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Sunderland Marine Mutual Insurance Company Lim

New Zealand Branch

Annual Report

For the year ended 31 December 2011

The Board of Directors is pleased to present the financial statements of its New Zealand Branch for the year ended 31 December 2011 and the auditor's report thereon.

In the Directors' opinion, the financial statements and notes set out on pages 4-16:

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 2011 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 17 May, 2012 in accordance with a resolution of the Directors.

For and on behalf of the Board of Management:

G.C. PARKINSON
Director

17 May, 2012

A.J. ALDEN
Director

17 May, 2012

Sunderland Marine Mutual Insurance Company Limited

New Zealand Branch

Statement of Financial Performance

For the year ended 31 December 2011

	Note	2011 $NZ	2010 $NZ
Revenue			
Premium	3(a)	4,535,062	4,370,720
Investment income	3(b)	35,587	57,894
Total operating revenue		4,570,649	4,428,614
Expenses			
Claims	3(a)	(998,691)	(1,719,651)
Underwriting expenses	3(a)	(543,327)	(69,454)
Administration expenses		(1,442,877)	(1,511,399)
Operating surplus before taxation		1,585,754	1,128,110
Income Tax	10	(444,164)	(330,635)
Profit from operating ativites after tax attributable to members of SMMI Co Ltd.		1,141,590	797,475

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 2011

HEAD OFFICE ACCOUNT	2011 $NZ	2010 $NZ
Head Office Account at the Beginning of the Year	1,660,732	930,253
Net surplus for the year	1,141,590	797,475
Transfer to parent on settlement of Head Office Account	(1,364,105)	(66,996)
Head Office Account at the end of year	1,438,217	1,660,732

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 2011

	Note	2011 $NZ	2010 $NZ
Assets			
Land and Buildings	5	795,247	799,773
Fixed Assets		95,803	108,790
Total non-current assets		891,050	908,563
Current assets			
Cash on hand		130,439	2,655
Short term bank deposits		342,820	531,205
Financial Assets	7	551,050	521,415
Debtors		5,709,197	6,191,269
Reinsurance Receivable	8	126,741	642,105
Total current assets		6,860,247	7,888,649
Total assets		7,751,297	8,797,212
Current liabilities			
Payables		595,320	279,691
Unearned premium		4,200,260	4,037,576
Provision for outstanding claims	9	1,517,500	2,819,213
Total liabilities		6,313,080	7,136,479
Head Office Current Account		1,438,217	1,660,732
Total liabilities and Head Office Account		7,751,297	8,797,212

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.

G.C. PARKINSON
Director

17 May, 2012

A.J. ALDEN
Director

17 May, 2012

Sunderland Marine Mutual Insurance Company Limited

New Zealand Branch

Notes to the Financial Statements

For the year ended 31st December 2011

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 17 May 2012

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 7 to 16 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.

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.

e) 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.

f) 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.

g) 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.

h) 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.

1 Summary of significant accounting policies (continued)

i) 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.

j) 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.

k) 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.

l) 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 2011.

m) 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 2011, the Company had not deferred any costs.

1 Summary of significant accounting policies (continued)

n) 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 2011 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 2011

	2011 $NZ	2010 $NZ
3 Operating Results		
(a) Underwriting result		
Gross premium income	7,006,613	6,878,620
Increase in unearned premium	(147,955)	(298,118)
Reinsurance ceded	(2,323,596)	(2,209,782)
Net premium	4,535,062	4,370,721
Claims expense		
Claims paid	2,445,288	2,468,926
Claims settlement expenses	88,214	20,640
(Decrease) / increase in outstanding claims provision	(1,304,167)	181,567
Reinsurance recoveries	(230,644)	(951,481)
Total claims expense	998,691	1,719,651
Underwriting expenses		
Net commissions	336,434	317,905
Other income deductions	206,893	(248,451)
Total underwriting expenses	543,327	69,454
Underwriting result	2,993,044	2,581,615
(b) Investment income		
Interest	35,587	57,894
4 Auditor's Remuneration		
Amounts received, or due and receivable, by the auditors KPMG	-	(1,933)

Sunderland Marine Mutual Insurance Company Limited

New Zealand Branch

Notes to the Financial Statements

For the year ended 31 December 2011

5 Land and Buildings

	Land and Buildings (at valuation) $NZ
Balance at 31 December 2011	
Cost/Revaluation	800,000
Accumulated depreciation	(227)
Carrying value	799,773
Current year depreciation	(4,526)
Net Carrying Value	795,247
Balance at 31 December 2010	
Cost/Revaluation	800,000
Accumulated depreciation	(13,500)
Carrying value	786,500
Current year rise	13,273
Net Carrying Value	799,773

Land and Buildings (at valuation) were independently valued on 2 September 2010 by Duke & Cooke Limited, a firm registered with the Institute of Valuers of New Zealand, at $813,273.

6 (a) Net Claims Expense

	2011 $NZ	2010 $NZ
Current		
Gross claims incurred	1,141,121	2,650,492
Reinsurance and other recoveries	(230,644)	(951,481)
Net claims incurred	910,477	1,699,011
Claims settlement expenses	88,214	20,640
Net claims expense	998,691	1,719,651

(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 $	2011 Total $	2010 Total $
Gross claims incurred and related expenses - undiscounted	1,831,665	(602,330)	1,229,335	2,671,132
Reinsurance and other recoveries - Undiscounted	(436,885)	206,241	(230,644)	(951,481)
Net claims incurred - undiscounted	1,394,780	(396,089)	998,691	1,719,651
Discount and discount movement- gross claims incurred	-	-	-	-
Net discount movement	-	-	-	-
	1,394,780	(396,089)	998,691	1,719,651

7 **Financial Assets**	2011 $NZ	2010 $NZ
(a) Financial assets - fair value through profit or loss		
Debt securities - unsecured	551,050	521,415
Total financial assets - fair value through profit or loss	551,050	521,415
Current financial assets	551,050	521,415
Non-current financial assets	-	-
Total financial assets - fair value through profit or loss	551,050	521,415

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	243,656	642,105
Reinsurance and other recoveries - Non Current	-	-
Total reinsurance and other recoveries receivables	243,656	642,105

	2011 $NZ	2010 $NZ
9 Outstanding Claims		
a) Outstanding claims liability		
Outstanding claims (Gross)	1,517,500	2,819,213
Claims handling cost	-	-
Risk Margin	-	-
Total outstanding claims liability - undiscounted	1,517,500	2,819,213
Discount to present value	-	-
Discounted outstanding claims liability	-	-
Currrent	1,517,500	2,819,213
Non-current	-	-
Total	1,517,500	2,819,213

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% (2010: 0%) has been adopted in determining the outstanding claims liability to achieve the probability of adequacy at a minimum confidence level of 75% (2010: 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.

	$NZ	$NZ
Central estimate of the present value of expected future cash flows	1,517,500	2,819,213
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 2011

10 Income Tax

	2011 NZ$	2010 NZ$
a) Income tax expense		
Current taxes	440,273	246,582
Adjustments in respect of prior periods	-	78,275
Total current taxes	440,273	324,857
Deferred taxes		
Origination of timing differences	3,891	5,778
Income tax expense	444,164	330,635
b) Reconciliation of prima facie tax payable to income tax expense		
Profit from operating activities before income tax	1,585,754	1,128,110
Prima facie income tax payable/ (benefit) (2011: 28.5%/ 2010: 30%)	451,940	338,433
Tax effect of amounts which are not deductible (taxable) in calculating taxable		
Non taxable income	(185)	(335)
Non deductible expenses	(8,341)	(85,738)
Timing differences	(3,141)	(5,778)
Prior year adjustments	-	78,275
Income tax expense	440,273	324,857
c) Income tax receivable/(Payable)		
Opening balance at 1 January	(68,145)	(142,131)
Additional provisions recognised	(431,178)	(232,145)
Liabilities paid	280,015	164,000
Prior years recognised	68,145	142,131
Closing balance at 31 December	(151,163)	(68,145)
d) Deferred Tax Provision		
Opening balance at 1st January	8,739	14,517
Adjustments in respect of prior years	-	-
Adjusted opening balance at 1 January	8,739	14,517
Movement during the year	(3,891)	(5,778)
Closing balance at 31st December	4,848	8,739
Excess of taxation allowances over depreciation on fixed assets	(3,578)	(3,333)
Other timing differences	8,426	12,072
	4,848	8,739

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.

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

12 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.

13 Events occurring after the Balance Sheet Date

No significant events have occurred subsequent to the balance sheet date.

14 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.

15 Credit ratings

The Branch was awarded a separate credit rating by Fitch rating agency of A- in July 2011 (2010: A-). At the date of this report, the parent entity has a credit rating of BBB+ from Standard & Poor's (2010: BBB+).

KPMG

Independent Auditor's Report

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

Report on the Sunderland Mutual Marine Insurance Limited – New Zealand Branch Financial Statements

We have audited the accompanying financial statements of Sunderland Mutual Marine Insurance Limited - the New Zealand Branch ("the branch") on pages 4 to 16. The financial statements comprise the statement of financial position as at 31 December 2011 and the income statements and statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Senior Officers outside of New Zealand's responsibility for the Branch Financial Statements

The Senior Officers outside of New Zealand are responsible for the preparation of the Branch financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the Senior Officers outside of New Zealand determine is necessary to enable the preparation of the Branch financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these Branch financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Branch financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Branch financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Branch's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

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

Opinion

In our opinion the financial statements on pages 4 to 16:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of the Branch as at 31 December 2011 and of the financial performance and cash flows of the Branch for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of section 16(1)(d) and section 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations we have required; and
- in our opinion proper accounting records have been kept by the Branch as far as appears from our examination of those records.

