Company have exercised their right under Section 211(3) of the Companies Act 1993 and unanimously agreed that this Annual Report need not comply with any of paragraphs (a) and (e) to (j) of Section 211(1) of the Act.

Signed in Durham on 13 May, 2010 in accordance with a resolution of the Directors.

For and on behalf of the Board of Management:

G.C. PARKINSON	T.F. HART
Director	Director
13 May, 2010	13 May, 2010

Sunderland Marine Mutual Insurance Company Limited

New Zealand Branch

Statement of Financial Performance

For the year ended 31 December 2009

	Note	2009 $NZ	2008 $NZ
Revenue			
Premium	3(a)	4,869,912	4,511,306
Investment income	3(b)	92,604	154,576
Total operating revenue		4,962,516	4,665,882
Expenses			
Claims	3(a)	(3,610,155)	(2,116,206)
Underwriting expenses	3(a)	(714,098)	(1,351,613)
Administration expenses		(497,311)	(223,867)
Operating surplus before taxation		140,952	974,196
Income Tax	10.	(100,692)	(38,014)
Profit from operating activites after tax attributable to members of SMMI Co Ltd.		40,260	936,182

The statement of financial performance is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 16.

Sunderland Marine Mutual Insurance Company Limited

New Zealand Branch

Statement of Movements in Head Office Account

For the year ended 31 December 2009

	2009 $NZ	2008 $NZ
Head Office Account at the Beginning of the Year	1,262,386	1,637,180
Net surplus for the year	40,260	936,182
Transfer to parent on settlement of Head Office Account	(372,392)	(1,310,976)
Head Office Account at the end of year	930,254	1,262,386

The statement of movements in Head Office Account is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 16.

Sunderland Marine Mutual Insurance Company Limited

New Zealand Branch

Statement of Financial Position

As at 31 December 2009

	Note	2009 $NZ	2008 $NZ
Assets			
Land and Buildings		786,500	791,000
Fixed Assets		95,613	0
Total non-current assets		882,113	791,000
Current assets			
Cash on hand		98,510	78,275
Short term bank deposits		438,798	1,763,429
Financial Assets	7.	525,440	534,811
Debtors		5,796,559	2,183,069
Reinsurance Receivable	8.	498,237	94,790
Total current assets		7,357,544	4,654,374
Total assets		8,239,657	5,445,374
Current liabilities			
Payables		850,848	536,349
Unearned premium		3,760,858	2,683,945
Other Income Deductions		0	0
Provision for outstanding claims	9.	2,697,697	962,694
Total liabilities		7,309,403	4,182,988
Head Office Current Account		930,254	1,262,386
Total liabilities and Head Office Account		8,239,657	5,445,374

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 7 to 16.

For and on behalf of the Board:

G.C. PARKINSON
Director

13 May, 2010

T.F. HART
Director

13 May, 2010

Sunderland Marine Mutual Insurance Company Limited

New Zealand Branch

Notes to the Financial Statements

For the year ended 31st December 2009

1 Summary of significant accounting policies

Sunderland Marine Mutual Insurance Company Limited- New Zealand branch ("the Branch") is registered to carry on inward insurance business in New Zealand for a foreign company. The Branch's principal activity is general insurance.

The financial report was authorised for issue by the directors on ~~21~~ 13 May 2010

a) Reporting entity

Sunderland Marine Mutual Insurance Company Limited is a company registered under the Companies Act 1993. These are the financial statements of the New Zealand Branch ("the Branch") of the Company. The financial statements of the Branch have been prepared in accordance with NZ IFRS.

The financial statements comprise the following: statement of accounting policies, statement of financial performance, statement of movements in Head Office Account, statement of financial position as well as the notes to the statements contained on pages 8 to 10 of this annual report. The financial report has been prepared in accordance with generally accepted accounting practice in New Zealand and on the basis of historical cost.

Fitch Ratings have assigned an A- rating to Sunderland Marine Mutual Insurance Company Limited New Zealand Branch.

b) Measurement base

The accounts of the Branch have been drawn up in accordance with applicable New Zealand accounting standards and are expressed in New Zealand dollars.

The Branch follows the accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on a market value basis in accordance with Financial Reporting Standard No.35 "Financial Reporting of Insurance Activities".

c) Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate to profit generating entities that qualify for and apply differential reporting concessions. The Branch is a profit oriented entity. The Branch is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act.

Sunderland Marine Mutual Insurance Company Limited

New Zealand Branch

Notes to the Financial Statements

For the year ended 31st December 2009

1 Summary of significant accounting policies (continued)

The Branch qualifies for differential reporting exemptions as it has no public accountability, and all its owners are involved in the governing of the Branch. All other available exemptions allowed under the Framework for Differential Reporting have been adopted.

d) Basis of Operation

The financial report is presented in New Zealand Dollars

The financial report is prepared in accordance with the fair value basis accounting unless otherwise stated below.

The accounting policies set out below have been applied consistently by the Branch to all periods presented in the financial statements.

c) Premium revenue

Premiums have been brought to account as income from the date of attachment. The earned portion of premiums received and receivable is recognised as revenue. Unearned premiums are calculated by apportioning the premium income written in the year over the periods of risk from the dates of attachment based on the pattern of risk.

d) Accounts receivable

Accounts receivable are stated at their estimated realisable value after providing against debts where collection is doubtful. Bad debts are written off in the period in which they are identified.

e) Financial assets backing insurance contract liabilities

The Branch has determined that all financial assets are deemed to back insurance contract liabilities and are measured at fair value through the Statement of Financial Performance at each balance date as they meet the criteria under NZ IAS 39 *Financial Instruments: Recognition and Measurement.* Unrealised profits and losses on subsequent measurement to fair value are recognised in the Statement of Financial Performance.

f) Impairment of assets

All assets other than those which are set outside the scope of NZ IAS 36 *Impairment of Assets* are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purposes assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Sunderland Marine Mutual Insurance Company Limited

New Zealand Branch

Notes to the Financial Statements

For the year ended 31st December 2009

1 Summary of significant accounting policies (continued)

g) Leases

Operating lease payments, where the lesser effectively retains substantially all the risks and benefits of ownership of the leased item, are included in the determination of operating surplus in equal instalments over the lease term.

h) Income Tax

The income tax expense charged to the statement of financial performance includes both the current year's provision and the income tax effects of timing differences calculated using the liability method. Tax effect accounting is applied on a comprehensive basis to all timing differences. A debit balance in the deferred tax account, arising from timing differences or income tax benefits from income tax losses, is only recognised if there is virtually certainty of realisation.

i) Goods and services tax

Revenues and expenses are stated net of goods and services tax (GST). Trade receivables and trade payables are stated inclusive of GST to the extent that GST is recoverable or payable.

j) Claims

Claims expense and liability for outstanding claims are recognised in respect of direct business. The liability covers claims reported and outstanding, incurred but not reported claims ("IBNR") and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by review of individual claim files and estimating the ultimate cost of settling claims which includes IBNR's and settlement costs using statistics based on past experience and trends. The outstanding claims reserve is estimated using internal management models and no actuarial valuation is explicitly performed on the Branch. A liability for outstanding claims has been recognised in respect of direct business as there are policies in default as at 31st December 2009.

k) Acquisition costs

A portion of acquisition costs relating to unearned premium revenue is recognised as an asset in recognition that it represents a future benefit. Deferred acquisition costs are amortised over the financial years expected to benefit from the expenditure and are stated at the lower of cost and recoverable value. As at 31st December 2009, the Company had not deferred any costs.

Sunderland Marine Mutual Insurance Company Limited

New Zealand Branch

Notes to the Financial Statements

For the year ended 31st December 2009

1 Summary of significant accounting policies (continued)

l) Reinsurance

Premiums ceded to reinsurers are recognised as an expense in accordance with the pattern of reinsurance service received.

2 Summary of significant actuarial methods and assumptions

Provision is made at the end of the year for the estimated cost of claims incurred but not settled at balance date. These reserves include estimates for claims that have been reported, claims that have been incurred but not reported (IBNR), and claims that have been incurred but not enough reported (IBNER), and include estimates of expenses associated with processing and settling these claims.

The process of establishing reserves is subject to considerable variability as it requires the use of informed estimates and judgements. These estimates and judgements are based on numerous factors, and may be revised as additional experience and other data become available or as regulations change.

Outstanding claims provision is estimated by class of business. Historical experience and other statistical information are used to estimate the ultimate claim costs. To determine the outstanding claims provision for a particular line of business, more than one method may be used to estimate ultimate losses and loss expenses and thus selecting a single point estimate. These methods may include, but are not necessarily limited to; extrapolations of historical reported and paid loss data, application of industry loss developments patterns to the reported or paid losses, expected loss ratios developed by management, or historical industry loss ratios. Underlying judgements and assumptions that may be incorporated into these actuarial results include, but are not necessarily limited to, adjustments to historical data used in models to exclude aberrations in claims data such as catastrophes that are typically analysed separately, adjustments to actuarial models and related data for known business changes, such as changes in claims covered under insurance contracts, and the effect of recent or pending litigation on future claims settlements.

The reserves as at 31 December 2009 were valued by Daniel Smith FIAA who was satisfied as to the nature, sufficiency and accuracy of the data provided.

Sunderland Marine Mutual Insurance Company Limited

New Zealand Branch

Notes to the Financial Statements

For the year ended 31 December 2009

	2009 $NZ	2008 $NZ
3 Operating Results		
(a) Underwriting result		
Gross premium income	6,624,979	6,225,142
Decrease in unearned premium	(20,049)	(26,129)
Reinsurance ceded	(1,735,018)	(1,687,706)
Net premium	4,869,912	4,511,307
Claims expense		
Claims paid	4,753,471	2,241,676
Increase in outstanding claims provision	1,735,003	92,357
Reinsurance recoveries	(2,878,319)	(217,827)
Total claims expense	3,610,155	2,116,206
Underwriting expenses		
Net commissions	280,928	243,293
Management expenses	466,461	944,312
Other income deductions	(33,291)	164,008
Total underwriting expenses	714,098	1,351,613
Underwriting result	545,659	1,043,488
(b) Investment income		
Interest	92,604	154,576
4 Auditor's Remuneration		
Amounts received, or due and receivable, by the auditors KPMG	8,378	8,068

Sunderland Marine Mutual Insurance Company Limited

New Zealand Branch

Notes to the Financial Statements

For the year ended 31 December 2009

5 Land and Buildings

	Land and Buildings (at valuation) $
Balance at 31 December 2009	
Cost/Revaluation	800,000
Accumulated depreciation	(9,000)
Carrying value	791,000
Current year depreciation	(4,500)
Net Carrying Value	786,500
Balance at 31 December 2008	
Cost/Revaluation	800,000
Accumulated depreciation	(4,500)
Carrying value	795,500
Current year depreciation	(4,500)
Net Carrying Value	791,000

Land and Buildings (at valuation) were independently valued on 31 December 2007 by Duke & Cooke Limited, a firm registered with the Institute of Valuers of New Zealand, at $800,000.

6 (a) Net Claims Expense

	2009 $NZ	2008 $NZ
Current		
Gross claims incurred	6,488,474	2,334,033
Reinsurance and other recoveries	(2,878,319)	(217,827)
Net claims incurred	3,610,155	2,116,206
Claims settlement expenses	-	-
Net claims expense	3,610,155	2,116,206

(b) Net claims expense

Current year claims relate to risks borne in the current financial year. Prior period claims relate to a reassessment of the risks borne in all previous periods.

	Current year $	Prior periods $	2009 Total $	2008 Total $
Gross claims incurred and related expenses - undiscounted	6,008,318	480,157	6,488,475	2,334,033
Reinsurance and other recoveries - Undiscounted	(1,779,698)	(1,098,621)	(2,878,319)	(217,827)
Net claims incurred - undiscounted	4,228,620	(618,464)	3,610,156	2,116,206
Discount and discount movement- gross claims incurred	-	-	-	-
Net discount movement	-	-	-	-
	4,228,620	(618,464)	3,610,156	2,116,206

The improvement in prior year claims is the result of a small number of claims being finally settled at a lower level than the original provision.

Sunderland Marine Mutual Insurance Company Limited

New Zealand Branch

Notes to the Financial Statements

For the year ended 31 December 2009

7 **Financial Assets**	**2009**	**2008**
	$	**$**
(a) Financial assets - fair value through profit or loss		
Debt securities - unsecured	525,440	534,811
Total financial assets - fair value through profit or loss	525,440	534,811
Current financial assets	525,440	534,811
Non-current financial assets	-	-
Total financial assets - fair value through profit or loss	525,440	534,811

Changes in the fair value of financial assets through the income statement are recorded as revenue/expense in the income statement.

8. Reinsurance & Other Recoveries Receivable		
Reinsurance and other recoveries - Current	498,240	94,790
Reinsurance and other recoveries - Non Current	-	-
Total reinsurance and other recoveries receivables	498,240	94,790

Sunderland Marine Mutual Insurance Company Limited

New Zealand Branch

Notes to the Financial Statements

For the year ended 31 December 2009

	2009 $NZ	2008 $NZ
9 Outstanding Claims		
a) Outstanding claims liability		
Outstanding claims (Gross)	2,697,697	962,694
Claims handling cost	-	-
Risk Margin	-	-
Total outstanding claims liability - undiscounted	2,697,697	962,694
Discount to present value	-	-
Discounted outstanding claims liability	-	-
Currrent	2,697,697	962,694
Non-current	-	-
Total	2,697,697	962,694

No discounting has been applied to claims on the basis that the majority of claims are expected to be settled within one year.

b) Risk Margins

A risk margin of 0% (2008: 0%) has been adopted in determining the outstanding claims liability to achieve the probability of adequacy at a minimum confidence level of 75% (2008: 75%) which is deemed appropriate by management

c) Liability adequecy test

The liability adequecy test has been conducted using the central estimate of the present value of expected future cash flows and has identified a surplus.

	$	$
Central estimate of the present value of expected future cash flows	2,697,697	962,694
Risk margin	-	-
Percentage risk margin	0%	0%
Probability of adequacy to be achieved through adoption of the risk margin	85%	85%

The Group's actuarial review in recent years has noted that Hull and Machinery claims invariably run off at a lower cost then implied by the first years claim estimates. This would imply that a negative IBNR of circa 10% - 15% would be appropriate. In conjunction with this and the historical claims book stability it is considered that a risk margin is not required

Sunderland Marine Mutual Insurance Company Limited

New Zealand Branch

Notes to the Financial Statements

For the year ended 31 December 2009

10 Income Tax

	2009 NZ$	2008 NZ$
a) Income tax expense		
Current taxes	78,274	73,009
Adjustments in respect of prior periods	32,397	(30,457)
Total current taxes	110,671	42,552
Deferred taxes		
Origination / (reversal) of timing differences	(9,979)	(4,538)
Income tax expense	100,692	38,014
b) Reconciliation of prima facie tax payable to income tax expense		
(Loss) / profit from operating activities before income tax	140,952	974,196
Prima facie income tax payable/ (benefit) (2009: 30%/ 2008: 30%)	42,286	292,259
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non taxable income	(58)	-
Non deductible expenses	44,787	(59,588)
Tax losses utilised	-	(164,200)
Foreign investor tax credits	(18,720)	-
Timing differences	9,979	4,538
Prior year adjustments	32,397	(30,457)
Income tax expense	110,671	42,552
c) Income tax receivable/(Payable)		
Opening balance at 1 January	(23,053)	-
Additional provisions recognised	(56,224)	(53,510)
Liabilities paid	-	-
Prior years recognised	(62,854)	30,457
Closing balance at 31 December	(142,131)	(23,053)
d) Deferred Tax Provision		
Opening balance at 1st January	4,538	-
Adjustments in respect of prior years	-	-
Adjusted opening balance at 1 January	4,538	-
Movement during the year	9,979	4,538
Closing balance at 31st December	14,517	4,538
Excess of taxation allowances over depreciation on fixed assets	(407)	-
Other timing differences	14,924	4,538
	14,517	4,538

11 Contingencies

There are no contingencies in respect of the Board existing at the year end other than those already included in the statement of financial position

12 Contingencies

The Branch has no known contingent liabilities or contingent assets at the reporting date or the previous reporting date.