KPMG

KPMG

Melbourne

17 May 2012

SUNDERLAND MARINE MUTUAL INSURANCE COMPANY LIMITED

SUPPLEMENTARY

FINANCIAL INFORMATION

AS AT

31ST DECEMBER 2011

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 Company Income and Expenditure Account and Cash Flow Statement with attendant notes for the year ended 31st December 2011 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 28 March 2012 when the group accounts were approved.

As such the statement of directors' responsibilities on page 21 of the group accounts also applies to this income and expenditure account of the Company.

Under Financial Reporting Standard 1 *Cash Flow Statements,* 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	A S ROWLAND
Director	Company Secretary
21st May 2012	21st May 2012

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

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 2011 as set out on pages 4 to 6 of the Supplementary Financial Information. The Company's results for the year ended 31 December 2011 are consolidated in the group financial statements of the Company for the same period, approved on 28 March 2012 (the "Group Financial Statements").

Our report has been prepared for the Company solely in connection with its regulatory filing responsibilities in New Zealand. It has been released to the Company on the basis that our report shall not be copied, referred to or disclosed, in whole (save for the Company's own internal purposes) or in part, without our prior written consent.

Our report was designed to meet the agreed requirements of the Company determined by the Company's needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company for any purpose or in any context. Any party other than the Company who obtains access to our report or a copy and chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG Audit Plc will accept no responsibility or liability in respect of our report to any other party.

Respective responsibilities of directors and KPMG Audit Plc

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

Our responsibility is to express to the company a conclusion on the Income and Expenditure Account and Cash Flow Statement with attendant notes based on our review.

Basis of review opinion

We conducted our review having regard to the International Standard on Review Engagements (UK & Ireland) 2410 *Review of Interim Financial Information performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK.
A review of financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Opinion

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

- the Income and Expenditure Account is not an accurate copy of the Income and Expenditure Account approved by the directors of the Company on 28 March 2012 and consolidated in the Group Financial Statements; and
- the Cash Flow Statement and its attendant notes are not prepared, in all material respects, in accordance with the requirements of FRS 1 *Cash flow statements*.

Jonathan Holt
For and on behalf of KPMG Audit Plc
Chartered Accountants
Quayside House, 110 Quayside,
Newcastle upon Tyne, NE1 3DX,
UK

30 May 2012

	2011 £000	2010 £000
Turnover	73,849	72,361
	73,849	72,361
Surplus / (deficit) derived from		
Insurance	(432)	366
Investments	582	(464)
Deficit before taxation	150	(98)
Taxation	(614)	(162)
Deficit after taxation	(464)	(260)
Deficit after taxation attributable to members of the company	(464)	(260)
Accumulated (deficit) / surplus brought forward	(210)	112
Foreign exchange rate movement	(284)	(83)
Actuarial (deficit) / surplus recognised in pension scheme	(1,538)	21
Accumulated (deficit)/surplus carried forward	(2,496)	(210)

In addition to the accumulated deficit, the company has a reserve fund of £26,007,000 (2010: £26,007,000) and a revaluation reserve of £13,829,000 (2010: £20,201,000), giving total capital and reserves of £37,340,000 (2010: £45,998,000).

CASH FLOW STATEMENT — COMPANY ACCOUNTS

For the year ended 31 December 2011

	Note	2011 £000	2010 £000
Operating activities			
Net cash inflow / (outflow) from operating activities	1	10,580	(5,866)
Dividends Recieved			
Joint venture		64	95
Subsidiary		283	4,632
Interest paid			
Bank interest paid		(181)	(216)
Taxation			
Corporation tax (paid) / recovered		(134)	104
Capital Expenditure			
Purchase of fixed assets		(75)	(906)
Sale of tangible fixed assets		12	34
Acquisition			
Acquisition of subsidiary		(502)	-
Financing			
Decrease in loans to subsidiary undertakings		(22)	(130)
Repayment of subsidiaries capital		-	3,275
Expense from settlement of derivatives		(659)	-
		9,366	1,022
Cash flows were invested as follows:			
Increase / (decrease) in cash holdings	2	8,575	(5,395)
Portfolio investments			
Purchase of fixed assets		-	-
Purchase of equity securities		-	-
Purchase of fixed income securities		38,766	60,721
Sale of equity securities		-	-
Sale of fixed income securities		(37,975)	(54,304)
Net investment of cash flows		9,366	1,022
Movement in opening and closing portfolio investments net of financing			
Net cash inflow / (outflow) for year		8,575	(5,395)
Transfer from subsidiary		-	-
Cash flow - portfolio investments		791	6,417
- decrease in loans		-	-
Movement arising from cash flows	2	9,366	1,022
Changes in market values and exchange rate effects		(447)	1,663
Total movement in portfolio investments net of financing		8,919	2,685
Portfolio investments net of financing at 1st January		31,675	28,990
Portfolio investments net of financing at 31st December	2	40,594	31,675

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

	2011	2010
	£000	£000
Surplus/(deficit) on ordinary activities before taxation	150	(98)
Dividend received from joint venture	(64)	(95)
Dividend received from subsidiary	(283)	(4,632)
Profit on sale of fixed assets	(4)	(2)
Depreciation of leasehold property	376	333
Derivative charge/(income)	911	(173)
Pension contributions in excess of expense in Income and expenditure account	(409)	(348)
(Increase)/decrease in reinsurers' share of technical provisions	(5,310)	2,288
Increase in debtors	(1,869)	(4,106)
(Increase)/decrease in prepayments and accrued income	(761)	321
Decrease/(increase) in technical provisions	5,640	(3,392)
Increase in creditors	11,998	1,568
Decrease in accruals and deferred income	(55)	(315)
Loss on sale of liquid investments	203	128
Adjustment to carrying value of liquid investments	(131)	20
Foreign exchange rate fluctuation	280	(2,553)
Tax suffered on investment income	(267)	(196)
Bank interest charge	175	214
Impairment on striking off subsidiaries	-	4,224
Revaluation of subsidiaries through income and expenditure account	-	798
Property revaluation through income and expenditure account	-	150
Net cash inflow/(outflow) from operating activities	10,580	(5,866)

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

	Deposits and cash at bank net of bank loans and overdrafts	Fixed income securities	Land and buildings	Total
	£000	£000	£000	£000
Balance at 1st January 2011	2,028	21,529	8,118	31,675
Cash flow	8,575	791	-	9,366
Changes to market value & currencies	43	(357)	(133)	(447)
Balance at 31st December 2011	10,646	21,963	7,985	40,594

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

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 2011 as set out on pages 4 to 6 of the Supplementary Financial Information. The Company's results for the year ended 31 December 2011 are consolidated in the group financial statements of the Company for the same period, approved on 28 March 2012 (the "Group Financial Statements").

Our report has been prepared for the Company solely in connection with its regulatory filing responsibilities in New Zealand. It has been released to the Company on the basis that our report shall not be copied, referred to or disclosed, in whole (save for the Company's own internal purposes) or in part, without our prior written consent.

Our report was designed to meet the agreed requirements of the Company determined by the Company's needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company for any purpose or in any context. Any party other than the Company who obtains access to our report or a copy and chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG Audit Plc will accept no responsibility or liability in respect of our report to any other party.

Respective responsibilities of directors and KPMG Audit Plc

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

Our responsibility is to express to the company a conclusion on the Income and Expenditure Account and Cash Flow Statement with attendant notes based on our review.

Basis of review opinion

We conducted our review having regard to the International Standard on Review Engagements (UK & Ireland) 2410 *Review of Interim Financial Information performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK.
A review of financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Opinion

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

- the Income and Expenditure Account is not an accurate copy of the Income and Expenditure Account approved by the directors of the Company on 28 March 2012 and consolidated in the Group Financial Statements; and
- the Cash Flow Statement and its attendant notes are not prepared, in all material respects, in accordance with the requirements of FRS 1 *Cash flow statements*.

Jonathan Holt
For and on behalf of KPMG Audit Plc
Chartered Accountants
Quayside House, 110 Quayside,
Newcastle upon Tyne, NE1 3DX,
UK

30 May 2012

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

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 2011 as set out on pages 4 to 6 of the Supplementary Financial Information. The Company's results for the year ended 31 December 2011 are consolidated in the group financial statements of the Company for the same period, approved on 28 March 2012 (the "Group Financial Statements").

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Jonathan Holt
For and on behalf of KPMG Audit Plc
Chartered Accountants
Quayside House, 110 Quayside,
Newcastle upon Tyne, NE1 3DX,
UK

30 May 2012

Sunderland Marine Mutual Insurance Company Limited

Registered Number: 16432

Directors' Report and Financial Statements

Year Ended 31st December 2011

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Sunderland Marine Mutual Insurance Company Limited
Company Information
Year Ended 31st December 2011

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 2011.

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 of 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 (16.7%), North America (39.0%), Europe (13.8%), Australasia (20.2%), and others (10.3%), and for aquaculture they are UK (21.6%), North America (46.3%), Europe (13.0%), Australasia (13.4%), South America (5.2%) and others (0.5%).

Business environment

Competition has remained 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 strengthened against the Canadian, Euro and South African currencies. 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 materially 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 £75,076,000 reflects an increase of 1.8% from £73,747,000 in 2010. Taking out the currency effect the increase, in real terms, was 1.5%.

Operating performance was disappointing under difficult trading conditions with a technical underwriting deficit of £8,115,000 (2010: £360,000). Positive investment return in the non-technical account of £1,213,000 (2010: £3,336,000) produced a deficit before tax of £6,902,000 (2010: surplus of £2,976,000). Net of tax the deficit was £7,873,000 (2010: surplus of £2,555,000).

Net operating expenses decreased but the expense ratio increased to 41.2% (2010: 39.1%) reflective of lower net premium income. The combined ratio was 124.8% (2010: 104.2%).

Marine

The marine division accounted for 84.9% of written premiums in 2011 (2010: 81.1%).

The business is written worldwide. Protection and indemnity business has a US and European bias and personal accident has a UK and Australian bias.

Marine written premium increased by £3,927,000 due to a combination of renewal increases on existing business but also new business attaching, particularly in Australia and some countries in South America. Following the acquisition of Harlock Murray Underwriting Limited during the year gross written premium from this source increased.

Marine results in 2011 were disappointing after a very successful 2010. Hull claims in particular showed deterioration from the preceding year due to an unusual number of higher value claims in Europe and the USA. The company maintains strict underwriting discipline with a high level of selectivity and this pattern of claims is viewed as a rare aberration that is unlikely to be a frequent occurrence. On a positive note, liability claims in 2011 were significantly lighter than previous underwriting years in both quantum and value.

Management continued to apply considered increases to rates and deductibles as part of the renewal process of existing accounts and once again, member retention levels exceeded 95%.

Aquaculture

The aquaculture division accounted for 15.1% of gross written premium in 2011 (2010: 18.9%).

Written premiums decreased by £2,598,000 year on year. This decrease was principally due to a combination of lower insured values on existing business for 2011 and an unusual increase in written premium in 2010 following the final adjustment of policies.

A positive trend in 2011 was the attachment of new risks in traditional areas. Claims incurred during 2011 have returned to more normal levels following the significant rise in sea lice related losses during 2010.

Consolidation of the industry in previous years was substantially curtailed during 2011. The industry continues to be dominated by large producers which has had a positive influence on production standards. Further consolidation through mergers and takeovers is likely to resume as market prices improve and margins widen.

Investment return

The company's investment portfolio structure has changed little during 2011. Underlying asset allocation remains heavily weighted toward bond investment.

The board has maintained a cautious investment strategy with emphasis placed on capital preservation and stable income generation.

The portfolio has generated an investment return of £1,213,000 (2010: £3,336,000). This is as anticipated and is reflective of the further compression of bond yields during the year.

Investment risk is monitored closely to ensure it remains within the budget set by the board. The risk budget is likely to remain at current low levels during 2012. It follows that a relatively low but stable investment return should be expected given high bond investment weighting and the current level of bond yields.

Capital structure and solvency

The company's markets and structure require it to meet regulatory capital requirements in eight jurisdictions and to report 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. The company has developed a framework using the Financial Services Authority's ICA principles to identify risks that business units and the company as a whole are exposed to and quantify their impact on economic capital. The company continues to develop financial modelling and other tests to calculate and maintain capital required at a 99.5% confidence level.

The company, its branches and subsidiaries all 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 FSA requirements, and to the published solvency margin.

The solvency margin has weakened this year from 94.5% in 2010 to 86.6% in 2011. The decrease in the ratio during 2011 is due to the deficit in the year which has decreased reserves. This reduction in reserves is partly offset by lower earned premium net of reinsurance.

The total capital and reserves of the group are £36,120,000 compared with £46,030,000 at 31st December 2010. The reserve fund of the company is £26,007,000 (2010: £26,007,000) and the surplus retained in the income and expenditure account of the group is £9,912,000 (2010: £19,823,000).

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 directors have closed policy year 2009. Policy years 2010 to 2012 remain open. The company's policy is not to attract additional capital either from members or the financial markets, preferring to accumulate and deploy capital through its own business 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. This approach results in stability of premium levels, thus generating and preserving value for the members over the longer term.

Cash flow

Operations generated £746,000 of cash (2010: utilised £7,145,000).

Portfolio investments decreased by £12,177,000 (2010: increase £1,687,000). Deposit and short-term cash holdings were increased by £10,497,000 (2010: decrease £7,639,000).

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 if combined claims, acquisition and administrative costs exceed the amount of premium 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.

Group risk

Group risk arises from the potential for adverse events in, or the failure of, one of the subsidiaries to affect the group as a whole.

Directors

The directors of the company are shown below.

In accordance with Article 17 of the Articles of Association the following directors retire by rotation:

C J Hilton
J P Crichton
J D Alford
A L Marr*
P A Bobeff*
A D W Allan

(* Not standing for re-election)

The table below shows the composition of the board and its committees at 31st December 2011.

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	Risk	Security	Strategy
A.J. Alden (executive director)	*		*					*		
J.D. Alford	*				c					
A.D.W. Allan	*	c	*	*	*	*	*	*	*	*
P.A. Bobeff	*	*	*	*	*	c	*	*	*	*
J.P. Crichton	*		*					*		*
W.J.J. Crowe	*	*								
T.F. Hart	c	*	c	*	*	*	c	c	c	c
C.J. Hilton	*		*					*		
P.M. Johnson	*	*			*					
A.L. Marr	*				*					
F.J. Mattera	*									
G.C. Parkinson (executive director)	*		*	c	*	*		*	*	*
T. Rutter (executive director)	*									
P.I. Talley	*									
C.H.D. Venn (retired 29th June 2011)	*									
A.C. Vipond (executive director)	*		*					*		
D.M. Windmill	*	*								
S. W. Taylor (appointed director 22nd March 2011, audit committee 28th November 2011)	*	*								

In addition to those persons shown above, Mr A S Blake (Corporate Treasurer) and Mr D McEuen (investment consultant) are members of the investment committee.

Directors' biographical details

Alison J. Alden (41)

Mrs Alden commenced employment with Sunderland Marine Mutual Insurance Company Limited in 2004. She was appointed to the board as an executive director on 30th June 2010. She is also a director of certain subsidiary companies. She is a member of the Institute of Chartered Accountants in England and Wales. She is the finance director of the company and is based in England.

Jeremy D. Alford (49)

Mr Alford was appointed as a non-executive director of the company in 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 (67)

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 Holdings Limited, retiring from that position in 2004, and is based in Scotland.

Peter A. Bobeff (70) Vice chairman

Mr Bobeff was appointed as a non-executive director in 1985 and as vice-chairman in 2007. He is, ex officio, a member of all board committees. He was previously Senior Vice President Commercial Affairs of Foster's Group Limited, retiring in 2005, 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 (63)

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 (64)

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 (67) 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 joint ventures. He is, ex officio, a member of all board committees. He was previously a marine underwriter with a Lloyds' syndicate and is based in England.

Christopher J. Hilton (61)

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 company's pension scheme. He was a partner in Eversheds LLP, retiring in 2010, but continues to act on a consultancy basis. He was also a director of Newcastle Building Society, retiring in 2010 and he managed a marine mutual insurance company, British Shipowners Association for fourteen years. He is a director of Graig Shipping Plc and R&A Rules Limited and is chairman of NEPIA Trust Company Limited. He is based in England.

Peter M. Johnson (63)

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 Scholefield Charitable Trust and a fellow of the Institute of Chartered Accountants in England and Wales. He is based in England.

Andrew L. Marr (69)

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 (60)

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. He is based in the USA.

Geoffrey C. Parkinson (56)

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.

Thomas Rutter (51)

Mr Rutter commenced employment with the company in 1979. He was appointed to the board as an executive director on 30th June 2010. He is the Aquaculture Manager of the company and is based in England.

Peter I. Talley (66)

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.

Silas W. Taylor (58)

Mr Taylor was appointed as a non-executive director on 22nd March 2011. He was a partner in law firm Andrew Jackson, retiring in 2008, but continues to act on a consultancy basis. He is based in England.

Angela C. Vipond (39)

Miss Vipond commenced employment with Sunderland Marine Mutual Insurance Company Limited in 1990. She was appointed to the board as an executive director on 30th June 2010. She is also a director of certain subsidiary companies and joint ventures. She is the Corporate Risk Manager of the company and is based in England.

David M. Windmill (62)

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

He was previously the Managing Director of Marine Harvest Limited. He was also the Chief Executive of The Royal Zoological Society of Scotland, retiring in February 2011. 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 £17,000 (2010: £9,000). No political contributions were made (2010: £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 2011 represented 5 days of average daily purchases from suppliers during the year ended on that date.

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

A.S. Rowland
Secretary
28th March 2012

Company registration number: 16432

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 2011, the company has applied the relevant principles and complied with the relevant provisions of the UK Corporate Governance Code published in June 2010, as annotated by the Association of Financial Mutuals.

The chairman

The chairman is responsible for the leadership of the board and ensures the board's effectiveness on all aspects of its role, as detailed below, within a framework of prudent and effective controls which enables risk to be assessed and managed.

The Chairman sets the board's agenda and ensures that adequate time is available for discussion of all agenda items, in particular strategic issues. He ensures that the directors receive accurate, timely and clear information. He also promotes a culture of openness and debate by facilitating the effective contribution of non-executive directors, in particular, and ensuring constructive relations between the executive and non-executive directors.

The board

Composition and balance

The board at 31st December 2011 comprised the non-executive chairman, twelve non-executive directors and four executive directors. The non-executive directors bring to bear knowledge, experience and an objective viewpoint 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 8 and 9. Membership of the board committees is set out on page 7. The board is satisfied that the 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 policies and systems;
- determines the company's risk appetite;
- 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 directors and senior managers.

How the board operates

The board meets four times a year, or more frequently, and ahead of these meetings the group chief executive circulates a report on the performance of the group and on any other material matters, both internal and external. This includes operational and financial information and reports on how the group has performed against key indicators. Reports are also provided on risk management and compliance matters.