13 Commitments

a) Capital Commitments
There have been no capital commitments contracted for at the reporting date or the prior year reporting date that have not been recognised as a liability.

b) Lease Commitments
There have been no lease commitments contracted for at the reporting date or the prior year reporting date that have not been recognised as a liability.

14 Events occurring after the Balance Sheet Date

No significant events have occurred subsequent to the balance sheet date

15 Related party transactions

a) Parent entities
The ultimate parent entity is Sunderland Marine Mutual Insurance Company Limited, a company incorporated in United Kingdom with Limited liability

b) Guarantees
No guarantees have been given to or received from any related parties that are outside the normal trading arrangements involving the retrocession of reinsurance contracts.

16 Credit ratings

The Branch was awarded a separate credit rating by Fitch rating agency of A- in June 2009 (2008: A-). At the date of this report, the parent entity has a credit rating of BBB+ from Standard & Poor's (2008: BBB+)

Sunderland Marine Mutual Insurance Company Limited

Registered Number: 16432

Directors' Report and Financial Statements

Year Ended 31st December 2009

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Sunderland Marine Mutual Insurance Company Limited
Company Information
Year Ended 31st December 2009

Registered Office	Salvus House Aykley Heads Durham DH1 5TS
Auditor	KPMG Audit Plc Quayside House 110 Quayside Newcastle Upon Tyne NE1 3DX
Bankers	Barclays Bank Plc 1 Park Row Leeds LS1 5WU

The directors present their report and financial statements for the year ended 31st December 2009.

Status

The company is a mutual company limited by guarantee without share capital.

Principal activities

The company carries on the business of insurance against marine and war risks and risks incidental to marine insurance, including protection and indemnity risks, of vessels in which the members of the company are interested.

The company also carries on the business of insurance against risks incidental to aquaculture.

Inward reinsurance in respect of marine and aquaculture risks is also accepted.

The principal activities of the company's subsidiaries are marine reinsurance and insurance broking.

BUSINESS REVIEW

Forward looking statements

This business review contains statements on the company's outlook for the future. By their nature such statements involve uncertainties as they relate to future events and these may be affected materially by a variety of existing factors, both economic and market based.

Strategy

The company's objectives are to provide protection to policyholders where the scope of cover has been tailored to meet specific needs, and to achieve and maintain the highest standards of service.

This requires cover to be provided at an economic premium which is fair and reasonable to cover both the attendant risks and other costs of the company as are relevant from time to time and to provide a timely and informed response in resolving the losses of policyholders.

Stability and continuity are cornerstones to this strategy. Stability of financial strength to withstand market conditions and unforeseen events, and continuity of cover, membership, counterparty relationships and employees are all important elements in maintaining price and service stability in the company's niche markets.

Markets

The company underwrites a variety of marine risks, including hull and machinery, protection and indemnity and personal accident as well as 'all risks' cover for the aquaculture industry.

The portfolio of risks is well diversified within the marine portfolio in relation to size of vessel, fishery and service activity and within aquaculture by species.

This diversification is further enhanced geographically. The company's markets for marine are the UK (16.8%), North America (36.5%), Europe (16.5%), Australasia (15.5%), and others (14.7%), and for aquaculture they are UK (17.3%), North America (43.7%), Europe (20.4%), Australasia (12.0%), South America (6.1%) and others (0.5%).

Business environment

Competition has been a key factor in many geographical areas during the year, primarily where price is focused on acquiring short-term market share. Policyholder loyalty to the company and rates of renewal remain high.

Over the course of the year Sterling weakened against the Canadian, Australian and New Zealand Dollars whilst appreciating marginally against the US Dollar and the Euro. Changes in exchange rates affect the Sterling equivalent of underlying overseas figures reported within the financial statements. The group, however, maintains assets in the currency of risk that are sufficient to meet its liabilities in that currency and therefore the net asset position is not significantly affected by alterations in currency conversion rates between Sterling and other currencies.

Key performance indicators

The company's key financial performance indicators (KPIs) are those that communicate the financial performance and strength of the group as a whole to the company's members and counterparties. These KPIs comprise:-

- Written premium
- Combined ratio (net claims costs plus net operating expenses as a proportion of earned premium net of reinsurance)
- Loss ratio (net claims costs as a proportion of earned premium net of reinsurance)
- Expense ratio (net operating expenses as a proportion of earned premium net of reinsurance)
- Operating performance before investment return
- Investment return
- Solvency margin (free reserves as a proportion of earned premium net of reinsurance)

Group performance

The group's written premium of £76.8m reflects growth of 14.3% from £67.2m in 2008. Taking out the currency effect the growth, in real terms, was 2.6%.

Operating performance remained satisfactory under difficult trading conditions with a technical underwriting deficit of £0.7m (2008: deficit £0.3m). Positive investment return in the non-technical account of £5.8m (2008: deficit £10.4m) produces a surplus before tax of £5.1m (2008: deficit £10.7m). Net of tax the surplus was £4.4m (2008: deficit £11.5m).

Net operating expenses increased and the expense ratio also increased to 36.9% (2008: 34.3%). The combined ratio was 104.5% (2008: 102.9%) reflective of increased claims costs on increased net premium income.

Marine

The marine division accounted for 85.2% (2008: 88.6%) of written premiums in 2009.

The business is written worldwide. Protection and Indemnity business has a US and European bias and Personal Accident has a UK and Australian bias.

In 2009 written premium showed moderate increases in a number of areas. P&I premium in the UK and Ireland rose approximately 10%, whilst hull increases were achieved in Australia and New Zealand. In other areas of the world, rate increases proved difficult due to regional competition and tighter financial constraints for vessel owners. Retention rates remained remarkably high - in excess of 95% worldwide.

During 2009 businesses and companies all over the world were affected by an economy in recession, and vessel owners were not unaffected. Financial restrictions and limited access to credit from the banking sector made it increasingly difficult for many owners to invest for the future. Fisheries management continues to play a vital role in ensuring a sustainable industry for generations to come, restricting the number of vessels fishing for pressurised fishing stocks. Our non- fishing vessel portfolio remains a growth area and now represents over a third of direct vessels insured.

Aquaculture

The aquaculture division accounted for 14.8% of gross written premium in 2009 (2008: 11.4%).

Written premiums increased by 35.2% in real terms. This general increase masks a large movement in core business, primarily through significant de-risking in areas such as Chile. It can be seen therefore that the company has enjoyed significant growth in its share of market premium but this is still in line with its cautious underwriting approach which allows it to increase its share of the market as the fortunes of the industry improve. The proportion of the company's book represented by large multi-nationals continued to grow during 2009.

The dominant salmon farming industry has continued the positive financial trend throughout 2009 despite having realised substantial losses occasioned by the near collapse of the Chilean salmon industry. The dramatic change in the fortunes of the Chilean industry was caused by a sudden and rapid increase in the spread of disease with a consequential and substantial loss of stock.

The other major insured species, tuna, is currently subject to a combination of stock depletion and quota controls, the effect of which is not yet fully understood. This, coupled with a decline in demand from the major markets in Japan, signals an uncertain immediate future for tuna farmers. The overall picture for commercial aquaculture is nevertheless a very positive one and the ability of companies to emerge from otherwise crippling losses in Chile is further evidence of the industry's maturity.

Investment return

The recovery in 2009 has been across all asset classes, in contrast to 2008 when there was a collapse in asset values across the board with the exception of government bonds. The company has, to a great extent, benefitted from this rally which is reflected in the satisfactory investment return generated of £5.8m (2008: loss £10.4m).

It is satisfying that this return was achieved despite a significant reduction in underlying investment risk.

As the year progressed the company made substantial changes to its investment portfolio structure, markedly reducing its exposure to growth assets. Direct equity investments were fully liquidated by the end of the third quarter, with the proceeds diverted, in large part, for investment in a short duration credit portfolio to exploit the yield spreads available in that market.

The board remain focussed on investment risk. This continues to be monitored closely as part of the wider corporate risk budget. The investment risk budget has been further reduced year-on-year. Following the restructure, the portfolio is positioned to deliver a stable investment return. It is recognised that the lower risk budget will result in a lower attendant investment return going forward.

Capital structure and solvency

The company's markets and structure see it meeting regulatory capital requirements in eight jurisdictions and reporting to fourteen different supervisory authorities around the world.

The company's primary regulator is the UK's Financial Services Authority (FSA), under whose auspices the capital regime for regulated insurance businesses continues to evolve with new Enhanced Capital Requirements, Individual Capital Assessments (ICA) and Individual Capital Guidance (ICG). The company has developed a framework using the Financial Services Authority's ICA principles for identifying risks that business units and the company as a whole are exposed to and quantifying their impact on economic capital. The company continues to develop financial modelling and other tests to maintain oversight of the capital required in order to mitigate the risk of insolvency to a 99.5% confidence level.

Overall, the company, its branches and subsidiaries satisfy existing regulatory requirements. The company's capital structure is considered appropriate to support the group's business needs for the foreseeable future.

The company monitors capital adequacy across the group by reference to the solvency margin, the ratio of its capital and reserves to earned premiums net of reinsurance.

The solvency margin has weakened this year from 73.9% in 2008 to 71.9% in 2009. The decrease in the ratio during 2009 is due to the increase in earned premium net of reinsurance premium, which is primarily due to currency fluctuations.

The total capital and reserves of the group are £43.7m compared with £41.0m at 31st December 2008. The reserve fund of the company is £26.0m (2008: £26.0m) and the surplus retained in the income and expenditure account of the group is £17.3m (2008: £14.7m).

The company is working towards Solvency II and has developed a timetable for review and development of its governance, risk management and capital systems to ensure that compliance is achieved by the implementation date.

Mutuality and policy years

The company does not have investors to whom dividends are paid or from whom additional capital would be sought in the event that it is required. Should additional capital be required the company could, as one of its options, seek contributions from its members on its current open policy years. The company's policy is not to attract additional capital either from members or its financial markets, preferring to accumulate and deploy capital through its own trading acumen.

It is accordingly the company's policy to charge premiums that it is estimated will meet the net claims, reinsurance premiums, expenses and other costs and commitments of each year.

Cash flow

Operations utilised £1.9m of cash (2008: generated cash £2.1m).

Portfolio investments increased by £2.6m (2008: decrease £5.5m). Deposit and short-term cash holdings were reduced by £10.8m (2008: increase £7.2m).

Employees

The company aims to attract, develop, retain and motivate high quality staff. The growth and development of the company and the number of employees, including senior staff with long service records is testament to the success of this objective.

Risk management

The risks, related uncertainties and details on how the company mitigates these risks are summarised below and reported in more detail in note 1 to the financial statements.

The primary objective of the company's risk management framework is to protect the group from events that hinder the achievement of service objectives and financial performance. Details of the company's governance framework are given in the directors' report on corporate governance on pages 11 to 16.

The principal risks and uncertainties facing the group are summarised below.

Insurance contracts risk

Insurance contracts risk is the potential adverse financial impact that combined claims, acquisition and administrative costs exceed the amount of income earned.

Market risk

Market risk is the potential adverse financial impact of changes to interest rates and equity prices.

Credit risk

Credit risk is the potential adverse financial impact of loss in the value of financial assets due to counterparties (such as, but not limited to, insurance debtors, banks and reinsurers) failing to meet all or part of their obligations.

Liquidity risk

Liquidity risk is the possibility that the company does not have sufficient available assets to meet obligations as they fall due.

Operational risk

Operational risk arises as a result of inadequately controlled internal processes or systems, human error or from external events. This definition is intended to include all other risks to which the company is exposed including, for example, information technology, information security, human resources, tax, legal, fraud, compliance risks, project management and outsourcing.

Directors

The directors of the company are shown below.

In accordance with Article 38 of the Articles of Association the following directors retire by rotation:

P.A. Bobeff
A.D.W. Allan
P.I. Talley
G.C. Parkinson
D.M. Windmill

The table below shows the composition of the board and its committees at 31st December 2009. A legend is shown in support of the table:

* member of board or committee
c chairman of board or committee

Director	Board	Audit	Defence	Executive	Investment	Nomination	Remuneration	Security	Strategy
A.D.W. Allan	*	c	*	*	*		*		*
P.A. Bobeff	*	*	*	*	*	c	*	*	*
W.J.J. Crowe	*	*							
T.F. Hart	c	*	c	*	*	*	c	c	c
P.M. Johnson	*	*			*				
A.L. Marr	*				c				
F.J. Mattera	*								
G.C. *Parkinson (executive director)*	*		*	c	*	*		*	*
P.I. Talley	*								
C.H.D. Venn	*								
D.M. Windmill	*	*							
C.J. Hilton	*		*						
J.P. Crichton	*		*						
J. Alford (appointed 2nd February 2009)	*				*				

Directors' biographical details

Jeremy Alford (47)

Mr Alford was appointed as a non-executive director of the Company on 2nd February 2009. He is also a director of the East Sussex Downs and Weald Primary Care Trust. His involvement with the Company began many years ago through his previous employment with Alliance Bernstein, London (of which he was Senior Vice President) and Whittingdale Holdings Ltd. He is based in England.

Alistair D. W. Allan (65)

Mr Allan was appointed as a non-executive director in 1986 and is also a director of certain subsidiary companies and joint ventures. He is also a director of The Shipowners Mutual Protection and Indemnity Association and a Member of the Institute of Chartered Accountants of Scotland.

He was previously managing director of Denholm Seafoods Limited, retiring from that position in 2004, and is based in Scotland.

Peter A. Bobeff (68) Vice chairman

Mr Bobeff was appointed as a non-executive director in 1985 and as vice-chairman in 2007.

He was previously senior vice president commercial affairs of Foster's Group Limited, retiring in 2005, a director of the Global Foundation Group, chairman of International House Council, University of Melbourne and on the advisory board of Visy Industries Group, retiring in 2009. He is based in Australia.

J. Peter Crichton (61)

Mr Crichton was appointed as a non-executive director in 2008.

He was previously Joint Managing Director of North of England P&I Association, retiring in 2006. He continues to act as a consultant to it. He is also a Trustee of the Edward Lloyd Trust. He is based in England.

William J. J. Crowe (62)

Mr Crowe was appointed as a non-executive director in 2000.

He is a self-employed consultant specialising in fish farming and European governance. He is based in Scotland.