Board committees

The board has established audit, defence advisory, executive, investment, nomination, remuneration, risk, 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 key 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 and monitoring the effectiveness of the anti-bribery policy.

The external auditors, the company's senior financial management, the corporate risk manager, general counsel, the compliance officer and the external manager 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.

The committee meets with the external auditors without the executive directors or representatives of senior management present.

Defence advisory committee

The members of the defence advisory committee are shown on page 7. The committee meets only as 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 chief executive 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 resp6nsibilities include:

- recommending the asset allocation benchmarks, the performance objectives and the performance benchmarks for the group's funds;
- monitoring the investment performance of the group's funds; and
- monitoring the management of foreign exchange exposure.

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.

Risk committee

The members of the risk committee are shown on page 7. The committee meets at least twice a year or more frequently if required. The committee considers all aspects of high level risk which may impact on the business of the group and ensures that appropriate policies and procedures are in place to mitigate the effect of such risk.

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 twice 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.

Since the year end, the directors have concluded that strategy should be considered by the full board rather than a committee. Accordingly the committee met for the last time in September 2011.

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

Meetings and attendance

Forum	**Number of members**	**Attendance at Meeting**				
		Feb	**Mar**	**Jun**	**Sep**	**Nov**
Board	17 (18 after 22.03.11, 17 after 29.06.11)	14	16	18	17	17
Audit	6 (7 after 28.11.11)	-	6	-	-	5
Investment	9	7	9	9	9	9
Nomination	4	4	-	-	-	4
Remuneration	3	3	-	3	-	-
Risk	8	-	7	-	8	-
Security	4	4	-	-	-	-
Strategy	5	-	5	5	5	-

"-" denotes no meeting.

The defence advisory and executive committees meet as required. No meetings of these committees were held during 2011.

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 interviews and reviews the responses to the questionnaires relating to board performance and reports through the nomination committee to the board. The review of responses relating to the chairman is the responsibility of the vice chairman, who is also the chairman of the nomination committee.

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 periodically with the non-executive directors in the absence of the executive directors. 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 a committee (the risk committee) to consider, monitor and review the 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 occurrence 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 management risk committee, comprising key members of the senior executive management team and chaired by the corporate risk manager. The committee meets as required.

Risk management

The group has a risk management function which, in conjunction with the board risk committee:

- 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, via the board risk committee, 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, and 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, the management of which was outsourced during the year, which:

- 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

A.S. Rowland
Secretary
28th March 2012

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 directors were private medical insurance and either a company car or a cash allowance.

Pensions

The executive directors are all members of a defined benefit pension scheme. Life assurance cover for death in service is provided for these directors and is four times pensionable earnings.

Executive directors' service contracts

During the year all executive directors had a contract of employment which provided for a year's notice from either party. The executive directors' contracts do 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 allowing either party to terminate the appointment by giving three months' notice.

The directors' remuneration is disclosed in note 6.

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 profit or loss 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 judgements 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the 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 statements may differ from legislation in other jurisdictions.

Independent auditor's 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 2011 set out on pages 20 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 auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 18, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (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 website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31st December 2011 and of the group's deficit 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)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

28th March 2012

Sunderland Marine Mutual Insurance Company Limited
Consolidated Income and Expenditure Account
Year Ended 31st December 2011

Technical account - general business	Note		2011 £'000		2010 £'000
Earned premiums, net of reinsurance					
Gross premiums written			75,076		73,747
Outward reinsurance premiums			(32,529)		(32,947)
			42,547		40,800
Change in the gross provision for unearned premiums	25		(2,203)		1,826
Change in the provision for unearned premium, reinsurers' share	18		1,367		6,105
			(836)		7,931
			41,711		48,731
Claims incurred, net of reinsurance					
Claims paid					
Gross amount			(47,588)		(53,152)
Reinsurers' share			15,569		13,832
			(32,019)		(39,320)
Change in provision for claims					
Gross amount	25		(4,106)		5,936
Reinsurers' share	18		1,657		1,691
Unexpired risk reserve	25		(422)		-
			(2,871)		7,627
			(34,890)		(31,693)
Net operating expenses before goodwill and purchase costs		(15,759)		(17,741)	
Goodwill and purchase costs		(1,423)		(1,335)	
Net operating expenses	5		(17,182)		(19,076)
Other operating income					
Brokerage income: group and share of joint ventures		4,040		3,881	
Less: share of joint ventures' brokerage income		(2,007)		(2,206)	
Group brokerage income			2,033		1,675
Share of joint venture operating profit			213		3
Balance on the technical account – general business			(8,115)		(360)

Sunderland Marine Mutual Insurance Company Limited
Consolidated Income and Expenditure Account (continued)
Year Ended 31st December 2011

Non-technical account – general business

	Note	2011 £'000	2010 £'000
Balance on the technical account - general business		(8,115)	(360)
Investment income	7	3,215	4,491
Unrealised losses on investments	8	(222)	(31)
Investment expenses and charges	9	(1,780)	(1,124)
Operating (deficit)/surplus before goodwill and purchase costs		(5,479)	4,311
Goodwill and purchase costs		(1,423)	(1,335)
Operating (deficit)/surplus	10	(6,902)	2,976
(Deficit)/surplus on ordinary activities before tax	11	(6,902)	2,976
Tax on (deficit)/surplus on ordinary activities	13	(971)	(421)
(Deficit)/surplus on ordinary activities after tax		(7,873)	2,555
Minority interests		(105)	(107)
(Deficit)/surplus after taxation attributable to members of the parent company for the financial year		(7,978)	2,448

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.

All results are derived from continuing operations.

Sunderland Marine Mutual Insurance Company Limited
Consolidated Statement of Total Recognised Gains and Losses
Year Ended 31st December 2011

	Note	2011 £'000	2010 £'000
Group (deficit)/surplus for the financial year		(7,978)	2,448
Foreign exchange rate movements	24	(394)	58
Actuarial (deficit)/surplus on pension scheme	35	(1,538)	21
Property revaluation		-	(161)
Total (losses)/gains recognised since the last annual report		(9,910)	2,366

Sunderland Marine Mutual Insurance Company Limited
Consolidated Balance Sheet
As at 31st December 2011

	Note		2011 £'000		2010 £'000
Assets					
Intangible assets					
Goodwill	14		4,678		5,234
Investments					
Land and buildings	15	8,440		8,583	
Investment in group undertakings and participating interests	16	475		714	
Financial assets:					
- Equity securities at fair value through income	17	3,949		4,097	
- Debt securities at fair value through income	17	51,910		64,130	
- Derivatives at fair value through income	17	187		348	
- Deposits with credit institutions		15,240		9,521	
			80,201		87,393
Reinsurers' share of technical provisions					
Provision for unearned premiums	18	15,397		14,264	
Provision for unearned commission	18	(3,627)		(4,097)	
Claims outstanding	18	15,205		13,698	
			26,975		23,865
Debtors					
Debtors arising out of direct insurance operations	19	18,837		18,095	
Debtors arising out of reinsurance operations	20	6,843		5,914	
Other debtors	21	1,898		2,022	
			27,578		26,031
Other assets					
Tangible assets	22	1,200		1,366	
Cash and cash equivalents		3,310		2,637	
			4,510		4,003
Prepayments and accrued income					
Accrued interest and rent		441		812	
Deferred acquisition costs		4,789		4,079	
Other prepayments and accrued income		324		298	
			5,554		5,189
Total assets			149,496		151,715

Sunderland Marine Mutual Insurance Company Limited
Consolidated Balance Sheet (continued)
As at 31st December 2011

	Note		2011 £'000		2010 £'000
Liabilities					
Capital and reserves					
Reserves					
Revaluation reserve	23	201		200	
Other reserves: reserve fund	23	26,007		26,007	
Income and expenditure account accumulated surplus	23	9,912		19,823	
Total capital and reserves	24		36,120		46,030
Minority interest			293		301
Technical provisions					
Provision for unearned premiums: gross amount	25	33,897		32,110	
Claims outstanding: gross amount	25	54,595		50,945	
Unexpired risk reserve	25	422		-	
			88,914		83,055
Financial liabilities					
Derivatives at fair value through income	27	565		227	
Creditors arising out of direct insurance operations		2,280		1,984	
Creditors arising out of reinsurance operations	28	12,874		8,350	
Borrowings	29	2,346		6,755	
Other creditors, including taxation and social security	30	2,855		2,831	
			20,920		20,147
Accruals and deferred income			1,226		1,288
			147,473		150,821
Pension liability	35		2,023		894
Total liabilities			149,496		151,715

These financial statements were approved by the board of directors on 28th March 2012 and were signed on its behalf by:

T.F. Hart

A.J. Alden

Company registration number: 16432

Sunderland Marine Mutual Insurance Company Limited
Company Balance Sheet
As at 31st December 2011

	Note		2011 £'000		2010 £'000
Assets					
Investments					
Land and buildings	15	7,985		8,118	
Investments in group undertakings and participating interests	16	21,300		27,467	
Financial assets:					
- Debt securities at fair value through income	17	21,963		21,529	
- Derivatives at fair value through income	17	106		88	
- Deposits with credit institutions		11,740		7,462	
			63,094		64,664
Reinsurers' share of technical provisions					
Provision for unearned premiums	18	31,137		29,388	
Provision for unearned commission	18	(8,681)		(8,889)	
Claims outstanding	18	49,674		46,321	
			72,130		66,820
Debtors					
Debtors arising out of direct insurance operations	19	18,968		17,942	
Debtors arising out of reinsurance operations	20	6,843		5,914	
Other debtors	21	964		1,130	
			26,775		24,986
Other assets					
Tangible assets	22	960		1,138	
Cash and cash equivalents		1,252		714	
			2,212		1,852
Prepayments and accrued income					
Accrued interest and rent		111		96	
Deferred acquisition costs		4,728		4,013	
Other prepayments and accrued income		303		272	
			5,142		4,381
Total assets			169,353		162,703