Trevor F. Hart (65) Chairman

Mr Hart was appointed as a non-executive director in 2001 and appointed chairman in 2007. He is also a director of certain subsidiary companies and its joint ventures.

He was previously a marine underwriter with a Lloyds' syndicate and is based in England.

Christopher J. Hilton (60)

Mr Hilton was appointed as a non-executive director in 2008 and is also a Company Nominated Trustee and Chairman of the Trustees of the Salvus Bain (Management) Limited Pension Scheme.

He is a Partner in Eversheds LLP where he is also Chairman of the Appointment Panel and Head of Shipping and International Trade. He is also a director of Newcastle Building Society, Newcastle Strategic Solutions Ltd and NEPIA Trust Co. Ltd. He is based in England.

Peter M. Johnson (61)

Mr Johnson was appointed as a non-executive director in 2000.

He is a self-employed chartered accountant, and was previously a senior partner of KPMG, Newcastle. He is a director of Bellway plc, Honorary Treasurer of both the University of Newcastle upon Tyne and of St. John Ambulance, Northumbria. He is a Trustee of the Newcastle University Development Trust and a Fellow of the Institute of Chartered Accountants in England and Wales. He is based in England.

Andrew L. Marr (67)

Mr Marr was appointed as a non-executive director in 1981.

He is chairman of Andrew Marr International Limited and its subsidiaries. He is based in England.

Frederick J. Mattera (58)

Mr Mattera was appointed as a non-executive director in 1998.

He is a commercial fisherman and president of the Point Club. He is actively involved in marine safety training as head of NESTCo and is a director of the Commercial Fishing Vessel Safety Advisory Committee, US Coast Guard. He is based in the USA.

Geoffrey C. Parkinson (55)

Mr Parkinson commenced employment with the company in 1972. He was appointed to the board as an executive director in 1993. He is also a director of certain subsidiary companies and joint ventures.

He is the chief executive officer of the company and is based in England.

Peter I. Talley (64)

Mr Talley was appointed as a non-executive director in 1990.

He is the managing director of Talley's Fisheries Limited and is based in New Zealand.

Christopher H. D. Venn (67)

Mr Venn was appointed as a non-executive director in 1999.

He is a director of Ovenstone Limited and is based in South Africa.

David M. Windmill (60)

Mr Windmill was appointed as a non-executive director in 1996.

He was previously the managing director of Marine Harvest Limited and is currently chief executive of The Royal Zoological Society of Scotland. He is the Honorary Consul General of Norway in Scotland and a Trustee of the Great Steward of Scotland Dumfries House Trust. He is based in Scotland.

Directors' interests

Other than contracts of employment between the executive directors and the company, no director had a material interest at any time during the year in any contract of significance with the company or any of its subsidiary undertakings. No director has an interest in the equity of subsidiary undertakings.

Directors' and officers' insurance and directors' indemnities

The company has purchased and maintained throughout the year directors' and officers' liability insurance in respect of the company and its directors. The directors are also entitled under the Articles of Association to be indemnified by the company against costs, charges, losses, expenses and liability incurred in the discharge of their duties, unless prohibited by statute.

All directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Political and charitable contributions

The group made charitable contributions during the year totalling £26,000 (2008: £42,000). No political contributions were made (2008: £nil).

Payment of suppliers

The group's policy is to pay all of its creditors promptly and within the terms of the agreement made at the time of supply. The amount owed to trade creditors at 31st December 2009 represented nine days of average daily purchases from suppliers during the year ended on that date.

Group restructure

On 30th June 2009 Salvus Bain (Management) Limited and its wholly owned subsidiaries Sunderland Pacific Management Pty Limited and Sunderland Pacific Management (New Zealand) Limited ceased to provide management services to Sunderland Marine Mutual Insurance Company Limited. The net assets and employees of these companies, including the investments held by Salvus Bain (Management) Limited in Salvus Bain Management (USA) LLC, Salvus Bain (Canada) Limited and Van Olst de Graaff & Co BV, were transferred to Sunderland Marine Mutual Insurance Company Limited.

At the same date Salvus Bain (Africa) (Pty) Limited, a wholly owned subsidiary of Salvus Bain (Management) Limited ceased to provide management services to Sunderland Marine (Africa) Limited, a wholly owned subsidiary of the company. The net assets and employees of Salvus Bain (Africa) (Pty) Limited were transferred to Sunderland Marine (Africa) Limited.

Going concern

The directors are satisfied that the group has adequate resources to continue in operational existence for the foreseeable future. The going concern basis therefore continues to be adopted in preparing the accounts.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

Pursuant to Section 487 of the Companies Act 2006 the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

By order of the board

25 March 2010

A.S. Rowland
Secretary

The combined code

The board is committed to a high standard of corporate governance.

The board considers that, except where stated, throughout the year ended 31st December 2009, the company has applied the relevant principles and complied with the relevant provisions of the Annotated Combined Code for Mutual Insurers published in June 2006, updated in February 2008.

The board

Composition and balance

The board at 31st December 2009 comprised the non-executive chairman, twelve non-executive directors and one executive director. The non-executive directors bring to bear knowledge, experience and an objective standpoint to board decisions. The vice chairman fulfils the role of senior non-executive director. All the non-executive directors are independent. There are a number of board members with service periods exceeding nine years, however each has been individually considered and is believed to remain independent in both character and judgement and, having no relationships that are relevant to such independence, their circumstances are not such as to require that their independent status should be altered. Biographies of all the directors appear on pages 7 to 9. Membership of the board committees is set out on page 7. The board is satisfied that this balance and range of expertise, experience and qualifications is appropriate for the current needs of the business.

Role

The board determines the group's:

- Strategy and objectives, and monitors the group's performance in achieving them;
- Risk appetite;
- Organisational structure; and
- Remuneration policies.

The board:

- Reviews the most significant risks affecting the group and the action being taken to manage or mitigate them;
- Appoints directors and approves senior appointments;
- Determines the responsibilities of the group chief executive and approves any delegation of his responsibilities to heads of business units or support functions;
- Monitors and reviews the group's risk management systems;
- Approves the annual report and accounts and significant regulatory returns; and
- Reserves to itself certain decisions.

These reserved decisions include:

- The acquisition or disposal of any business or major asset, the setting-up of a new business or joint venture or the merging of any part of the group's business with a third party;
- Investment policy;
- Approval of significant claims; and
- Approval of reinsurance arrangements.

Beneath the board there is in place clear and appropriate apportionment of responsibilities amongst the executive director and senior managers.

How the board operates

The group chief executive circulates to the board quarterly, or more frequently, a report on the performance of the group and on any other material matters, both internal and external. This includes financial information and reports on how the group has performed against key indicators.

Board committees

The board has established audit, defence advisory, executive, investment, nomination, remuneration, security and strategy committees.

Audit committee

The members of the audit committee are shown on page 7. The committee meets at least twice a year, or more frequently if required, and its responsibilities include:

- Monitoring the integrity of the financial statements of the group, including their compliance with applicable laws and accounting standards, and any formal announcement relating to the group's financial performance;
- Reviewing significant financial reporting judgements;
- Monitoring and reviewing the group's internal financial controls and internal control systems, including those relating to the prevention of financial crime;
- Reviewing the external auditor's management letters and management's response to them;
- Reviewing reports from the compliance function and internal audit;
- Making recommendations to the board for it to put to the members for their approval in general meeting in relation to the appointment of the external auditors and their remuneration;
- Approving non-audit work provided by the external auditors and the fees for such work;
- Reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process; and
- Reviewing whistle-blowing arrangements.

The external auditors, the company's senior financial management, the corporate risk manager, the compliance officer and the head of internal audit attend meetings of the committee as required.

In complying with the combined code the board is satisfied that at least one member of the audit committee has recent and relevant financial experience.

Defence advisory committee

The members of the defence advisory committee are shown on page 7. The committee meets twice a year, or more frequently if required. It advises the board on the group's defensive strategy.

Executive committee

The members of the executive committee are shown on page 7. Meetings are held as circumstances require. The duties of the committee are to be available to the executive director and to advise on matters relating to the management of the group requiring attention between board meetings. The committee also considers other matters relating to the group upon which senior management may need guidance with a view to making recommendations to the board.

Investment committee

The members of the investment committee are shown on page 7. The committee meets four times a year, or more frequently if required, and its responsibilities include:

- Recommending the asset allocation benchmarks, the performance objectives and the performance benchmarks for the group's funds;
- Making recommendations to the board regarding guidelines for the management of foreign exchange exposure; and
- Monitoring the investment performance of the group's funds.

Nomination committee

The members of the nomination committee are shown on page 7. The committee meets at least once a year, or more frequently if required, and its responsibilities include:

- Reviewing the structure, size and composition (including the skills, knowledge and experience) of the board and its committees and making recommendations to the board with regard to any changes;
- Nominating for board approval candidates to fill vacancies on the board and board committees;
- Approving senior management recommendations for appointments to senior positions;
- Succession planning – taking into account the challenges and opportunities facing the group and skills and expertise needed on the board in the future; and
- Keeping under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace.

Remuneration committee

The members of the remuneration committee are shown on page 7 and are all non-executive directors. The committee meets at least once a year, or more frequently if required, and its responsibilities include determining, for board approval, the policy for remunerating executive directors and other senior executives. Non-executive directors' remuneration is determined by the board. The Committee also ensures that there is a coherent approach to remuneration in respect of all employees.

Security committee

The members of the security committee are shown on page 7. The committee meets at least once a year or more frequently if required. It evaluates reinsurers, reinsurance intermediaries and other significant counterparties, thus ensuring that the company's exposure to the failure of a reinsurer, intermediary or other counterparty is kept to a minimum.

Strategy committee

The members of the strategy committee are shown on page 7. The committee meets four times a year or more frequently if required. It assists the board in relation to setting the company's strategy, risk appetite and specific corporate objectives. This includes regular review of detailed financial and business plans.

The terms of reference of all board committees are available to members on request.

Meetings and attendance

Forum	Number of members	Attendance at Meeting					
		February	March	June	September	November	December
Board	14	9	12	14	13	-	13
Strategy	4	-	4	4	4	-	4
Nomination	3	-	3	3	3	-	3
Remuneration	3	3	3	3	3	-	3
Investment	7	7	7	7	7	-	7
Defence	6	-	-	-	6	-	-
Executive	4	-	-	-	4	-	4
Security	3	3	-	-	-	-	-
Audit	6	-	5	-	-	5	-

"-" denotes no meeting.

Performance evaluation

The board has established a formal evaluation of its own performance, and that of its committees, individual directors and the chairman, which takes place on an annual basis. This includes completion of questionnaires and face to face interviews. Questionnaires are completed in respect of the performance of the board, its committees and the chairman. The chairman carries out all interviews except in respect of his own evaluation, which is overseen by the vice chairman.

Directors have the opportunity to update their skills and knowledge, either through presentations on key issues and developments within the industry or by attendance at internal and external training courses.

The chairman meets with the non-executive directors in the absence of the executive director. Further, the non-executive directors met once during the year in the absence of the chairman, to appraise the chairman's performance.

Internal control

The system of internal control

The group's internal control system encompasses policies, processes, behaviours and other aspects of the group that taken together:

- Facilitate the effective and efficient operation of the group by assisting it to respond appropriately to significant business, operational, financial, compliance and other risks that could impact upon the group's ability to meet its objectives; and

- Are designed to ensure compliance with applicable laws, regulations and internal policies.

The role of the board

The board is ultimately responsible for the group's system of internal control and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risks of failure to achieve business objectives and, inevitably, can provide only reasonable and not absolute assurance against material misstatement or loss. The system has been in place throughout the period under review and accords with the Code.

The board has conducted a review of the effectiveness of the group's system of internal control. This covered all material controls, including financial, operational and compliance controls, and risk management systems. It was conducted in part on an ongoing basis, via the reports submitted (both routinely and on an ad hoc basis) to the board and the audit committee during the period under review, and also by reports prepared as part of the year-end process.

The board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the group. The management of each business unit and support function is responsible for identifying, evaluating, rating (in terms of probability of occurring and likely impact), assigning responsibility for, reporting on, and managing and mitigating all risks relevant to its area of business, including the design and operation of suitable internal controls. This is facilitated through the risk committee, comprising key members of the senior executive management team and chaired by the corporate risk manager. The committee meets monthly, or more frequently if required.

Risk management

The group has a risk management function which:

- Drafts risk policies and processes and develops the risk management framework;
- Maintains and regularly updates a risk matrix that sets out all of the significant risks impacting on the group and scores them in terms of probability and impact;
- Facilitates the risk management process by developing and monitoring the performance of risk tools and methodologies;
- Reports and makes recommendations to the group chief executive and the board on, for example, the risk matrix and on the management of all categories of risk including whether adequate risk management systems are in place, key risks are being properly managed and whether changes should be made to the overall strategy for the management of risk; and
- Assists with achieving the objective of embedding risk management throughout the group, with managing risks impacting on the group and within the business units and support functions.

Compliance

The group has a compliance department which:

- Monitors and enforces compliance with the requirements and rules of regulators;
- Checks that systems and controls are in place to counter the risk that the group may be exposed to practices linked with financial crime;
- Develops a compliance plan and undertakes work in accordance with the plan; and
- Co-ordinates the group's relationships with its regulators.

Internal audit

The group has an internal audit function which is outsourced and:

- Provides management and the audit committee with independent and objective assurance on, and evaluation of, the overall effectiveness of the group's internal systems and controls, and risk management and corporate governance processes;
- Develops a three year strategic plan and an annual operating plan in conjunction with management and the audit committee;
- Conducts audits in line with that plan or additionally where required; and
- Includes recommendations within all audit reports and monitors the implementation of these recommendations.

Further information on risk management is contained in the directors' report and note 1 to the financial statements.

Relations with members

The company's website at www.smmi.co.uk contains up to date information on the group. The company pursues a policy of personal contact and wide dialogue with members. Members can make contact in person, by writing to the Company Secretary, Sunderland Marine Mutual Insurance Company Limited, Salvus House, Aykley Heads, Durham, United Kingdom DH1 5TS or by email to mutual@smmi.co.uk.

Members are encouraged to attend the Annual General Meeting, at which directors are present, and to ask questions. Proxy voting is permitted at all general meetings of the company.

By order of the board

25 March 2010

A.S. Rowland
Secretary

This report has not been prepared in accordance with the provisions of the Companies Act 2006, section 421 and schedule 8 as the board feels that the structure and content of such a report is inappropriate to the company at the present time.

Remuneration committee

The role of the remuneration committee is set out in the Directors' Report on Corporate Governance.

External independent advice is provided as considered appropriate to the committee and the board on the remuneration of all directors and senior executives.

Remuneration

Salaries and fees

The salaries and fees of all directors are determined by considering the individual's responsibility and the remuneration paid in companies of comparable size and nature.

Fees are earned by directors in respect of their position and also in respect of their responsibilities as a member or as chairman of a board committee. In the case of executive directors, a salary is paid in respect of day-to-day managerial and executive responsibilities.

Benefits

During the year benefits offered to the executive director were private medical insurance and either a company car or a cash allowance.

Pensions

The executive director is a member of a defined benefit pension scheme. Life assurance cover for death in service is provided for the executive director and is four times pensionable earnings.

Executive director's service contract

During the year the executive director had a contract of employment which provided for a year's notice from either party. The executive director's contract does not include compensation for severance as a result of a change of control.

Non-executive directors

The letters of appointment for non-executive directors include provisions in respect of termination.

Directors' emoluments

The directors' aggregate emoluments, including pension contributions, in respect of qualifying services were:

	2009 **£'000**	**2008** **£'000**
Emoluments receivable	826	859
Value of company pension contributions to defined benefit schemes	-	9
	826	868

Fees of £51,325 (2008: £52,873) payable to one director were paid, with the addition of VAT, to his company, Sandwood Services Limited. Fees of £21,312 (2008: £18,975) for Mr C.J. Hilton were paid to Eversheds LLP.

These disclosures include amounts relating to directors of the company in respect of their positions as directors of subsidiary companies where appropriate.

The aggregate emoluments of the highest paid director were £378,082 (2008: £390,110) including pension contributions of £nil (2008:£8,833). His accrued pension at the year-end was £141,444 (2008: £134,930), and his accrued lump sum was £437,500 (2008: £412,500).

One director accrued benefits under a company pension scheme (2008: 1):

By order of the board

25 March 2010

T.F. Hart
Chairman of the remuneration committee

Statement of directors' responsibilities in respect of the directors' report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their surplus or deficit for that period.

In preparing each of the group and parent company financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect 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 UK governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Independent auditors' report to the members of Sunderland Marine Mutual Insurance Company Limited

We have audited the financial statements of Sunderland Marine Mutual Insurance Company Limited for the year ended 31 December 2009 set out on pages 21 to 68. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 19, 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 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and parent company's affairs as at 31 December 2009 and of the group's surplus for the year then ended;
- have been properly prepared in accordance with UK 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Jonathan Holt (Senior Statutory Auditor)

25 March 2010

for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

Sunderland Marine Mutual Insurance Company Limited
Consolidated Income and Expenditure Account
Year Ended 31st December 2009

Technical account - general business	Note		2009 £'000		2008 £'000
Earned premiums, net of reinsurance					
Gross premiums written			76,786		67,239
Outward reinsurance premiums			(16,538)		(12,272)
			60,248		54,967
Change in the gross provision for unearned premiums	25		272		2,311
Change in the provision for unearned premium, reinsurers' share	18		230		(1,829)
			502		482
			60,750		55,449
***Claims incurred*, net of reinsurance**					
Claims paid					
Gross amount			(51,884)		(51,239)
Reinsurers' share			6,375		13,254
			(45,509)		(37,985)
Change in provision for claims					
Gross amount	25		(149)		8,009
Reinsurers' share	18		4,630		(8,074)
			4,481		(65)
			(41,028)		(38,050)
Net operating expenses before goodwill and purchase costs		(21,585)		(17,899)	
Goodwill and purchase costs		(854)		(1,103)	
Net operating expenses	5		(22,439)		(19,002)
Other operating income					
Brokerage income: group and share of joint ventures		4,019		2,279	
Less: share of joint ventures' brokerage income		(2,178)		(1,171)	
Group brokerage income			1,841		1,108
Share of joint venture operating profit			199		152
Balance on the technical account – general business			(677)		(343)

Non-technical account – general business

	Note		2009 £'000		2008 £'000
Balance on the technical account - general business			(677)		(343)
Investment income/(losses)	7		4,856		(427)
Unrealised gains/(losses) on investments	8		4,214		(9,164)
Investment expenses and charges	9		(3,309)		(774)
Operating surplus/(deficit) before goodwill and purchase costs		5,938		(9,605)	
Goodwill and purchase costs		(854)		(1,103)	
Operating surplus/(deficit)	10		5,084		(10,708)
Surplus/(deficit) on ordinary activities before tax	11		5,084		(10,708)
Tax on surplus/(deficit) on ordinary activities	13		(635)		(763)
Surplus/(deficit) on ordinary activities after tax			4,449		(11,471)
Minority interests			(103)		(104)
Surplus/(deficit) after taxation attributable to members of the parent company for the financial year			4,346		(11,575)

In accordance with the amendment to FRS 3 published in June 1999 no note of historical cost profits has been prepared as the group's only material gains and losses on assets relate to the holding and disposal of investments.

The company has utilised the exemption within section 408 of the Companies Act 2006 and has therefore not published its own income and expenditure account.

Sunderland Marine Mutual Insurance Company Limited
Consolidated Statement of Total Recognised Gains and Losses
Year Ended 31st December 2009

	Note	2009 £'000	2008 £'000
Group surplus/(deficit) for the financial year		4,346	(11,575)
Foreign exchange rate movements	24	(188)	(275)
Share of joint ventures foreign exchange rate movements		-	36
Actuarial deficit on pension scheme	35	(1,471)	(523)
Current tax related to the pension scheme		-	146
Property revaluation		-	159
Total gains and losses recognised since the last annual report		2,687	(12,032)

Sunderland Marine Mutual Insurance Company Limited
Consolidated Balance Sheet
As at 31st December 2009

	Note		2009 £'000		2008 £'000
Assets					
Intangible assets					
Goodwill	14		6,759		5,533
Investments					
Land and buildings	15	8,791		8,146	
Investment in group undertakings and participating interests	16	776		705	
Financial assets:					
- Equity securities at fair value through income	17	3,842		20,598	
- Debt securities at fair value through income	17	63,687		43,647	
- Derivatives at fair value through income	17	402		758	
- Deposits with credit institutions		11,862		17,603	
			89,360		91,457
Reinsurers' share of technical provisions					
Provision for unearned premiums	18	5,882		5,602	
Claims outstanding	18	11,132		6,983	
			17,014		12,585
Debtors					
Debtors arising out of direct insurance operations	19	17,647		18,789	
Debtors arising out of reinsurance operations	20	2,334		4,177	
Other debtors	21	2,369		2,415	
			22,350		25,381
Other assets					
Tangible assets	22	611		705	
Cash and cash equivalents		5,912		5,536	
			6,523		6,241
Prepayments and accrued income					
Accrued interest and rent		940		911	
Deferred acquisition costs		4,514		5,013	
Other prepayments and accrued income		228		275	
			5,682		6,199
Total assets			147,688		147,396

Sunderland Marine Mutual Insurance Company Limited
Consolidated Balance Sheet (continued)
As at 31st December 2009

	Note		2009 £'000		2008 £'000
Liabilities					
Capital and reserves					
Reserves					
Revaluation reserve	23	335		313	
Other reserves: reserve fund	23	26,007		26,007	
Income and expenditure account accumulated surplus	23	17,322		14,657	
Total capital and reserves	24		43,664		40,977
Minority interest			305		274
Technical provisions					
Provision for unearned premiums: gross amount	25	31,879		31,310	
Claims outstanding: gross amount	25	54,438		56,467	
			86,317		87,777
Financial liabilities					
- Derivatives at fair value through income	27	343		1,343	
- Creditors arising out of direct insurance operations		1,915		2,005	
- Creditors arising out of reinsurance operations	28	2,786		2,808	
- Borrowings	29	6,365		6,300	
- Other creditors, including taxation and social security	30	2,623		3,634	
			14,032		16,090
Accruals and deferred income			2,107		1,513
			146,425		146,631
Pension liability	35		1,263		765
Total liabilities			147,688		147,396

These financial statements were approved by the board of directors on 25 March 2010 and were signed on its behalf by:

T.F. Hart

A.D.W. Allan

Company registration number: 16432

Sunderland Marine Mutual Insurance Company Limited
Company Balance Sheet
As at 31st December 2009

	Note		2009 £'000		2008 £'000
Assets					
Investments					
Land and buildings	15	8,271		8,146	
Investments in group undertakings and participating interests	16	32,573		24,860	
Financial assets:					
- Equity securities at fair value through income	17	-		127	
- Debt securities at fair value through income	17	14,103		7,043	
- Derivatives at fair value through income	17	39		174	
- Deposits with credit institutions		9,577		14,948	
			64,563		55,298
Reinsurers' share of technical provisions					
Provision for unearned premiums	18	20,041		21,938	
Claims outstanding	18	49,067		50,637	
			69,108		72,575
Debtors					
Debtors arising out of direct insurance operations	19	17,431		18,364	
Debtors arising out of reinsurance operations	20	2,301		3,906	
Other debtors	21	1,048		64	
			20,780		22,334
Other assets					
Tangible assets	22	442		39	
Cash and cash equivalents		2,255		2,285	
			2,697		2,324
Prepayments and accrued income					
Accrued interest and rent		93		112	
Deferred acquisition costs		4,395		4,916	
Other prepayments and accrued income		214		47	
			4,702		5,075
Total assets			161,850		157,606

Sunderland Marine Mutual Insurance Company Limited
Company Balance Sheet (continued)
As at 31st December 2009

	Note		2009 £'000		2008 £'000
Liabilities					
Capital and reserves					
Revaluation reserve	23	17,402		12,348	
Other reserves: reserve fund	23	26,007		26,007	
Income and expenditure account accumulated surplus	23	112		3,584	
Total capital and reserves	24		43,521		41,939
Technical provisions					
Provision for unearned premiums: gross amount	25	31,189		30,725	
Claims outstanding: gross amount	25	54,259		55,529	
			85,448		86,254
Provision for other risks and charges					
Provision for deferred taxation	21,26		-		17
Financial liabilities					
- Derivatives at fair value through income	27	306		392	
- Creditors arising out of direct insurance operations		1,925		1,898	
- Creditors arising out of reinsurance operations	28	17,412		19,798	
- Borrowings	29	5,216		6,300	
- Other creditors, including taxation and social security	30	5,419		466	
			30,278		28,854
Accruals and deferred income			1,340		542
			160,587		157,606
Pension liability	35		1,263		-
Total liabilities			161,850		157,606

These financial statements were approved by the board of directors on 25 March 2010 and were signed on its behalf by:

T.F. Hart

A.D.W. Allan

Company registration number: 16432

Sunderland Marine Mutual Insurance Company Limited
Consolidated Cash Flow Statement
Year Ended 31st December 2009

	Note	2009 £'000	2008 £'000
Operating activities			
Net cash (outflow)/inflow from operating activities	32	(1,869)	2,062
Dividends received from joint venture		122	-
Interest paid			
Bank interest paid		(349)	(661)
Taxation			
UK corporation tax recovered/(paid)		37	(180)
Capital expenditure			
Purchase of tangible fixed assets		(163)	(183)
Sale of tangible fixed assets		37	9
Acquisition			
Acquisition of undertakings		(2,127)	(1,508)
Cost of option to acquire remaining shareholding		-	*(495)*
Financing			
(Repayment)/drawdown of loan		(5,151)	2,775
Dividend paid by subsidiary undertaking		(51)	(116)
Proceeds from settlement of derivatives		1,259	-
		(8,255)	1,703
Cash flows were invested as follows:			
(Decrease)/increase in cash holdings	33	(10,811)	7,171
Portfolio investments			
Purchase of property		538	274
Purchase of equity securities at fair value through income		193	438
Purchase of debt securities at fair value through income		69,442	26,694
Sale of equity securities at fair value through income		(17,136)	(279)
Sale of debt securities at fair value through income		(50,481)	(32,595)
Net investment of cash flows		(8,255)	1,703
Movement in opening and closing portfolio investments net of financing			
Net cash (outflow)/inflow for year		(10,811)	7,171
Cash flow – portfolio investments		2,556	(5,468)
– decrease/(increase) in loans		5,151	(2,775)
Movement arising from cash flows	33	(3,104)	(1,072)
Changes in market values and exchange rate effects	33	1,603	(3,553)
Total movement in portfolio investments net of financing		(1,501)	(4,625)
Portfolio investments net of financing at 1st January		89,230	93,855
Portfolio investments net of financing at 31st December	33	87,729	89,230

1. Accounting policies

Basis of presentation

The following accounting policies have been applied consistently in dealing with items which are considered material to the group's financial statements, except as noted below.

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention, modified to include the revaluation of certain investments.

The financial statements have been prepared in accordance with the provisions of Section 396 of Companies Act 2006 and with the Association of British Insurers' Statement of Recommended Practice on Accounting (ABI SORP) for Insurance Business dated December 2007.

No material uncertainties that cast significant doubt about the ability of the company to continue as a going concern have been identified by the directors.

The group's business activities, performance and financial position are set out in the directors' report and financial statements. The company's objectives, policies and processes for managing risk and capital are shown below.

The company has considerable financial resources, a portfolio well diversified both by product and geographical area together with a robust reinsurance programme. As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. They thus continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and all subsidiaries, adjusted where appropriate to conform to group accounting policies. Their financial statements are made up to 31st December. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in group undertakings and associated undertakings are stated at current value in the company's own balance sheet. Any revaluation surplus is included in a revaluation reserve.

Associated undertakings and joint ventures

In the group financial statements, interests in associated undertakings and joint ventures are accounted for using the equity method of accounting. The consolidated income and expenditure account includes the group's share of the operating results, interest, pre-tax results and taxation of such undertakings based on audited financial statements for the year. In the consolidated balance sheet, the interests in associated undertakings and joint ventures are shown as the group's share of the net assets or liabilities, exclusive of any goodwill. The premium paid on acquisition is amortised over its estimated useful economic life.

Premiums

Premiums are charged at the amounts which it is estimated will meet claims, reinsurance premiums, expenses and other costs of the policy year to which they relate.

Premiums written are accounted for in the year in which the risk commences. Where applicable the unearned proportions of the premiums, relating to periods of risk extending beyond the end of the financial year, are carried forward to the next accounting period.

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

Unearned premiums are calculated on a time apportionment basis using the daily pro rata method.

Accounting policies *(continued)*

Outward reinsurance premiums, related commissions and profit commissions are accounted for in the same accounting period as the premiums for the related direct insurance or inward reinsurance business.

Acquisition costs

Acquisition costs comprise the expenses, both direct and indirect, of acquiring insurance policies written during the financial year. Acquisition costs which relate to a subsequent financial year are deferred and charged to the accounting periods in which the related premiums are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the proportion of gross premiums written which are unearned at the balance sheet date.

Unexpired risks

Provision is made where the cost of claims and expenses arising after the end of the year from contracts concluded before that date is expected to exceed the provision for unearned premiums, net of deferred acquisition costs, and premiums receivable. The assessment of whether a provision is necessary is made by reference to classes of business which are managed together.

Management charges

Management charges were payable to 30th June under the terms of a management agreement calculated on the basis of the costs incurred by Salvus Bain (Management) Limited and its subsidiary companies. From the date of the group restructure no management charges were payable to Salvus Bain (Management) Limited and its subsidiary companies.

Claims

Outstanding claims comprise provisions for the estimated cost of settling all claims incurred up to but not paid at the balance sheet date and are determined on an individual case basis after taking into account handling costs, salvage and other recoveries, anticipated inflation and trends in settlements. Provision is also made in respect of claims incurred but not reported (IBNR claims) as at 31st December based on statistical methods. Provision is also made for all claims handling expenses to cover the anticipated future costs of negotiating and settling claims which have been incurred, whether reported or not, up to the balance sheet date. In determining the provision for claims handling expenses it has been assumed that the activity of the claims handling department will remain at its current level.

The main statistical method used for review of reserve adequacy is the chain ladder triangulation method. This method involves taking current and prior year premiums and claims developments and projecting potential ultimate outcomes for each class, year and currency. The main assumption behind this method is that development patterns will remain relatively constant, although specific events and occurrences are taken into account.