Sunderland Marine Mutual Insurance Company Limited
Company Balance Sheet (continued)
As at 31st December 2011

	Note		2011 £'000		2010 £'000
Liabilities					
Capital and reserves					
Revaluation reserve	23	13,829		20,201	
Other reserves: reserve fund	23	26,007		26,007	
Income and expenditure account accumulated deficit	23	(2,496)		(210)	
Total capital and reserves	24		37,340		45,998
Technical provisions					
Provision for unearned premiums: gross amount	25	33,237		31,339	
Claims outstanding: gross amount	25	54,417		50,717	
Unexpired risk reserve	25	42		-	
			87,696		82,056
Financial liabilities					
Derivatives at fair value through income	27	452		182	
Creditors arising out of direct insurance operations		2,308		2,072	
Creditors arising out of reinsurance operations	28	35,182		22,948	
Borrowings	29	2,346		6,148	
Other creditors, including taxation and social security	30	1,036		1,380	
			41,324		32,730
Accruals and deferred income			970		1,025
			167,330		161,809
Pension liability	35		2,023		894
Total liabilities			169,353		162,703

These financial statements were approved by the board of directors on 28th March 2012 and were signed on its behalf by:

T.F. Hart

A.J. Alden

Company registration number: 16432

Sunderland Marine Mutual Insurance Company Limited
Consolidated Cash Flow Statement
Year Ended 31st December 2011

Operating activities	Note	2011 £'000	2010 £'000
Net cash inflow/(outflow) from operating activities	32	746	(7,145)
Dividends received from joint venture		64	95
Interest paid			
Bank interest paid		(183)	(252)
Taxation			
UK corporation tax (paid)/recovered		(134)	104
Capital expenditure			
Purchase of tangible fixed assets		(137)	(1,055)
Sale of tangible fixed assets		13	62
Acquisition			
Acquisition of subsidiary net of cash acquired		(455)	-
Contingent consideration adjustment to goodwill		-	173
Financing			
Repayment of loan		(602)	(555)
Dividend paid by subsidiary undertaking		(113)	(105)
Expense from settlement of derivatives		(879)	(648)
		(1,680)	(9,326)
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings	33	10,497	(7,639)
Portfolio investments			
Purchase of debt securities at fair value through income		90,043	94,885
Sale of equity securities at fair value through income		-	(29)
Sale of debt securities at fair value through income		(102,220)	(96,543)
Net investment of cash flows		(1,727)	(9,326)
Movement in opening and closing portfolio investments net of financing			
Net cash inflow/(outflow) for year		10,497	(7,639)
Cash flow – portfolio investments		(12,177)	(1,687)
– decrease in loans		602	555
Movement arising from cash flows	33	(1,078)	(8,771)
Changes in market values and exchange rate effects	33	(632)	3,255
Total movement in portfolio investments net of financing		(1,710)	(5,516)
Portfolio investments net of financing at 1st January		82,213	89,230
Portfolio investments net of financing at 31st December	33	80,503	82,213

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.

The financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice. The financial statements have been prepared on the historical cost basis except that certain investments have been revalued. Derivative financial instruments and financial assets at fair value through income are measured at fair value.

The financial statements have been prepared in accordance with the provisions of Section 396 of the Companies Act 2006 and with the Association of British Insurers' Statement of Recommended Practice on Accounting (ABI SORP) for Insurance Business dated December 2005 (as amended December 2006).

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.

Going concern assessment

The group's result for the year was disappointing, even allowing for the challenging economic environment, accordingly the board has reviewed the position of the group from a going concern perspective in detail.

As a mutual business, the primary cause of a going concern difficulty for the group would be regulatory intervention. Other causes, such as profitability and liquidity, are less likely.

The board has considered the group's current and likely future position, particularly from a capital adequacy perspective, including the results that would arise in 'stressed' scenarios. This included an analysis of the strategic options available to the group in the event of a difficult year, and their effect.

As a result of this exercise, the board has concluded that the company has sufficient financial resources, supported by a portfolio well diversified both by product and geographical area, and a robust reinsurance programme. In addition to this, the directors have a broad range of options available to them to enable corrective action in the event that capital needed to be further supported.

The directors therefore believe that the company is well placed to manage its business risks successfully. They have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, and continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Use of estimates and judgements

The preparation of the financial statements requires judgements and estimates to be made and assumptions to be used that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may vary from the estimates.

Estimates and the underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Certain critical accounting judgements in applying the company's accounting policies are described below:

Claims made under insurance contracts

The group recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims arise.

The estimates for reported and unreported losses and the resulting provisions and related reinsurance recoveries are continually reviewed and updated and adjustments resulting from these reviews are reflected in the income and expenditure account in the period in which the estimate is revised and in any future periods affected.

The process used to determine the assumptions is intended to result in neutral estimates of the most likely or expected outcome.

There is more emphasis on current trends, and where in early years there is insufficient information to make a reliable best estimate of claims development, prudent assumptions are used.

The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate basis with due regard to the claim circumstances, information available from loss adjusters and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises.

Useful economic life of goodwill

The group recognises that the process of estimating the useful economic life of goodwill is based on certain variables and assumptions that could change over time.

The estimates of the useful economic life of goodwill are regularly reviewed and updated and any adjustments resulting from these reviews are reflected in the income and expenditure account in the period in which the estimate is revised and in any future periods affected.

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. Increases in valuation are recognised in the revaluation reserve. Decreases in valuation are recognised in the revaluation reserve to the extent that they reverse previously recognised revaluation gains. Any downwards revaluation in excess of an amount previously recognised in the revaluation reserve is recognised in the income and expenditure account.

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. 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 marine classes of business which are managed together.

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.

Increases in valuation are recognised in the revaluation reserve. Decreases in valuation are recognised in the revaluation reserve to the extent that they reverse previously recognised revaluation gains. Any downwards valuation in excess of an amount previously recognised in the revaluation reserve is recognised in the income and expenditure account.

Freehold land is not depreciated.

Fixed assets and depreciation

All fixed assets are initially recorded at cost.

Accounting policies (continued)

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% - 33.3% reducing balance
Computers	-	20% - 33.3% straight line

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 and risk committee regularly approve 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 capital exhaustion to a confidence level of 99.5% over one year. The group 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 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 of 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 to catastrophic events by the use of reinsurance.

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 excluding the unexpired risk reserve and reinsurance commission:-

	2011			2010		
	Gross £'000	**Reinsurance £'000**	**Net £'000**	**Gross £'000**	**Reinsurance £'000**	**Net £'000**
Marine	77,723	22,084	55,639	70,324	17,679	52,645
Aquaculture	10,769	8,518	2,251	12,731	10,283	2,448
Total	88,492	30,602	57,890	83,055	27,962	55,093

The geographical concentration of the group's technical provisions excluding the unexpired risk reserve and reinsurance commission is noted below. The disclosure is based on the countries where the business is written.

	2011			2010		
	Gross £'000	**Reinsurance £'000**	**Net £'000**	**Gross £'000**	**Reinsurance £'000**	**Net £'000**
Australasia	15,732	5,597	10,135	14,876	5,877	8,999
Europe	14,347	5,153	9,194	12,968	4,703	8,265
North America	34,469	13,704	20,765	34,348	14,361	19,987
United Kingdom	14,453	3,237	11,216	11,025	394	10,631
Others	9,491	2,911	6,580	9,838	2,627	7,211
Total	88,492	30,602	57,890	83,055	27,962	55,093

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 claims notified, claims handling and loss adjustment expenses and claims incurred but not reported (IBNR) for each successive accident year at the balance sheet dates.

	Gross claims incurred					
Accident year at end of	2006 £'000	2007 £'000	2008 £'000	2009 £'000	2010 £'000	2011 £'000
Accident year	43,628	59,646	46,381	54,648	49,771	53,137
One year later	43,542	56,077	45,213	54,542	49,182	
Two years later	42,947	56,345	44,375	54,225		
Three years later	42,206	56,269	45,620			
Four years later	41,867	55,755				
Five years later	42,040					

Financial instrument risk

The group also has exposure to the following risks from its 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 investment managers. The guidelines impose strict diversification limits by credit rating, maturity and per issuer.

The maximum exposure to credit risk amounts to £98,038,000 (2010: £102,319,000). 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.

Rating	2011 Debt securities £'000	2011 Outward reinsurance debtors £'000	2010 Debt securities £'000	2010 Outward reinsurance debtors £'000
AAA	24,614	-	42,666	-
AA	13,331	4,160	2,933	3,354
A	6,095	2,397	10,679	2,027
BBB	3,377	-	5,255	268
BB	1,264	-	1,761	-
B	1,836	-	572	-
CCC - C	1,004	-	220	-
Not rated	389	112	44	-
Total	51,910	6,669	64,130	5,649

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 2011	No contractual maturity £'000	Less than one year £'000	1-2 years £'000	Total £'000
Derivative financial liabilities	-	565	-	565
Creditors arising out of direct insurance operations	2,280	-	-	2,280
Creditors arising out of reinsurance operations	12,874	-	-	12,874
Borrowings	2,346	-	-	2,346
Other creditors, including taxation and social security	2,855	-	-	2,855
Total	20,355	565	-	20,920

At 31st December 2010	No contractual maturity £'000	Less than one year £'000	1-2 years £'000	Total £'000
Derivative financial liabilities	-	227	-	227
Creditors arising out of direct insurance operations	1,984	-	-	1,984
Creditors arising out of reinsurance operations	8,350	-	-	8,350
Borrowings	6,148	461	223	6,832
Other creditors, including taxation and social security	2,831	-	-	2,831
Total	19,313	688	223	20,224

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.