The reinsurers' share of provisions for claims is based on calculated amounts for outstanding claims and projections for IBNR, net of estimated irrecoverable amounts having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved.

Although provisions for claims are based upon the information currently available to the directors, subsequent information and events may show that the ultimate liability is less than, or in excess of, the amount provided. The methods used, and estimates made, are continually reviewed and any resulting adjustments are reported in the technical account for general business in the financial year in which the claims are settled or re-appraised.

Intra-group funding

All financial guarantees in respect of intra-group funding between the company and its subsidiaries are treated as insurance contracts in accordance with FRS 12 *'Provisions, contingent assets and liabilities'*.

Accounting policies *(continued)*

Financial instruments

Non-derivative financial investments are classified as financial assets at fair value through income. Non-derivative financial investments are classified in this category if acquired principally for the purpose of selling in the short term or if so designated by the group. The group has designated non-derivative financial investments at fair value through income where the group's strategy is to manage those financial investments on a fair value basis.

Non-derivative financial investments classified at fair value through income are initially recognised and subsequently measured at fair value in the balance sheet with transaction costs taken directly to the income and expenditure account. All changes in fair value are recognised in income as described in the 'Investment income' accounting policy. The bases for determining the fair value of all financial assets and of the derivative liabilities is as set out in notes 17 and 27.

The group holds derivative financial instruments to hedge its foreign currency exposure and to support the equity investment return. Derivatives are categorised as held for trading and are classified as financial assets or financial liabilities at fair value through income. Derivative financial instruments are measured at initial recognition, and subsequently, at fair value and changes in fair value are recognised in the income and expenditure account. Transaction costs incurred in buying and selling derivative financial instruments are recognised in the income and expenditure account when incurred. The fair value of a derivative financial instrument is determined by reference to published price quotations in an active market.

Note 17 sets out the amount of each class of financial asset that has been designated at fair value through income.

Recognition and de-recognition of financial instruments

A financial instrument is recognised if the group becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised if the group's contractual rights to the cash flows from the financial assets expire or if the group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are de-recognised if the group's obligations specified in the contract expire or are discharged or cancelled.

Investment income

Investment income comprises gains or losses arising from changes in the fair value of financial assets at fair value through income. It also comprises interest receivable on short term and bank deposits accounted for on an accruals basis. Dividends are included as investment income on the date that the shares become quoted ex-dividend, exclusive of any attributable tax credits. Investment income also includes rental income.

Land and buildings

All freehold properties are being depreciated in accordance with FRS 15 '*Tangible fixed assets*'. The freehold property is valued every three years by a qualified external valuer in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

Freehold land is not depreciated.

Fixed assets and depreciation

All fixed assets are initially recorded at cost.

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Freehold buildings	-	2% straight line
Fixtures & fittings	-	12.5% - 33.3% straight line
Motor vehicles	-	20% - 25% reducing balance
Computers	-	20% - 33.3% straight line

Accounting policies (continued)

Goodwill

Goodwill represents the excess of the fair value of the purchase consideration over the fair value of the underlying net assets of the subsidiaries and associated undertakings at the time of acquisition. Goodwill is capitalised in the balance sheet and amortised on a straight line basis over its estimated useful economic life. The methodology for amortising goodwill over its estimated useful economic life is disclosed in note 14.

Loans and debtors

Loans and debtors are measured at amortised cost. The company reviews the carrying value of its loans and debtors on a regular basis. If the carrying value of a loan or debtor is greater than the recoverable amount, the carrying value is reduced through a charge to the income and expenditure account in the period of impairment.

Deferred taxation

Where the different treatment of certain items for taxation and accounting purposes results in an obligation to pay more or a right to pay less tax in the future deferred tax is recognised in respect of such timing differences that have originated but not reversed at the balance sheet date with certain limited exceptions. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred taxation is calculated on an undiscounted basis at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws enacted or substantially enacted at the balance sheet date.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the income and expenditure account on a straight line basis over the period of the lease.

Post-retirement benefits

The company operates a defined benefit pension scheme for employees. The assets of the scheme are held separately from the assets of the company. Pension scheme assets are measured using market values. For quoted securities the current bid price is taken as market value. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus or deficit is allocated between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

The group also operates a number of defined contribution pension schemes. The assets of the schemes are held separately from those of the company in independently administered funds. The amounts charged to the income and expenditure account represent the contributions payable to the schemes in respect of the accounting period.

Accounting policies *(continued)*

Foreign currency

The financial statements are presented in Sterling, which is the group's presentation currency.

The functional currency of a group entity is the currency of the primary economic environment in which it operates.

A group entity whose functional currency is not Sterling is a foreign operation.

The income and expenses of foreign operations are translated into Sterling at the exchange rate ruling at the date of the transactions. The assets and liabilities of foreign operations are translated into Sterling at the rate of exchange prevailing at the reporting date and the resulting exchange differences are recognised in the statement of total recognised gains and losses.

Foreign currency transactions are transactions undertaken by a group entity other than in its functional currency. Foreign currency transactions during the year are translated into the functional currency at the exchange rate ruling at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income and expenditure account.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised in the income and expenditure account.

Realised exchange gains and losses arising from cross currency funding are dealt with in the non-technical account. Other exchange gains and losses and translation differences are dealt with in the technical account.

RISK MANAGEMENT

The group's management of insurance and financial risk is a critical aspect of the business. The group has a number of procedures in place to manage these risks which are explained in detail below.

Governance framework

The primary objective of the group's risk and financial management framework is to protect the group's members from events that hinder the achievement of financial performance objectives. A group policy framework has been put in place that sets out the risk profiles for the group and the board regularly approves the group risk management policies.

Capital management framework

The group has an internal risk management framework for identifying risks to which the group is exposed and to quantify their impact on economic capital. The internal framework indicates how much capital is needed to mitigate the risk of insolvency to a selected remote level of risk. The confidence level is set to 99.5% over one year. The group also has a finance committee consisting of senior management which meets regularly to evaluate the capital allocations and adequacy within different jurisdictions in which the group operates.

Regulatory framework

One of the objectives of the group's primary regulator is to protect the rights of the members. The regulator monitors the group closely to ensure that it is satisfactorily managing affairs for the members' benefit. At the same time the regulator is also interested in ensuring that the group maintains an appropriate solvency position to meet unforeseen liabilities.

The operations of the group are also subject to regulatory requirements within jurisdictions where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain requirements (e.g. capital adequacy) to minimise the risk of default and insolvency.

Asset liability management framework

The group has exposure to risks arising from movements in interest rates, currencies and equity prices, all of which are exposed to general and specific market movements. The principal technique used by the group is to match financial assets to liabilities in the same currency. The group also ensures that there is sufficient cash flow available to meet liabilities as they fall due.

Specific risks that the group is exposed to and how they are managed by the group are explained below.

Insurance risk

The group issues contracts that transfer insurance risk.

The principal risk the group faces under insurance contracts is that the actual claims payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims and the subsequent development of long-tail claims.

The objective of the group is to ensure that sufficient technical provisions are available to cover these liabilities.

This risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also reduced by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The group reinsures a portion of the risks it underwrites in order to control its exposure to losses and protect capital resources. The group buys a combination of proportional and non-proportional reinsurance to reduce the net exposure to the group. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The group's placement of reinsurance is diversified such that it is not dependent on a single reinsurer.

The group has also limited its exposure by the use of reinsurance arrangements in order to limit exposure to catastrophic events.

Strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the group.

The group further enforces a policy of actively managing claims in order to reduce its exposure to unpredictable future developments that can adversely impact the group.

The table below sets out the concentration of the group's technical provisions by type of contract:-

	2009			2008		
	Gross £'000	**Reinsurance £'000**	**Net £'000**	**Gross £'000**	**Reinsurance £'000**	**Net £'000**
Marine	72,351	7,508	64,843	77,486	6,555	70,931
Aquaculture	13,966	9,506	4,460	10,291	6,030	4,261
Total	86,317	17,014	69,303	87,777	12,585	75,192

The geographical concentration of the group's technical provisions is noted below. The disclosure is based on the countries where the business is written.

	2009			2008		
	Gross £'000	**Reinsurance £'000**	**Net £'000**	**Gross £'000**	**Reinsurance £'000**	**Net £'000**
Australasia	14,007	2,487	11,520	10,858	1,053	9,805
Europe	13,468	3,334	10,134	15,571	3,876	11,695
North America	33,681	8,242	25,439	35,328	4,078	31,250
United Kingdom	11,533	532	11,001	11,588	329	11,259
Others	13,628	2,419	11,209	14,432	3,249	11,183
Total	86,317	17,014	69,303	87,777	12,585	75,192

Claims development

The group aims to maintain strong technical provisions in respect of its insurance business in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost of claims becomes more certain, potential adverse claims experiences are reduced which can result in the release of technical provisions from these earlier accident years.

The following table reflects the cumulative incurred claims including both claims notified and incurred but not reported (IBNR) for each successive accident year at the balance sheet dates.

			Gross claims incurred		
	2005	**2006**	**2007**	**2008**	**2009**
Accident year at end of	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Accident year	48,630	43,628	59,646	46,381	54,648
One year later	45,146	43,542	56,077	45,207	
Two years later	44,460	42,947	56,345		
Three years later	43,365	42,206			
Four years later	43,067				

Financial instrument risk

The group also has exposure to the following risks from its use of financial instruments:-

Credit risk
Liquidity risk
Market risk

Information is presented about the group's exposure to each of the above risks, the group's objectives, policies and processes for measuring and managing these risks and the group's management of capital.

Credit risk

Credit risk is the risk that a customer or counter-party to a financial instrument fails to meet its contractual obligations resulting in a financial loss to the group. This risk arises principally from the group's reinsurance debtors, premium debtors and financial assets. The following policies and procedures are in place to mitigate the group's exposure to credit risk.

Reinsurance is placed with counterparties that have a good credit rating. Management performs an assessment of credit-worthiness of reinsurers and updates the Security Committee on a regular basis to ensure all the reinsurers on the main reinsurance programmes are A rated or above.

The group also employs reinsurance intermediaries that are subject to the regulation and approval of the Financial Services Authority in the UK and as such are required to operate client trust accounts to ring-fence the amounts held on their client's behalf.

The group's exposure to credit risk from premium debtors is influenced mainly by the individual characteristics of each customer.

The credit risk in respect of customer balances incurred on non-payment of premium will only persist during the payment period specified in the policy document. If payment is still outstanding when the payment period expires the policy can be cancelled. If a member has ceased to be insured by the company, the company will not be liable for any claims under the company's general conditions if the incident giving rise to such claim occurred after the cessation of insurance.

Investment related credit risk is managed through the investment guidelines issued to the fixed income managers. The guidelines impose strict diversification limits by both credit rating and maturity. Typically there is no restriction over Sovereign debt rated AA or better. A 5% limit exists per issuer for corporate debt rated single A or above, at BBB rating this reduces to 2.5% and for non-investment grade it decreases to 1%. The maximum weighted portfolio duration is 5 years.

The maximum exposure to credit risk amounts to £103,811,000 (2008: £92,167,000). This exposure includes all financial assets (with the exception of equities and derivatives) as detailed in note 31. The exposure to credit risk arising from cash and cash equivalents, deposits with credit institutions, inward reinsurance operations and direct insurance operations is not considered significant. The following table summarises the group's exposure to credit risk by rating the debt securities and outward reinsurance debtors.

	2009		**2008**	
Rating	**Debt securities £'000**	**Outward reinsurance debtors £'000**	**Debt securities £'000**	**Outward reinsurance debtors £'000**
AAA	32,826	-	22,291	-
AA	5,866	1,235	3,724	1,084
A	11,688	72	9,368	674
BBB	9,185	203	4,741	207
BB	1,667	-	3,523	-
B	2,284	-	-	-
CCC	118	-	-	-
Not rated	53	20	-	264
Total	63,687	1,530	43,647	2,229

Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in meeting its financial obligations as they fall due. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. The group monitors its forecast liquidity position by estimating the cash outflows from its insurance contracts and purchasing investments with similar durations to meet these obligations.

The following table summarises the contractual maturities of the group's financial liabilities.

At 31st December 2009	**No contractual maturity £'000**	**Less than one year £'000**	**1-2 years £'000**	**2-5 years £'000**	**Total £'000**
Derivative financial liabilities	-	343	-	-	343
Creditors arising out of direct insurance operations	1,915	-	-	-	1,915
Creditors arising out of reinsurance operations	2,786	-	-	-	2,786
Borrowings	5,216	486	474	232	6,408
Other creditors, including taxation and social security	2,086	537	-	-	2,623
Total	12,003	1,366	474	232	14,075

At 31st December 2008	No contractual maturity £'000	Less than one year £'000	1-2 years £'000	2-5 years £'000	Total £'000
Derivative financial liabilities	-	1,343	-	-	1,343
Creditors arising out of direct insurance operations	2,005	-	-	-	2,005
Creditors arising out of reinsurance operations	2,808	-	-	-	2,808
Borrowings	-	1,499	2,910	2,122	6,531
Other creditors, including taxation and social security	3,359	275	-	-	3,634
Total	8,172	3,117	2,910	2,122	16,321

Fair value hierarchy

In May 2009 the Accounting Standards Board issued 'Amendments to FRS29 – Improving Disclosures about Financial Instruments'. The amended FRS requires certain additional disclosures to be included in the financial statements. These include, as is presented below, a table of financial instruments carried at fair value analysed by their level as defined by the fair value hierarchy in the FRS. This hierarchy is based on the inputs to the fair value measurement and reflects the lowest level input that is significant to that measurement. FRS29 does not require comparatives to be provided in the year of adoption.

The classification criteria and their application to the group can be summarised as follows:

Level 1 – active quoted prices
Items in this category are valued using unadjusted quoted prices from active markets for identical assets and liabilities.

Level 1 principally includes exchange listed equities, exchange traded derivatives such as forward exchange contracts and options, corporate bonds and government bonds and equivalents, unless there is evidence that trading in a given instrument is so infrequent that the market cannot be considered active.

The company holds a significant portfolio of corporate bonds, structured securities and other debt securities. These assets are valued by our independent investment managers and are subject to their monitoring controls.

Level 2 – other observable market-derived inputs
Items in this category are valued using inputs other than quoted prices as included within level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 2 principally includes corporate bonds and other non-national government debt securities which are valued using observable inputs and non-quoted investment funds valued with observable inputs.

Level 3 - unobservable inputs
Items in the category would be valued on a basis using significant inputs for the asset or liability that are not based on observable market data (unobservable inputs). The group holds no assets or liabilities in this category.

The table below summarises the fair value measurement basis used for assets and liabilities held at fair value.

At 31st December 2009	Level 1 active quoted prices £'000	Level 2 Other Observable inputs £'000	Level 3 unobservable inputs £'000	Total £'000
Financial assets				
Equity securities at fair value through income	3,842	-	-	3,842
Debt securities at fair value through income	63,687	-	-	63,687
Derivatives at fair value through income	402	-	-	402
Deposits with credit institutions	10,577	1,285	-	11,862
	78,508	1,285	-	79,793
Financial liabilities				
Derivatives at fair value through income	(343)	-	-	(343)

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk; foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (prices risk).

The objective of market risk management is to manage and control market risk exposures within acceptable parameters whilst optimising the return on risk.

The group's exposure to changes in interest rates and market prices is concentrated in the investment portfolio.

In contrast to 2008 the financial market as a whole enjoyed a rally. In this positive environment a satisfactory investment performance was generated with an overall return of £5.7m.

The group manages its investment portfolio in accordance with an investment framework that is approved by the directors. The framework is used to determine both the investment policy and to establish the investment risk appetite. In this context the overall risk is reviewed on a regular basis and the asset allocation is adjusted to ensure it reflects the investment risk appetite. Over the course of the year investment risk was reduced substantially.

The detailed consideration of group investment strategy is the responsibility of the investment committee, a committee of the board. Investment management is outsourced and the performance of investment managers against their respective benchmarks is monitored on a monthly basis. There is also a formal quarterly review of performance and measurement of portfolio risk by the investment committee and, through it, the board.

The asset class allocation aims to ensure that the group's technical liabilities are matched against assets by currency and maturity. In addition, the group ensures minimal risk is taken with the committed regulatory capital. An overall investment risk budget is established annually by the board. Asset allocation is determined by reference to the risk budget and strictly monitored and controlled. Diversification is used as a means of minimising volatility with assets being allocated over a broad range, whilst observing necessary risk constraints.

Known claims liabilities of the group are matched by currency and maturity to fixed income assets providing appropriate security and liquidity to facilitate expeditious settlement of claims. The remainder of the portfolio, being invested from free reserves, is allocated to a more diversified bond mandate and other higher yielding assets which are expected to produce higher absolute returns in the long-term. The company liquidated its direct equity holdings in response to its reduced risk appetite.

a) **Currency risk**

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The company operates internationally and its exposures to foreign exchange risk arise primarily with respect to the US, Canadian, Australian, New Zealand, Euro and South African currencies.

The group's financial assets are primarily denominated in the same currencies as its liabilities (including forward currency contracts) which mitigate the foreign exchange rate risk of the overseas operations. Cross currency funding underpinning regional regulatory capital requirements is effectively managed by the group through derivative financial instruments as forward currency contracts are put in place to reduce the currency exposure.

Forward currency contracts are used to reduce the group's exposure to fluctuations in currency conversion rates between Sterling and other currencies so that the group's net assets are not significantly affected.

The table below summarises the group's exposure to foreign currency exchange rate risk, before the use of forward currency contracts, by categorising the assets and liabilities by major currencies.

At 31st December 2009	**Assets** £'000	**Liabilities** £'000	**Net assets/ (liabilities)** £'000
Australian Dollars	15,837	10,369	5,468
Canadian Dollars	19,001	17,547	1,454
Euro	11,243	18,044	(6,801)
New Zealand Dollars	2,721	3,696	(975)
US Dollars	23,720	36,515	(12,795)
South African Rand	2,579	946	1,633
	75,101	87,117	(12,016)
Sterling	72,587	16,907	55,680
	147,688	104,024	43,664

b) **Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk arises primarily from the nature and term of investments held and is managed through the buying and selling of appropriate fixed interest securities of different durations.

The group uses a number of sensitivity management tools to understand the volatility of earnings. The table below shows the effects of a 0.5% increase or decrease in interest rates on earnings from debt securities:

	2009 £'000	**2008** £'000
0.5% increase in interest rates	(176)	(238)
0.5% decrease in interest rates	166	201

c) **Price risk**

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The group is exposed to price risk as a result of its holdings in equity investments and debt securities.

The group's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, limits on investments in each country, sector and market and careful and planned use of derivative financial instruments.

The table below shows the anticipated change in equity and alternative investment market values from a 10% increase or decrease in underlying prices:

	2009 £'000	**2008 £'000**
10% increase in equity price	384	2,060
10% decrease in equity price	(384)	(2,060)

The table above demonstrates the effect of a change in a key assumption whilst other assumptions remain unchanged. It should be noted that these sensitivities are non-linear, and larger or smaller impacts should not be extrapolated or interpolated from these results. The sensitivity analyses do not take into consideration that the company's assets and liabilities are actively managed. Management actions could include selling investments, changing investment portfolio allocation and taking other protective action. In addition, the financial position of the company may vary at the time that any actual market movement occurs.

Operational risks

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The group cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the group is able to manage the risks. Controls include effective segregation of duties, access controls within the IT environment, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Capital management

The required capital, as measured by the UK Financial Services Authority's (FSA's) Required Minimum Margin (RMM) is determined by the application of a formula that contains variables for premium and claims, expenses and reserves. The company also submits to its domiciliary regulator an annual Enhanced Capital Requirement (ECR) calculation and an Individual Capital Assessment (ICA) as required.

The company is required to maintain sufficient capital locally to provide solvency coverage for its operations in Australia, New Zealand, South Africa, the United States and Canada, in line with the applicable local regulations. The company has a capital management procedure in place to ensure that such overseas requirements are complied with at all times. As part of this process the group has, where appropriate, developed its own more robust internal solvency calculations to ensure compliance with the regulatory minima. The company met the requirements of the RMM and ECR throughout 2009. In addition, there have been no reported breaches of external regulatory requirements in relation to any of the regulators in overseas jurisdictions in respect of capital during the year.

The group capital comprises the capital and reserves of £43.7m shown in the consolidated balance sheet. The company manages capital on an adjusted solo solvency basis as prescribed by the FSA which includes the capital of SM Insurance (Bermuda) Limited and SM Insurance (Guernsey) Limited. This core tier one capital was £43.4m as at 31st December 2009 (2008: £40.5m) of which a total of £14.1m (2008: £14.8m) was held in local currency to support local solvency requirements in Australia, USA, Canada and New Zealand.

At 31st December 2009, the insurance subsidiary Sunderland Marine (Africa) Limited held regulatory capital of £1.3m (2008: £0.9m).

2. Analysis of premiums, result before taxation and net assets

On the grounds that the information is commercially sensitive the directors of the company have taken advantage of the exemption from disclosure that is available within SSAP 25 and therefore disclosure of the geographical analysis of gross premium income, result before taxation and net assets has not been provided.

3. Analysis of gross direct written premiums

Gross direct written premiums resulting from contracts concluded:

	2009 £'000	2008 £'000
In the United Kingdom	12,979	11,105
In other countries	61,254	51,877
	74,233	62,982

4. Prior years' claims provisions

Over provisions for claims at the beginning of the year compared to payments and provisions at the end of the year in respect of prior years' claims are as follows:

	2009 £'000	2008 £'000
Direct	5,227	2,286
Inward reinsurance	(474)	304

5. Net operating expenses

	2009 £'000	2008 £'000
Acquisition costs	11,940	11,846
Change in deferred acquisition costs	499	(518)
Administration expenses	12,816	9,749
Reinsurance commissions and profit participation	(2,816)	(2,075)
	22,439	19,002

6. Particulars of employees

The average number of staff employed by the group during the financial year amounted to:

	2009 No	2008 No
Number of staff – full time	113	98
Number of staff – part time	8	8
	121	106
Staff employed by joint venture companies	58	56
	179	162

The aggregate payroll costs of the staff employed by the group were:

	2009 £'000	2008 £'000
Wages and salaries	5,861	5,324
Social security costs	411	358
Staff pension contributions	714	861
Directors' pension contributions	-	9
	6,986	6,552

The directors' aggregate emoluments, including pension contributions, in respect of qualifying services were:

	2009 £'000	2008 £'000
Emoluments receivable	826	859
Value of company pension contributions to defined benefit schemes	-	9
	826	868

Fees of £51,325 (2008: £52,873) payable to one director were paid, with the addition of VAT, to his company, Sandwood Services Limited. Fees of £21,312 (2008: £18,975) for Mr C.J. Hilton were paid to Eversheds LLP.

These disclosures include amounts relating to directors of the company in respect of their positions as directors of subsidiary companies where appropriate.

The aggregate emoluments of the highest paid director were £378,082 (2008: £390,110) including pension contributions of £nil (2008: £8,833). His accrued pension at the year-end was £141,444 (2008: £134,930) and his accrued lump sum was £437,500 (2008: £412,500).

One director accrued benefits under a company pension scheme (2008:1).

7. Investment income/(losses)

	2009 £'000	2008 £'000
Interest income: group and share of joint ventures	469	966
Less: share of joint ventures' interest income	(5)	(35)
	464	931
Gains on the realisation of investments	-	1,117
Other investment income	2,923	2,517
Interest on defined benefit pension plan obligation	(884)	(861)
Expected return on defined benefit pension plan assets	854	935
Exchange and translation losses	(404)	(4,626)
Derivative income/(charge)	1,903	(440)
	4,856	(427)

Income from listed investments included in other investment income is £2,889,000 (2008: £2,721,000).

8. Unrealised gains/(losses) on investments at fair value

	2009 £'000	2008 £'000
Unrealised gains/(losses) on investments	4,214	(9,164)

9. Investment expenses and charges

	2009 £'000	2008 £'000
Investment management expenses, including interest	562	774
Losses on the realisation of investments	2,747	-
	3,309	774

10. Operating surplus/(deficit)

Of the group operating result, £199,000 surplus (2008: surplus £152,000) is attributable to the share of operating results in joint ventures.

11. Surplus/(deficit) on ordinary activities before tax

	2009 £'000	2008 £'000
Surplus/(deficit) on ordinary activities before tax is stated after charging/(crediting):		
Overdraft and loan interest	352	675
Depreciation on land and buildings	152	140
Depreciation on tangible fixed assets	262	229
Loss on sale of fixed assets	3	-
Amortisation of goodwill	854	415
Exchange and translation losses	1,128	3,438
Derivative (income)/charge	(1,903)	440
Operating lease costs	191	126
Cost of option to acquire remaining shareholding in Knighthood Corporate Assurance Services Limited	-	495
Auditors' remuneration:		
Audit of these financial statements	152	167
Amounts receivable by the auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	89	107
Other services pursuant to such legislation	154	123
Other services relating to tax	9	-
Services relating to corporate finance transactions	-	48
Audit of pension scheme	5	4
All other services (principally regulatory)	33	107

12. (Deficit)/surplus attributable to members of the parent company

The deficit in the accounts of the parent company was £1,917,000 (2008 surplus: £1,349,000).

13. Tax on surplus/(deficit) on ordinary activities

	2009 £'000	2008 £'000
The charge for taxation is computed as follows:		
UK corporation tax on the taxable surplus for the year at 28% (2008: 28.5%)	50	413
Adjustment in respect of previous periods	(89)	(143)
	(39)	270
Double taxation relief	(50)	(56)
	(89)	214
Overseas tax	420	505
Adjustment in respect of previous periods	10	(97)
	430	408
Share of joint ventures' current taxation	30	46
	30	46
Total current taxation	371	668
Deferred tax (note 26)		
Reversal of timing differences	(34)	(229)
Tax relief claimed in respect of contributions paid to the group defined benefit pension scheme	298	324
Total deferred taxation	264	95
Tax on surplus on ordinary activities	635	763

13. Tax on surplus/(deficit) on ordinary activities (continued)

	2009 £'000	2008 £'000
Factors affecting the tax charge for the period:		
Surplus/(deficit) on ordinary activities before tax	5,084	(10,708)
Current tax at 28% (2008: 28.5%)	1,424	(3,052)
Effects of:		
Non taxable income	8	(673)
Expenses not deductible for tax purposes	597	941
Higher/(lower) rates of overseas tax	(1,206)	4,005
Capital allowances in excess of depreciation	(20)	(6)
Other short-term timing differences	54	235
Double taxation relief	(50)	(56)
Adjustments to tax charge in respect of previous periods	(79)	(240)
Foreign tax credits	(9)	(93)
Losses utilised	(44)	(69)
Tax relief claimed in respect of contributions paid to the group defined benefit pension scheme	(298)	(324)
Small companies relief	(6)	-
Total current tax charge (see above)	371	668

Deferred tax has been calculated at 28% in accordance with FRS19.

14. Goodwill

Group

	2009 £'000
Cost	
At 1st January 2009	7,113
Addition	2,080
At 31st December 2009	9,193
Amortisation	
At 1st January 2009	1,580
Charged in year	854
At 31st December 2009	2,434
Net book value	
At 31st December 2009	6,759
At 31st December 2008	5,533

14. Goodwill (continued)

Goodwill is being amortised over its useful economic life, which the directors estimate individually for each acquisition and is shown below.

Goodwill in respect of the acquisition of Salvus Bain (Management) Limited is being amortised over twenty years.

Goodwill in respect of the acquisition of shares in Van Olst de Graaff & Co BV is being amortised over five years.

On 1st January 2009 Salvus Bain (Management) USA LLC acquired the trade and net assets of Marine Underwriters Inc, a business trading in USA. The carrying value of the identifiable assets and liabilities of the entity at the date of acquisition was also the fair value to the group.

The fair value of the identifiable assets and liabilities of the entity at the date of acquisition were:

	Carrying value and fair value to the group £'000
Assets	
Tangible assets	47
Net assets acquired	47
Goodwill arising on acquisition	809
Total consideration	856

The consideration was satisfied solely by cash.

The acquisition has been accounted for by using the acquisition method of accounting.

Goodwill is being amortised over five years.

On 1st January 2009 Van Olst de Graaff & Co BV acquired the trade of Assurantiekantoor P M Arkesteijn an entity trading in the Netherlands. No identifiable assets or liabilities were acquired at the date of acquisition. The goodwill arising on the acquisition is the purchase price of £1,271,000.

The consideration was satisfied solely by cash.

The acquisition has been accounted for by using the acquisition method of accounting.

Goodwill is being amortised over five years.

14. Goodwill (continued)

On 8th April 2008 Sunderland Marine Mutual Insurance Company Limited acquired 49% of the shareholding of Knighthood Corporate Assurance Services Plc, a company incorporated in the UK. The carrying value of the identifiable assets and liabilities of the entity at the date of acquisition was also the fair value to the group.

The fair value of the identifiable assets and liabilities of the entity at the date of acquisition were:

	Carrying value and fair value to the group £'000
Assets	
Tangible assets	285
Debtors	655
Cash at bank	1,016
Total assets	1,956
Liabilities	
Creditors falling due within one year	(1,604)
Total liabilities	(1,604)
Shareholders' funds	352
49% of fair value of shareholders' funds acquired	173
Goodwill arising on acquisition	1,335
Total consideration	1,508

The consideration was satisfied solely by cash.

The acquisition has been accounted for by using the acquisition method of accounting.

Goodwill is being amortised over ten years.

The cost of the option to acquire the remaining shareholding in Knighthood Corporate Assurance Services Limited of £495,000 was expensed in the year ended 31st December 2008.