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 futures and options 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.

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 and forward exchange contracts which are valued using observable inputs and non-quoted investment funds valued with observable inputs.

Level 3 - unobservable inputs
Items in the category are valued on a basis using significant inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Level 3 principally includes commercial mortgage backed securities and asset backed securities.

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

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

At 31st December 2011	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	3,949	-	-	3,949
Debt securities at fair value through income	11,393	39,921	596	51,910
Derivatives at fair value through income	-	187	-	187
Deposits with credit institutions	15,240	-	-	15,240
	30,582	40,108	596	71,286
Financial liabilities				
Derivatives at fair value through income	(5)	(560)	-	(565)

At 31st December 2010	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	4,097	-	-	4,097
Debt securities at fair value through income	19,407	43,665	1,058	64,130
Derivatives at fair value through income	129	219	-	348
Deposits with credit institutions	9,521	-	-	9,521
	33,154	43,884	1,058	78,096
Financial liabilities				
Derivatives at fair value through income	(182)	(45)	-	(227)

The table below shows the reconciliation of movements in level 3 investments during the year:

	Total £'000
Balance at 1st January 2011	1,058
Sales	(447)
Realised gains	103
Unrealised losses	(118)
Balance at 31st December 2011	596

The realised gains are included within investment income in the income and expenditure account. The unrealised losses are included within unrealised losses on investments in the income and expenditure account.

The majority of the group's investments are valued based on quoted market information or other observable market data. A small percentage (0.8%) of financial assets recorded at fair value are based on estimates and recorded as level 3 investments. Where estimates are used, these are based on a combination of independent third party evidence and internally developed models, calibrated to market observable data where possible. While such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not change the fair value significantly.

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 (price 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.

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.

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 where possible as a means of minimising volatility, 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 with a small allocation to other higher yielding assets which are expected to produce higher absolute returns in the long-term.

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 by categorising the assets and liabilities by major currencies.

At 31st December 2011	**Assets** £'000	**Liabilities** £'000	**Net assets/ (liabilities)** £'000	**Forward contracts** £'000	**Net assets/ (liabilities) after forward contracts** £'000
Australian Dollars	25,385	(14,394)	10,991	(13,035)	(2,044)
Canadian Dollars	24,474	(15,288)	9,186	(9,233)	(47)
Euro	10,957	(18,082)	(7,125)	2,101	(5,024)
New Zealand Dollars	3,267	(3,330)	(63)	729	666
US Dollars	24,646	(33,724)	(9,078)	3,965	(5,113)
South African Rand	2,743	(1,069)	1,674	(793)	881
	91,472	(85,887)	5,585	(16,266)	(10,681)
Sterling	58,024	(27,489)	30,535	16,266	46,801
	149,496	(113,376)	36,120	-	36,120
At 31st December 2010					
Australian Dollars	20,515	(13,146)	7,369	(7,144)	225
Canadian Dollars	23,867	(19,023)	4,844	(6,949)	(2,105)
Euro	10,576	(15,033)	(4,457)	2,897	(1,560)
New Zealand Dollars	3,585	(4,108)	(523)	1,016	493
US Dollars	25,048	(32,105)	(7,057)	7,124	67
South African Rand	3,188	(1,363)	1,825	(975)	850
	86,779	(84,778)	2,001	(4,031)	(2,030)
Sterling	64,936	(20,907)	44,029	4,031	48,060
	151,715	(105,685)	46,030	-	46,030

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:

	2011 £'000	2010 £'000
0.5% increase in interest rates	(300)	(188)
0.5% decrease in interest rates	417	203

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 group's exposure to sovereign debt and financial institutions debt securities in European countries:

	Less than five years £'000	Five to ten years £'000	Over twenty five years £'000	2011 Total £'000	Less than five years £'000	Five to ten years £'000	Over twenty five years £'000	2010 Total £'000
Greece	-	-	22	22	-	-	59	59
Ireland	195	-	-	195	247	-	-	247
France	1,250	-	-	1,250	426	105	-	531
Germany	986	-	-	986	-	-	-	-
The Netherlands	1,533	-	-	1,533	1,151	-	134	1,285
Denmark	193	-	-	193	1,125	-	-	1,125
Finland	347	-	-	347	-	-	-	-
Poland	-	-	-	-	391	-	-	391
Supranational	286	-	-	286	751	-	-	751
	4,790	-	22	4,812	4,091	105	193	4,389

The exposure classified as Supranational relates to debt securities issued by the European Investment Bank and the European Bank for Reconstruction and Development.

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

	2011 £'000	2010 £'000
10% increase in equity price	395	410
10% decrease in equity price	(395)	(410)

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 group'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 group 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 and internal audit.

Group risks

Group risk is the potential for one of the subsidiaries to fail, or for adverse events in a subsidiary having a significant impact on the group. These risks are mitigated by the use of procedures and controls, which aim to be as consistent as possible throughout the group. Additionally, head office provides functionality and oversight to group companies providing additional control.

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 capital management procedures 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 2011.

The group capital comprises the capital and reserves of £36,120,000 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. This core tier one capital was £36,120,000 as at 31st December 2011 (2010: £45,696,000) of which a total of £24,476,000 (2010: £20,400,000) was held in local currency to support local solvency requirements in Australia, USA, Canada and New Zealand.

At 31st December 2011, the insurance subsidiary Sunderland Marine (Africa) Limited held regulatory capital of £1,533,000 (2010: £1,619,000).

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 business product and 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 risks arising:

	2011 £'000	2010 £'000
In the United Kingdom	13,080	11,681
In other countries	60,784	60,883
	73,864	72,564

4. Prior years' claims provisions

Over/(under) 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:

	2011 £'000	2010 £'000
Direct	2,038	2,691
Inward reinsurance	(596)	(95)

5. Net operating expenses

	2011 £'000	2010 £'000
Acquisition costs	11,346	11,898
Change in deferred acquisition costs	(710)	435
Administration expenses	13,169	13,797
Reinsurance commissions and profit participation	(6,236)	(9,326)
Change in unearned reinsurance commission (note 18)	(387)	2,272
	17,182	19,076

6. Particulars of employees

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

	2011 No	2010 No
Number of staff – full time	112	111
Number of staff – part time	22	8
	134	119
Staff employed by joint venture companies	41	58
	175	177

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

	2011 £'000	2010 £'000
Wages and salaries	6,694	6,133
Social security costs	428	424
Staff pension contributions	926	878
Directors' pension contributions	55	24
	8,103	7,459

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

	2011 £'000	2010 £'000
Emoluments receivable	1,346	1,258
Value of company pension contributions to defined benefit schemes	55	24
	1,401	1,282

Fees of £55,850 (2010: £59,221) payable to one director were paid, with the addition of VAT, to his company, Sandwood Services Limited. Fees of £24,875 (2010: Nil) payable to another director were paid to his company Sthagdaa Limited.

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 £411,837 (2010: £509,417) including pension contributions of £nil (2010: £nil). His accrued pension at the year-end was £149,565 (2010: £146,618) and his accrued lump sum was £450,000 (2010: £450,000). The aggregate emoluments for 2010 include deferred bonuses relating to 2006 and 2007.

Four directors accrued benefits under a company pension scheme (2010:4).

7. Investment income

	2011 £'000	2010 £'000
Interest income: group and share of joint ventures	683	510
Less: share of joint ventures' interest income	(8)	(2)
	675	508
Gains on the realisation of investments	385	976
Other investment income	2,092	3,017
Interest on defined benefit pension plan obligation	(1,173)	(1,060)
Expected return on defined benefit pension plan assets	1,236	1,050
	3,215	4,491

Income from listed investments included in other investment income was £2,092,000 (2010: £2,966,000).

8. Unrealised losses on investments

	2011 £'000	2010 £'000
Unrealised losses on investments	222	31

9. Investment expenses and charges

	2011 £'000	2010 £'000
Investment management expenses, including interest	384	461
Exchange and translation losses	18	77
Derivative charge	1,378	586
	1,780	1,124

10. Operating results

Of the group operating result, £213,000 surplus (2010: surplus of £3,000) is attributable to the share of operating results in joint ventures.

11. (Deficit)/surplus on ordinary activities before tax

	2011 £'000	2010 £'000
(Deficit)/surplus on ordinary activities before tax is stated after charging/(crediting):		
Overdraft interest	175	214
Loan interest	15	36
Depreciation on land and buildings	142	149
Depreciation on tangible fixed assets	323	254
Profit on sale of fixed assets	(4)	(2)
Amortisation of goodwill	1,423	1,335
Exchange and translation (gains)/losses	(218)	513
Derivative charge	1,378	586
Operating lease costs - land and buildings	243	172
- other items	217	215
Property revaluation through income & expenditure account	-	215
Auditors' remuneration:		
Audit of these financial statements	139	157
Amounts receivable by the auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	72	88
Other services pursuant to such legislation	219	158
Audit of pension scheme	4	4
All other services (principally regulatory)	22	-

12. Deficit attributable to members of the parent company

The deficit in the accounts of the parent company was £464,000 (2010: £260,000).