15. Land and buildings

	Freehold land and buildings £'000
Group	
Valuation	
At 1st January 2009	8,168
Adjustment due to exchange rates	262
Additions	538
At 31st December 2009	8,968
Depreciation	
At 1st January 2009	22
Adjustment due to exchange rates	3
Charge for the year	152
At 31st December 2009	177
Net book value	
At 31st December 2009	8,791
At 31st December 2008	8,146
Company	
Valuation	
At 1st January 2009	8,168
Adjustment due to exchange rates	262
Additions	7
At 31st December 2009	8,437
Depreciation	
At 1st January 2009	22
Adjustment due to exchange rates	3
Charge for the year	141
At 31st December 2009	166
Net book value	
At 31st December 2009	8,271
At 31st December 2008	8,146

15. Land and buildings (continued)

The group's freehold property in the UK was re-valued to £6,500,000 at 31st December 2008 by external valuers Bradley Hall Chartered Surveyors Limited. The property was valued on the basis of open market value for existing use. The valuation is in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

Two of the group's freehold properties were re-valued at 31st December 2007. Overseas freehold property amounting to £990,000 was valued by suitably qualified external valuers, Sutherland Farrelly, Licenced Property Valuers. Overseas freehold property amounting to £310,000 was valued by suitably qualified external valuers, Duke & Cooke Limited, Valuers & Property Specialists. The properties were valued on the basis of open market value for existing use.

The total cost of all land and buildings at 31st December 2009 was £8,578,000 (2008: £8,040,000).

16. Investments in group undertakings and participating interests

	Shares in group undertakings £'000
Group	
At 1st January 2009	705
Adjustment due to exchange movements	24
Share of profits of joint ventures	47
At 31st December 2009	776
Company	
At 1st January 2009	24,860
Adjustment due to exchange movements	291
Repayment of loans owed by subsidiary undertakings	(1,926)
Revaluation	4,921
Acquisition on group re-structure	5,423
Impairment	(996)
At 31st December 2009	32,573

On 30th June 2009 Salvus Bain (Management) Limited and its wholly owned subsidiaries Sunderland Pacific Management Pty Limited and Sunderland Pacific Management (New Zealand) Limited ceased to provide management services to Sunderland Marine Mutual Insurance Company Limited. The assets and employees of these companies, including the investments held by Salvus Bain (Management) Limited in Salvus Bain Management (USA) LLC, Salvus Bain (Canada) Limited and Van Olst de Graaff & Co BV were transferred to Sunderland Marine Mutual Insurance Company Limited.

At the same date, Salvus Bain (Africa) (Pty) Limited, a wholly owned subsidiary of Salvus Bain (Management) Limited, ceased to provide management services to Sunderland Marine (Africa) Limited, a wholly owned subsidiary of the company. The assets and employees of Salvus Bain (Africa) (Pty) Limited were transferred to Sunderland Marine (Africa) Limited.

The carrying value of the identifiable assets and liabilities of the entities at the date of transfer was also the fair value to Sunderland Marine Mutual Insurance Company Limited, other than the investment in subsidiaries held in Salvus Bain (Management) Limited which were re-valued to market value at the date of transfer.

16. Investments in group undertakings and participating interests (continued)

The consolidated capital and reserves and profit for the year of Salvus Bain (Management) Limited are disclosed below.

	2009 £'000	2008 £'000
Share capital and reserves	4,670	3,168
Retained profit for the year	2,982	1,448

	2009 £'000	2008 £'000
Share of joint ventures' assets	1,770	1,600
Share of joint ventures' liabilities	(994)	(895)
	776	705

At the year end, balances due to the group from its joint ventures were as follows:-

	2009 £'000	2008 £'000
Knighthood Corporate Assurance Services Plc - trading balances	204	125
Harlock Murray Underwriting Limited - trading balances	306	310

The total cost of investments in subsidiary undertakings at 31st December 2009 is £15,426,000 (2008: £10,003,000).

The following were the principal subsidiaries and joint ventures at the end of the year included in the consolidation:

	Country of incorporation or registration	Proportion of equity shares held	Nature of business
Sunderland Marine (Africa) Limited	South Africa	100%	Marine insurance
SM Insurance (Bermuda) Limited	Bermuda	100%	Marine reinsurance
SM Insurance (Guernsey) Limited	Guernsey	100%	Marine reinsurance
Salvus Bain (Management) Limited	England	100%	Management company
Salvus Bain Management (USA) LLC	U.S.A.	100%	Brokerage
Van Olst de Graaff & Co BV	Netherlands	73%	Brokerage
Sunderland Pacific Management Pty Limited	Australia	100%	Management company
Sunderland Pacific Management (NZ) Limited	New Zealand	100%	Management company
Salvus Bain (Africa) (Pty) Limited	South Africa	100%	Management company

16. Investments in group undertakings and participating interests (continued)

The joint ventures are;

Joint ventures	Country of incorporation or registration	Proportion of equity shares held	Nature of business
Knighthood Corporate Assurance Services Plc	England	49%	Insurance Broker
Harlock Murray Underwriting Limited	Canada	50%	Broking & management Services

Knighthood has been accounted for as a joint venture by virtue of the joint control exercised over the financial and operating policies of the company.

17. Financial assets

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Equity securities at fair value through income				
Market value	3,842	20,598	-	127
Cost	4,409	24,830	-	243
Debt securities at fair value through income				
Market value	63,687	43,647	14,103	7,043
Cost	62,845	43,389	14,139	7,006
Derivatives at fair value through income	402	758	39	174

The fair value of listed equities and debt securities is determined by reference to their quoted bid price at the reporting date.

The fair value of the derivative financial instruments is based on their listed market price.

18. Reinsurers' share of technical provisions

	Provision for unearned premiums £'000	Claims outstanding £'000	Total £'000
Group			
At 1st January 2009	5,602	6,983	12,585
Adjustment due to exchange movements	50	(481)	(431)
Movement during the year	230	4,630	4,860
At 31st December 2009	5,882	11,132	17,014
Company			
At 1st January 2009	21,938	50,637	72,575
Adjustment due to exchange movements	38	(2,130)	(2,092)
Movement during the year	(1,935)	560	(1,375)
At 31st December 2009	20,041	49,067	69,108

19. Debtors arising out of direct insurance operations

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Amounts owed by policyholders	17,510	18,660	17,294	18,235
Amounts owed by intermediaries	137	129	137	129
	17,647	18,789	17,431	18,364

20. Debtors arising out of reinsurance operations

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Debtors arising out of inward reinsurance operations	804	1,948	804	1,948
Debtors arising out of outward reinsurance operations	1,530	2,229	1,497	1,958
	2,334	4,177	2,301	3,906

21. Other debtors

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Corporation tax	102	50	102	-
Other taxation	101	64	81	64
Other debtors	1,860	2,086	610	-
Deferred taxation	306	215	255	-
	2,369	2,415	1,048	64

22. Tangible fixed assets

	Fixtures & fittings £'000	Motor vehicles £'000	Computers £'000	Total £'000
Group				
Cost				
At 1st January 2009	838	351	834	2,023
Adjustment due to exchange movements	(9)	(3)	(10)	(22)
Acquired with subsidiary	-	47	-	47
Additions	21	43	99	163
Disposals	(27)	(106)	(183)	(316)
At 31st December 2009	823	332	740	1,895
Depreciation				
At 1st January 2009	436	155	727	1,318
Adjustment due to exchange movements	(5)	(5)	(10)	(20)
Charge for the year	95	70	97	262
On disposals	(23)	(70)	(183)	(276)
At 31st December 2009	503	150	631	1,284
Net book value				
At 31st December 2009	320	182	109	611
At 31st December 2008	402	196	107	705

22. Tangible fixed assets (continued)

	Fixtures & fittings £'000	Motor vehicles £'000	Computers £'000	Total £'000
Company				
Cost				
At 1st January 2009	58	-	-	58
Adjustments due to exchange movements	(4)	-	-	(4)
Transferred from subsidiary undertaking	298	85	70	453
Additions	5	18	40	63
Disposals	-	(18)	(7)	(25)
At 31st December 2009	357	85	103	545
Depreciation				
At 1st January 2009	19	-	-	19
Charge for the year	51	13	38	102
Disposals		(11)	(7)	(18)
At 31st December 2009	70	2	31	103
Net book value				
At 31st December 2009	287	83	72	442
At 31st December 2008	39	-	-	39

23. Capital and reserves

	Revaluation reserve £'000	Reserve fund £'000	Income & expenditure account		
			Translation reserve £'000	I&E reserve £'000	Total £'000
Group					
At 1st January 2009	313	26,007	212	14,445	14,657
Surplus for year	-	-	-	4,346	4,346
Foreign exchange rate movements	22	-	(210)	-	(210)
Actuarial deficit recognised in pension scheme	-	-	-	(1,471)	(1,471)
At 31st December 2009	335	26,007	2	17,320	17,322

23. Capital and reserves (continued)

	Revaluation reserve £'000	Reserve fund £'000	Income & expenditure account Translation reserve £'000	I&E reserve £'000	Total £'000
Company					
At 1st January 2009	12,348	26,007	(214)	3,798	3,584
Deficit for year	-	-	-	(1,917)	(1,917)
Revaluation	4,921	-	-	-	-
Foreign exchange rate movements	37	-	(321)	-	(321)
Actuarial deficit recognised in pension scheme	-	-	-	(1,138)	(1,138)
Transfer on group restructure	96	-	-	(96)	(96)
At 31st December 2009	17,402	26,007	(535)	647	112

24. Reconciliation of movements on capital and reserves

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
At 1st January	40,977	53,009	41,939	54,798
Surplus/(deficit) for year	4,346	(11,575)	(1,917)	1,349
Revaluation	-	159	4,921	(14,036)
Foreign exchange rate movements	(188)	(239)	(284)	(492)
Actuarial deficit recognised in pension scheme	(1,471)	(523)	(1,138)	-
Deferred tax associated with pension scheme	-	146	-	-
TZ transfer	-	-	-	320
At 31st December	43,664	40,977	43,521	41,939

25. Technical provisions – gross amounts

	Provision for unearned premiums £'000	Claims outstanding £'000	Total £'000
Group			
At 1st January 2009	31,310	56,467	87,777
Adjustment due to exchange movements	841	(2,178)	(1,337)
Movement during the year	(272)	149	(123)
At 31st December 2009	31,879	54,438	86,317
Company			
At 1st January 2009	30,725	55,529	86,254
Adjustment due to exchange movements	774	(2,194)	(1,420)
Movement during the year	(310)	924	614
At 31st December 2009	31,189	54,259	85,448

26. Provision for deferred taxation

The provision for deferred taxation has been made at the rate of 28% (2008: 28%) as follows:

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
At 1st January	215	(28)	(17)	(120)
Adjustment due to exchange movements	57	14	45	20
Adjusted provision at 1st January	272	(14)	28	(100)
Transfer on group restructure	-	-	29	-
Movement during year	34	229	198	83
At 31st December	306	215	255	(17)
Excess of taxation allowances over depreciation on fixed assets	(351)	(255)	(316)	(293)
Other timing differences	657	470	571	276
	306	215	255	(17)

27. Derivative liabilities

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Derivatives at fair value through income	343	1,343	306	392

The fair value of the derivative financial instruments is based on their listed market price.

28. Creditors arising out of reinsurance operations

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Amounts owing to subsidiary undertakings	-	-	14,626	16,990
Other creditors arising out of reinsurance operations	2,786	2,808	2,786	2,808
	2,786	2,808	17,412	19,798

29. Creditors – borrowings

Creditors include finance capital which is due for repayment as follows:

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Bank overdraft	5,216	-	5,216	-
Bank loan	1,149	6,300	-	6,300
	6,365	6,300	5,216	6,300
Amounts repayable:				
In one year or less or on demand	460	1,400	-	1,400
In more than one year but not more than five years	689	4,900	-	4,900
	1,149	6,300	-	6,300
Wholly repayable within five years:				
Commercial mortgage	1,149	6,300	-	6,300

Group borrowings are secured against the company's UK land and building and by a guarantee provided by a subsidiary company. Interest is charged at 2.1% above base rate on the overdraft and 2.25% above Libor on the loans. Interest charged during the year on the loans was £151,000 (2008: £289,000) and on the overdraft £201,000 (2008: £386,000)

30. Other creditors including taxation and social security

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Corporation tax	-	-	-	78
Other taxes and social security	537	275	573	320
Other creditors	2,086	3,359	4,846	68
	2,623	3,634	5,419	466

31. Financial assets and liabilities

At 31st December 2009	Fair value through income £'000	Loans and receivables £'000	Amortised cost £'000	Total carrying value £'000	Total fair value £'000
Financial assets					
Equity securities at fair value through income	3,842	-	-	3,842	3,842
Debt securities at fair value through income	63,687	-	-	63,687	63,687
Derivatives	402	-	-	402	402
Deposits with credit institutions	-	11,862	-	11,862	11,862
Debtors arising out of direct insurance operations	-	17,647	-	17,647	17,647
Debtors arising out of reinsurance operations	-	2,334	-	2,334	2,334
Other debtors	-	2,369	-	2,369	2,369
Cash and cash equivalents	-	5,912	-	5,912	5,912
At 31st December 2009	67,931	40,124	-	108,055	108,055
Financial liabilities					
Derivatives	(343)	-	-	(343)	(343)
Creditors arising out of direct insurance operations	-	-	(1,915)	(1,915)	(1,915)
Creditors arising out of reinsurance operations	-	-	(2,786)	(2,786)	(2,786)
Borrowings	-	-	(6,365)	(6,365)	(6,365)
Other creditors, including taxation and social security	-	-	(2,623)	(2,623)	(2,623)
At 31st December 2009	(343)	-	(13,689)	(14,032)	(14,032)

31. Financial assets and liabilities (continued)

At 31st December 2008	Fair value through income £'000	Loans and receivables £'000	Amortised cost £'000	Total carrying value £'000	Total fair value £'000
Financial assets					
Equity securities at fair value through income	20,598	-	-	20,598	20,598
Debt securities at fair value through income	43,647	-	-	43,647	43,647
Derivatives	758	-	-	758	758
Deposits with credit institutions	-	17,603	-	17,603	17,603
Debtors arising out of direct insurance operations	-	18,789	-	18,789	18,789
Debtors arising out of reinsurance operations	-	4,177	-	4,177	4,177
Other debtors	-	2,415	-	2,415	2,415
Cash and cash equivalents	-	5,536	-	5,536	5,536
At 31st December 2008	65,003	48,520	-	113,523	113,523
Financial liabilities					
Derivatives	(1,343)	-	-	(1,343)	(1,343)
Creditors arising out of direct insurance operations	-	-	(2,005)	(2,005)	(2,005)
Creditors arising out of reinsurance operations	-	-	(2,808)	(2,808)	(2,808)
Borrowings	-	-	(6,300)	(6,300)	(6,300)
Other creditors, including taxation and social security	-	-	(3,634)	(3,634)	(3,634)
At 31st December 2008	(1,343)	-	(14,747)	(16,090)	(16,090)

32. Reconciliation of surplus/(deficit) on ordinary activities before taxation to net cash inflow from operating activities

	2009 £'000	2008 £'000
Surplus/(deficit) on ordinary activities before taxation	5,084	(10,708)
Share of profit of joint ventures	(199)	(152)
Amortisation of goodwill	854	414
Cost of option to acquire remaining shareholding in Knighthood	-	495
Depreciation	414	369
Loss on sale of fixed assets	3	-
Derivative (income)/charge	(1,903)	440
Pension contributions in excess of expense in income and expenditure account	(1,271)	(1,683)
(Increase)/decrease in reinsurers' share of technical provisions	(4,429)	6,655
Decrease/(increase) in debtors	3,174	(1,752)
Decrease/(increase) in prepayments and accrued income	517	(511)
(Decrease)/increase in technical provisions	(1,460)	4,621
(Decrease)/increase in creditors	(1,123)	658
Increase/(decrease) in accruals and deferred income	591	(368)
Loss/(gain) on sale of liquid investments	2,747	(1,117)
Adjustment to carrying value of liquid investments	(4,214)	9,164
Foreign exchange rate fluctuation	(576)	(4,733)
Tax suffered on investment income	(430)	(403)
Bank interest charge	352	675
Interest (paid)/received on tax payments	-	(2)
	(1,869)	2,062

33. Movement in cash, portfolio investments and financing

	Deposits & cash at bank net of overdraft £'000	Ordinary shares £'000	Fixed income securities £'000	Land and buildings £'000	Loans £'000	Total £'000
At 1st January 2009	23,139	20,598	43,647	8,146	(6,300)	89,230
Cash flow	(10,811)	(16,943)	18,961	538	5,151	(3,104)
Changes to market value and currencies	230	187	1,079	107	-	1,603
At 31st December 2009	12,558	3,842	63,687	8,791	(1,149)	87,729

34. Commitments under operating leases

At 31st December the group had annual commitments under non-cancellable operating leases as set out below.

	Land & buildings £'000	2009 Other items £'000	Land & buildings £'000	2008 Other items £'000
Group				
Operating leases which expire:				
Within one year	56	9	46	30
Within two to five years	69	160	62	79
	125	169	108	109

35. Pension commitments

Group

Defined benefit pension scheme

Salvus Bain (Management) Limited operated a defined benefit pension scheme in the United Kingdom, the Salvus Bain (Management) Limited Pension Scheme until 30th June 2009. The scheme was transferred to Sunderland Marine Mutual Insurance Company Limited at this date. The information disclosed below is in respect of the only plan for which Sunderland Marine Mutual Company Limited is the sponsoring employer.

	2009 £'000	2008 £'000
Present value of funded defined benefit obligations	(18,257)	(13,202)
Fair value of plan assets	16,994	12,139
Deficit	(1,263)	(1,063)
Related deferred tax asset	-	298
Net liability	(1,263)	(765)

35. Pension commitments (continued)

Movements in present value of defined benefit obligation

	2009 £'000	2008 £'000
At 1st January	13,202	15,077
Current service cost	458	631
Interest cost	884	861
Actuarial losses/(gains)	3,736	(3,315)
Benefits paid	(188)	(232)
Contributions by members	165	180
At 31st December	18,257	13,202

Movements in fair value of plan assets

	2009 £'000	2008 £'000
At 1st January	12,139	12,854
Expected return on plan assets	854	935
Actuarial gains/(losses)	2,265	(3,838)
Contributions by employer	1,759	2,240
Contributions by members	165	180
Benefits paid	(188)	(232)
At 31st December	16,994	12,139

Expense recognised in the income and expenditure account

	2009 £'000	2008 £'000
Current service cost	458	631
Interest on defined benefit pension plan obligation	884	861
Expected return on defined benefit pension plan assets	(854)	(935)
Total	488	557

35. Pension commitments (continued)

The expense is recognised in the following line items in the income and expenditure account:

	2009 £'000	2008 £'000
Net operating expenses	458	631
Investment income/(losses)	30	(74)
	488	557

The total amount recognised in the statement of total recognised gains and losses in respect of actuarial losses is £1,471,000 (2008: £523,000).

The fair value of the plan assets and the return on those assets were as follows:

	2009 Fair value £'000	2008 Fair value £'000
Equities	11,000	7,130
Bonds	4,625	2,629
Property	14	245
Other	1,355	2,135
	16,994	12,139
Actual return on plan assets	2,520	(2,908)

The expected rates of return on plan assets are determined by considering the expected return on each individual asset class. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

35. Pension commitments (continued)

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

	2009 %	2008 %
Discount rate	5.7	6.5
Expected rate of return on plan assets	6.0	6.5
Expected return on plan assets at beginning of the period	6.5	6.7
Future salary increases	3.6	4.0
Inflation	3.6	3.0
Mortality	PA92mc	PA92 (c= 2020)

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a current pensioner aged 63 years old to live for 24 years (male) and 27 years (female).

History of plan

The history of the plan for the current and prior periods is as follows. The company has chosen not to restate the corresponding amounts for the first two of the previous four accounting periods for the effect of using the current bid-price rather than the mid-market price.

Balance sheet	2009 £'000	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Present value of scheme liabilities	(18,257)	(13,202)	(15,077)	(13,814)	(10,358)
Fair value of scheme assets	16,994	12,139	12,854	11,468	8,128
Deficit	(1,263)	(1,063)	(2,223)	(2,346)	(2,230)

	2009 %	2008 %	2007 %	2006 %	2005 %
Experience adjustments on scheme liabilities as a percentage of scheme liabilities	(20.7)	25.1	(1.8)	(10.0)	(3.5)
Experience adjustments on scheme assets as a percentage of scheme assets	13.4	(31.6)	4.4	5.6	10.9

The company expects to contribute approximately £940,000 to its defined benefit plan in the next financial year.

35. Pension commitments (continued)

From 1st July the company, and previously its subsidiary undertaking Salvus Bain (Management) Limited, contributed an amount of £180,000 (2008: £151,000) during 2009 to the pension scheme for administration fees, audit fees and members' life assurance premiums.

Defined contribution pension schemes

The group also operates a number of defined contribution pension schemes. The total pension cost charge for the year represents contributions payable to the schemes and amounted to £206,000 (2008: £193,000). There were no outstanding or prepaid contributions at either the beginning or the end of the financial year. Contributions of £50,000 (2008: £46,000) were also made to a government superannuation scheme.

Company

On 30th June 2009 the defined benefit pension scheme was transferred from Salvus Bain (Management) Limited to Sunderland Marine Mutual Insurance Company Limited. The scheme liability at this date was £535,000.

On 30th June 2009 the defined contribution pension scheme operated by Salvus Bain (management) Limited was also transferred to Sunderland Marine Mutual Insurance Company Limited.

36. Guarantees

SM Insurance (Bermuda) Limited has a guarantee in favour of Barclays Bank Plc to enable Sunderland Marine Mutual Insurance Company Limited to enter into commercial borrowing with Barclays Bank Plc for a sum of up to £25,000,000.

At 31st December 2009 the amount owing on the facility was £5,216,000, representing the charge over the assets that Barclays Bank Plc has on SM Insurance (Bermuda) Limited.

The company has a guarantee in favour of its subsidiary company Sunderland Marine (Africa) Limited. The guarantee provides comfort to the policyholders of Sunderland Marine (Africa) Limited as the company will stand as a guarantor for the first South African R3,000,000 of any claim.

SUNDERLAND MARINE MUTUAL INSURANCE COMPANY LIMITED

SUPPLEMENTARY

FINANCIAL INFORMATION

AS AT

31ST DECEMBER 2009

We, Geoffrey Corbett Parkinson and Alan Stuart Rowland, being the CEO and Company Secretary respectively, of Sunderland Marine Mutual Insurance Company Limited ('the Company') certify:-

That the annexed Financial Information of the company's business for the year ended 31st December 2009 are true and correct and that these figures were incorporated in the published accounts of the Company, a copy of which is annexed to this report.

That the Company Income and Expenditure Account and Cash Flow Statement with attendant notes for the year ended 31st December 2009 are true and correct and that these figures were incorporated in the amounts used within the published statutory accounts of the group, a copy of which is annexed to this report.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors of the Company have accepted responsibility for preparing the annexed Financial Information.

Under section 408(1) Companies Act 2006 whilst the directors of the company are required to prepare and approve the income and expenditure account of the Company for each financial year as part of its statutory accounts, they are permitted by that section not to publish the income and expenditure account of the Company when group accounts are being prepared though they are required to disclose the amount of the profit for the financial year.

The income and expenditure account set out on page 4 is a true and correct copy of the income and expenditure account approved by the directors of the Company on 24 March 2010 when the group accounts were approved.

As such the statement of directors' responsibilities on page 19 of the group accounts also applies to this income and expenditure account of the Company.

Under Financial Reporting Standard 1 *Cash Flow Statement,* the Directors of the Company are not required to prepare and present a cash flow statement for the Company. Therefore the Directors of the Company have now prepared this Cash Flow Statement.

....	....
G C PARKINSON Director	A S ROWLAND Company Secretary
21st May 2010	21st May 2010

Review report of KPMG Audit Plc to Sunderland Marine Mutual Insurance Company Limited

In accordance with the terms of our engagement letter dated 30 May 2008 we have reviewed the Income and Expenditure Account and Cash Flow Statement with attendant notes of Sunderland Marine Mutual Insurance Company Limited ("the Company") for the year ended 31 December 2009 as set out on pages 4 to 6 of the Supplementary Financial Information.

This statement is made solely to the company in accordance with the terms of our engagement. Our work has been undertaken so that we might state to the Company those matters we have been engaged to state in this statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our work, for this statement, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors have accepted responsibility for preparing the Supplementary Financial Information.

Under the terms of our engagement our responsibility is to carry out the review procedures specified in our engagement letter and to issue a report to the Company on the Income and Expenditure Account and Cash Flow Statement with attendant notes based on our review.

Basis of opinion

We conducted our review in accordance with the International Standard on Review Engagements 2400 *Engagements to Review Financial Statements*. That Standard requires that we plan and perform the review to obtain moderate assurance as to whether the Income and Expenditure Account with attendant notes is a correct copy of the Income and Expenditure Account approved by the directors of the Company on 24 March 2010 when the group accounts were approved; and whether the Cash Flow Statement with attendant notes is free of material misstatement. A review is limited primarily to enquiries of the directors of the Company and analytical procedures applied to financial data and thus provides less assurance than an audit.

We have not performed an audit on the Income and Expenditure Account and Cash Flow Statement with attendant notes and, accordingly, we do not express an audit opinion.

We have previously on 25 March 2009 expressed an audit opinion on the published statutory accounts of the Company and its group which includes the profit for the financial year for the Company. As set out in our audit report on those statutory accounts, that audit report is made solely to the Company's members, as a body, in accordance with chapter 3 of part 16 of the Companies Act 2006. The audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for that audit work, for the audit report, or for the opinions we have formed in respect of that audit.

Opinion

Based on our review, nothing has come to our attention that causes us to believe that:

- the Income and Expenditure Account is not a correct copy of the Income and Expenditure Account approved by the directors of the Company on 24 March 2010 when the group accounts were approved; and
- the Cash Flow Statement with attendant notes are not prepared, in all material respects, in accordance with the requirements of FRS 1 *Cash flow statements*.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Newcastle upon Tyne, UK

21st May 20~~09~~10

INCOME & EXPENDITURE ACCOUNT COMPANY ACCOUNTS

For the year ended 31 December 2009

	2009 £000	2008 £000
Turnover	75,502	66,261
	75,502	66,261
(Deficit)/ surplus derived from		
Insurance	(2,302)	1,719
Investments	195	(290)
(Deficit)/ surplus before taxation	(2,107)	1,429
Taxation	190	(80)
(Deficit)/surplus after taxation	(1,917)	1,349
(Deficit)/ surplus after taxation attributable to members of the company	(1,917)	1,349
Accumulated surplus brought forward	3,584	2,000
Foreign exchange rate movement	(321)	(502)
Transfer on group restructure	(96)	-
Part VII transfer of TZ	-	737
Actuarial deficit recognised in pension scheme	(1,138)	-
Accumulated surplus carried forward	112	3,584

In addition to the accumulated surplus, the company has a reserve fund of £26,007,000 (2008: £26,700,000) and a revaluation reserve of £17,402,000 (2008: £12,348,000), giving total capital and reserves of £43,521,000 (2008: £41,939,000).

CASH FLOW STATEMENT — COMPANY ACCOUNTS

For the year ended 31 December 2009

	Note	2009 £000	2008 £000
Operating activities			
Net cash inflow from operating activities	1	6,369	3,797
Dividends Recieved			
Joint venture		122	-
Subsidiary		75	-
Interest paid			
Bank interest paid		(302)	(638)
Taxation			
Corporation tax paid		(78)	(44)
Capital Expenditure			
Purchase of fixed assets		(63)	-
Sale of tangible fixed assets		7	-
Acquisition			
Net cash acquired with TZ transfer		-	3,446
Cost of option to acquire remaining shareholding		-	(495)
Acquisition of Shares in joint venture		-	(1,508)
Acquisition on group restructure		(4,728)	-
Financing			
(Repayment)/Drawdown of loan		(1,084)	2,775
Increase in loans to subsidiary undertakings		1,926	(7)
		2,244	7,326
Cash flows were invested as follows:			
(Decrease) / increase in cash holdings	2	(5,064)	6,745
Portfolio investments			
Purchase of fixed assets		7	274
Purchase of equity securities		41	285
Purchase of fixed income securities		15,378	4,219
Sale of equity securities		(241)	(280)
Sale of fixed income securities		(7,877)	(3,917)
Net investment of cash flows		2,244	7,326
Movement in opening and closing portfolio investments net of financing			
Net cash (outflow)/inflow for year		(5,064)	6,745
Transfer from subsidiary		(345)	-
Cash flow - portfolio investments		7,308	581
- Decrease/(increase) in loans		1,084	(2,775)
Movement arising from cash flows	2	2,983	4,551
Changes in market values and exchange rate effects		(242)	3,260
Total movement in portfolio investments net of financing		2,741	7,811
Portfolio investments net of financing at 1st January		26,249	18,438
Portfolio investments net of financing at 31st December	2	28,990	26,249

1) Reconciliation of surplus before tax to net cash inflow / (outflow) from operating activities

	2009 £000	2008 £000
Surplus on ordinary activities before taxation	(2,107)	1,429
Dividend received from joint venture	(122)	-
Dividend received from subsidiary	(75)	-
Cost of option to acquire remaining shares in subsidiary	-	495
Depreciation of leasehold property	243	159
Derivative charge	49	121
Pension contributions in excess of income and expenditure account	(410)	-
(Increase)/decrease in reinsurers' share of technical provisions	3,467	(5,330)
(Increase)/decrease in debtors	1,912	(1,759)
(Increase)/decrease in prepayments and accrued income	373	(743)
Increase/(decrease) in technical provisions	(806)	5,672
Increase/(decrease) in creditors	2,371	6,830
Increase in accruals and deferred income	798	41
Loss/(gain) on sale of liquid investments	191	(116)
Adjustment to carrying value of liquid investments	(59)	179
Foreign exchange rate fluctuation	(647)	(3,838)
Tax suffered on investment income	(110)	(49)
Bank interest charge	305	635
Surplus on TZ transfer	-	71
Impairment on restructure	996	-
Net cash inflow from operating activities	6,369	3,797

2) Movement in cash, portfolio investments and financing during the year

	Deposits and cash at bank £'000	Ordinary Shares £'000	Fixed income securities £'000	Land and buildings £'000	Loans £'000	Total £'000
Balance at 1st January 2009	17,233	127	7,043	8,146	(6,300)	26,249
Cash flow	(5,064)	(200)	7,501	7	1,084	3,328
Transfer from subsidiary	(345)	-	-	-	-	(345)
Changes to market value & currencies	8	73	(441)	118	-	(242)
Balance at 31st December 2009	11,832	-	14,103	8,271	(5,216)	28,990