13. Tax on surplus on ordinary activities

	2011 £'000	2010 £'000
The charge for taxation is computed as follows:		
UK corporation tax on the taxable surplus for the year at 26.5% (2010: 28%)	256	87
Adjustment in respect of previous periods	17	-
	273	87
Double taxation relief	(5)	(13)
	268	74
Overseas tax	577	417
Adjustment in respect of previous periods	(12)	47
	565	464
Share of joint ventures' current taxation	52	(4)
Share of joint ventures' adjustment in respect of previous periods	11	-
	63	(4)
Total current taxation	896	534
Deferred tax (note 26)		
Reversal of timing differences	75	(113)
Total deferred taxation	75	(113)
Tax on (deficit)/surplus on ordinary activities	971	421

13. Tax on surplus on ordinary activities (continued)

	2011 £'000	2010 £'000
Factors affecting the tax charge for the period:		
(Deficit)/surplus on ordinary activities before tax	(6,902)	2,976
Current tax at 26.5% (2010: 28%)	(1,829)	833
Effects of:		
Non taxable income	(470)	(1,718)
Expenses not deductible for tax purposes	598	1,973
Higher/(lower) rates of overseas tax	2,017	(644)
Capital allowances in excess of depreciation	(1)	310
Other short-term timing differences	(74)	(197)
Double taxation relief	(5)	(13)
Adjustments to tax charge in respect of previous periods	16	47
Losses utilised	99	(51)
Small companies relief	-	(6)
Deferred tax asset not recognised	545	-
Total current tax charge (see above)	896	534

There is no UK deferred tax. Overseas deferred tax is calculated at the relevant tax rates applicable in each jurisdiction.

14. Goodwill

Group

	2011 £'000
Cost	
At 1st January 2011	9,010
Adjustment due to exchange rates	(75)
Addition	572
Transferred from group undertakings	358
At 31st December 2011	9,865
Amortisation	
At 1st January 2011	3,776
Adjustment due to exchange rates	(12)
Charged in year	1,423
At 31st December 2011	5,187
Net book value	
At 31st December 2011	4,678
At 31st December 2010	5,234

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, Van Olst de Graaff & Co BV, Assurantiekantoor P M Arkesteijn and Marine Underwriters is being amortised over five years.

Goodwill in respect of the acquisition of shares in Knighthood Corporate Assurance Services Plc is being amortised over ten years.

On 1st July 2011 Salvus Bain (Canada) Limited acquired the remaining 50%, which it did not already own, of Harlock Murray Underwriting, an MGA trading in Canada. 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 £'000	Revaluation £'000	Fair value to the group £'000
Assets			
Goodwill	1,107	(1,107)	-
Deferred tax	26	-	26
Tangible assets	38	-	38
Debtors	437	-	437
Prepayments	17	-	17
Cash at bank	47	-	47
Liabilities	(635)	-	(635)
Net liabilities acquired			(70)
Goodwill arising on acquisition			572
Total consideration			502

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.

The deficit arising from Harlock Murray Underwriting Limited in the period from July 2011 was £42,000.

The subsidiary undertaking acquired during the year utilised £181,000 of the group's net operating cash flows, received £6,000 in respect of taxation and utilised £38,000 in respect of capital expenditure.

15. Land and buildings

	Freehold land and buildings £'000
Group	
Valuation	
At 1st January 2011 and 31st December 2011	8,630
Depreciation	
At 1st January 2011	47
Adjustment due to exchange rates	1
Charge for the year	142
At 31st December 2011	190
Net book value	
At 31st December 2011	8,440
At 31st December 2010	8,583
Company	
Valuation	
At 1st January 2011 and 31st December 2011	8,162
Depreciation	
At 1st January 2011	44
Charge for the year	133
At 31st December 2011	177
Net book value	
At 31st December 2011	7,985
At 31st December 2010	8,118

15. Land and buildings (continued)

The group's freehold property in the UK was re-valued to £6,250,000 at 24th September 2010 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.

The group's overseas freehold properties were re-valued during August 2010. Freehold property amounting to £1,513,000 was valued by suitably qualified external valuers, Sutherland Farrelly, Licenced Property Valuers. Freehold property amounting to £400,000 was valued by suitably qualified external valuers, Duke & Cooke Limited, Valuers & Property Specialists. Freehold property amounting to £467,000 was valued by suitably qualified external valuers CB Richard Ellis, Inc., Valuation and Advisory Services. 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 2011 was £8,578,000 (2010: £8,578,000).

16. Investments in group undertakings and participating interests

The principal subsidiaries at the end of the year included in the consolidation are:

	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
Salvus Bain Management (USA) LLC	U.S.A.	100%	Brokerage
Van Olst de Graaff & Co BV	Netherlands	73%	Brokerage
Harlock Murray Underwriting Limited	Canada	100%	Broking & management services

The joint venture at the end of the year included in the consolidation is:

Knighthood Corporate Assurance Services Plc	England	49%	Insurance Broker

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.

Since the year end the group has increased its holding in Van Olst de Graaff & Co BV to 82%.

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

	Investment in group undertakings £'000
Group	
At 1st January 2011	714
Adjustment due to exchange movements	(2)
Share of profits of joint ventures	213
Share of joint venture current taxation	(63)
Dividend paid	(64)
Transferred to goodwill on acquisition	(358)
Transferred to assets and liabilities on acquisition	35
At 31st December 2011	475
Company	
At 1st January 2011	27,467
Adjustment due to exchange movements	(486)
Increase in loans owed by subsidiary undertakings	22
Revaluation of subsidiaries through reserves	(6,205)
Acquisition	502
At 31st December 2011	21,300

Sunderland Marine (Africa) Limited and SM Insurance (Bermuda) Limited have been valued at net asset value in the company balance sheet at 31st December 2011.

Salvus Bain Management (USA) LLC and the company's share of Van Olst de Graaff & Co BV and Knighthood Corporate Assurance Services Plc have been re-valued in the company balance sheet by suitably qualified external valuers at 31st December 2010.

The investment in Harlock Murray Underwriting Limited held by the company at December 2010 was re-valued in the company balance sheet by suitably qualified valuers. The valuation was increased during 2011 by the cost of acquiring the remaining shares in the company.

The directors are satisfied that the valuations performed in 2010 are still valid.

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

	2011 £'000	2010 £'000
Share of joint ventures' assets	1,351	1,840
Share of joint ventures' liabilities	(876)	(1,126)
	475	714

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

	2011 £'000	2010 £'000
Knighthood Corporate Assurance Services Plc - trading balances	392	(2)
Harlock Murray Underwriting Limited - trading balances	-	397

The total cost of investments in group undertakings at 31st December 2011 is £8,844,000 (2010: £8,342,000).

17. Financial assets

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Equity securities at fair value through income				
Market value	3,949	4,097	-	-
Cost	4,386	4,386	-	-
Debt securities at fair value through income				
Market value	51,910	64,130	21,963	21,529
Cost	51,638	63,775	21,908	21,954
Derivatives at fair value through income	187	348	106	88

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	Provision for unearned commission £'000	Claims outstanding £'000	Total £'000
Group				
At 1st January 2011	14,264	(4,097)	13,698	23,865
Adjustment due to exchange movements	(234)	83	(150)	(301)
Movement during the year	1,367	387	1,657	3,411
At 31st December 2011	15,397	(3,627)	15,205	26,975
Company				
At 1st January 2011	29,388	(8,889)	46,321	66,820
Adjustment due to exchange movements	(287)	611	(382)	(58)
Movement during the year	2,036	(403)	3,735	5,368
At 31st December 2011	31,137	(8,681)	49,674	72,130

19. Debtors arising out of direct insurance operations

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Amounts owed by policyholders	18,631	17,903	18,762	17,750
Amounts owed by intermediaries	206	192	206	192
	18,837	18,095	18,968	17,942

20. Debtors arising out of reinsurance operations

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Debtors arising out of inward reinsurance operations	174	265	174	265
Debtors arising out of outward reinsurance operations	6,669	5,649	6,669	5,649
	6,843	5,914	6,843	5,914

21. Other debtors

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Other taxation	133	198	73	89
Other debtors	1,302	1,304	514	584
Deferred taxation (note 26)	463	520	377	457
	1,898	2,022	964	1,130

22. Tangible fixed assets

	Fixtures & fittings £'000	Motor vehicles £'000	Computers £'000	Total £'000
Group				
Cost				
At 1st January 2011	878	397	1,506	2,781
Adjustment due to exchange movements	(6)	(11)	(5)	(22)
Additions	62	18	57	137
Disposals	(137)	(18)	(163)	(318)
Acquired with subsidiary	201	-	171	372
At 31st December 2011	998	386	1,566	2,950
Depreciation				
At 1st January 2011	612	103	700	1,415
Adjustment due to exchange movements	(4)	(4)	(5)	(13)
Charge for the year	116	71	136	323
On disposals	(135)	(11)	(163)	(309)
Acquired with subsidiary	188	-	146	334
At 31st December 2011	777	159	814	1,750
Net book value				
At 31st December 2011	221	227	752	1,200
At 31st December 2010	266	294	806	1,366

22. Tangible fixed assets (continued)

	Fixtures & fittings £'000	Motor vehicles £'000	Computers £'000	Total £'000
Company				
Cost				
At 1st January 2011	395	165	862	1,422
Adjustments due to exchange movements	1	-	2	3
Additions	13	18	44	75
Disposals	(3)	(12)	(2)	(17)
At 31st December 2011	406	171	906	1,483
Depreciation				
At 1st January 2011	161	30	93	284
Adjustments due to exchange movements	2	-	3	5
Charge for the year	98	35	110	243
Disposals	(2)	(5)	(2)	(9)
At 31st December 2011	259	60	204	523
Net book value				
At 31st December 2011	147	111	702	960
At 31st December 2010	234	135	769	1,138

23. Capital and reserves

	Revaluation reserve £'000	Reserve fund £'000	Income & expenditure account: Translation reserve £'000	Income & expenditure account: I&E reserve £'000	Income & expenditure account: Total £'000
Group					
At 1st January 2011	200	26,007	34	19,789	19,823
Deficit for year	-	-	-	(7,978)	(7,978)
Foreign exchange rate movements	1	-	(395)	-	(395)
Actuarial deficit recognised in pension scheme	-	-	-	(1,538)	(1,538)
At 31st December 2011	201	26,007	(361)	10,273	9,912

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 2011	20,201	26,007	(618)	408	(210)
Deficit for year	-	-	-	(464)	(464)
Revaluation of subsidiaries	(6,205)	-	-	-	-
Foreign exchange rate movements	(167)	-	(284)	-	(284)
Actuarial deficit recognised in pension scheme	-	-	-	(1,538)	(1,538)
At 31st December 2011	13,829	26,007	(902)	(1,594)	(2,496)

24. Reconciliation of movements on capital and reserves

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
At 1st January	46,030	43,664	45,998	43,521
(Deficit)/surplus for year	(7,978)	2,448	(464)	(260)
Revaluation of property	-	(161)	-	(161)
Revaluation of subsidiaries	-	-	(6,205)	2,831
Foreign exchange rate movements	(394)	58	(451)	46
Actuarial (deficit)/surplus recognised in pension scheme	(1,538)	21	(1,538)	21
At 31st December	36,120	46,030	37,340	45,998

25. Technical provisions – gross amounts

	Provision For unearned premiums £'000	Claims outstanding £'000	Unexpired risk reserve £'000	Total £'000
Group				
At 1st January 2011	32,110	50,945	-	83,055
Adjustment due to exchange movements	(416)	(456)	-	(872)
Movement during the year	2,203	4,106	422	6,731
At 31st December 2011	33,897	54,595	422	88,914
Company				
At 1st January 2011	31,339	50,717	-	82,056
Adjustment due to exchange movements	(272)	(415)	-	(687)
Movement during the year	2,170	4,115	42	6,327
At 31st December 2011	33,237	54,417	42	87,696

26. Provision for deferred tax assets

The provision for deferred tax assets has been made at the rate of tax relevant in each overseas jurisdiction as follows:

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
At 1st January	520	306	457	255
Adjustment due to exchange movements	(8)	101	(1)	92
Adjusted provision at 1st January	512	407	456	347
Movement during year	(75)	113	(79)	110
Acquired with subsidiary	26	-	-	-
At 31st December	463	520	377	457
Excess of taxation allowances over depreciation on fixed assets	(12)	(5)	(31)	(27)
Other timing differences	475	525	408	484
	463	520	377	457

The timing differences above relate to accumulated losses in jurisdictions where the group has a taxable presence. They have been recognised only to the extent to which the group believes they are recoverable in the next three to five years.

27. Derivative liabilities

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Derivatives at fair value through income	565	227	452	182

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

28. Creditors arising out of reinsurance operations

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Amounts owing to subsidiary undertakings	-	-	22,308	14,598
Other creditors arising out of reinsurance operations	12,874	8,350	12,874	8,350
	12,874	8,350	35,182	22,948

29. Creditors – borrowings

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

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Bank overdraft	2,346	6,148	2,346	6,148
Bank loans	-	607	-	-
	2,346	6,755	2,346	6,148
Amounts repayable:				
In one year or less or on demand	2,346	6,603	2,346	6,148
In more than one year but not more than five years	-	152	-	-
	2,346	6,755	2,346	6,148

Interest is charged at 2.1% above base rate on the overdraft.

30. Other creditors including taxation and social security

	Group 2011 £'000	Group 2010 £'000	Company 2011 £'000	Company 2010 £'000
Corporation tax	210	76	210	76
Other taxes and social security	461	950	426	919
Other creditors	2,184	1,805	400	385
	2,855	2,831	1,036	1,380

31. Financial assets and liabilities

Group At 31st December 2011	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	3,949	-	-	3,949	3,949
Debt securities at fair value through income	51,910	-	-	51,910	51,910
Derivatives at fair value through income	187	-	-	187	187
Deposits with credit institutions	-	15,240	-	15,240	15,240
Debtors arising out of direct insurance operations	-	18,837	-	18,837	18,837
Debtors arising out of reinsurance operations	-	6,843	-	6,843	6,843
Other debtors	-	1,898	-	1,898	1,898
Cash and cash equivalents	-	3,310	-	3,310	3,310
At 31st December 2011	56,046	46,128	-	102,174	102,174
Financial liabilities					
Derivatives at fair value through income	(565)	-	-	(565)	(565)
Creditors arising out of direct insurance operations	-	-	(2,280)	(2,280)	(2,280)
Creditors arising out of reinsurance operations	-	-	(12,874)	(12,874)	(12,874)
Borrowings	-	-	(2,346)	(2,346)	(2,346)
Other creditors, including taxation and social security	-	-	(2,855)	(2,855)	(2,855)
At 31st December 2011	(565)	-	(20,355)	(20,920)	(20,920)

31. Financial assets and liabilities (continued)

At 31st December 2010	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	4,097	-	-	4,097	4,097
Debt securities at fair value through income	64,130	-	-	64,130	64,130
Derivatives at fair value through income	348	-	-	348	348
Deposits with credit institutions	-	9,521	-	9,521	9,521
Debtors arising out of direct insurance operations	-	18,095	-	18,095	18,095
Debtors arising out of reinsurance operations	-	5,914	-	5,914	5,914
Other debtors	-	2,022	-	2,022	2,022
Cash and cash equivalents	-	2,637	-	2,637	2,637
At 31st December 2010	68,575	38,189	-	106,764	106,764
Financial liabilities					
Derivatives at fair value through income	(227)	-	-	(227)	(227)
Creditors arising out of direct insurance operations	-	-	(1,984)	(1,984)	(1,984)
Creditors arising out of reinsurance operations	-	-	(8,350)	(8,350)	(8,350)
Borrowings	-	-	(6,755)	(6,755)	(6,755)
Other creditors, including taxation and social security	-	-	(2,831)	(2,831)	(2,831)
At 31st December 2010	(227)	-	(19,920)	(20,147)	(20,147)

32. Reconciliation of surplus on ordinary activities before taxation to net cash outflow from operating activities

	2011 £'000	2010 £'000
(Deficit)/surplus on ordinary activities before taxation	(6,902)	2,976
Share of profit of joint ventures	(213)	(3)
Amortisation of goodwill	1,423	1,335
Depreciation	465	403
Profit on sale of fixed assets	(4)	(2)
Derivative charge	1,378	586
Gain on sale of liquid investments	(385)	(976)
Adjustment to carrying value of liquid investments	222	31
Foreign exchange rate fluctuation	305	(2,907)
Tax suffered on investment income	(565)	(464)
Bank interest charge	190	250
Property revaluation through income and expenditure account	-	215
Pension contributions in excess of expense in income and expenditure account	(409)	(348)
Increase in reinsurers' share of technical provisions	(3,110)	(6,851)
Increase in debtors	(1,166)	(3,569)
(Increase)/decrease in prepayments and accrued income	(347)	493
Increase/(decrease) in technical provisions	5,859	(3,262)
Increase in creditors	4,067	5,765
Decrease in accruals and deferred income	(62)	(817)
Net cash inflow/(outflow) from operating activities	746	(7,145)

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 2011	6,010	4,097	64,130	8,583	(607)	82,213
Cash flow	10,497	-	(12,177)	-	602	(1,078)
Changes to market value and currencies	(303)	(148)	(43)	(143)	5	(632)
At 31st December 2011	16,204	3,949	51,910	8,440	-	80,503

34. Commitments under operating leases

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

	2011 Land & buildings £'000	2011 Other items £'000	2010 Land & buildings £'000	2010 Other items £'000
Group				
Operating leases which expire:				
Within one year	30	46	36	37
Within two to five years	215	121	123	133
Over five years	34	-	35	-
	279	167	194	170

35. Pension commitments

Group and company

Defined benefit pension scheme

	2011 £'000	2010 £'000
Present value of funded defined benefit obligations	(22,983)	(21,103)
Fair value of plan assets	20,960	20,209
Deficit	(2,023)	(894)

35. Pension commitments (continued)

Movements in present value of defined benefit obligation

	2011 £'000	2010 £'000
At 1st January	21,103	18,257
Current service cost	685	671
Interest cost	1,173	1,060
Actuarial losses	273	1,090
Benefits paid	(436)	(139)
Contributions by members	185	164
At 31st December	22,983	21,103

Movements in fair value of plan assets

	2011 £'000	2010 £'000
At 1st January	20,209	16,994
Expected return on plan assets	1,236	1,050
Actuarial (losses)/gains	(1,265)	1,111
Contributions by employer	1,031	1,029
Contributions by members	185	164
Benefits paid	(436)	(139)
At 31st December	20,960	20,209

Expense recognised in the income and expenditure account

	2011 £'000	2010 £'000
Current service cost	685	671
Interest on defined benefit pension plan obligation	1,173	1,060
Expected return on defined benefit pension plan assets	(1,236)	(1,050)
Total	622	681

35. Pension commitments (continued)

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

	2011 £'000	2010 £'000
Net operating expenses	685	671
Investment losses	(63)	10
	622	681

The total amount recognised in the statement of total recognised gains and losses in respect of actuarial gains and losses is a deficit of £1,538,000 (2010: surplus of £21,000).

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

	2011 Fair value £'000	2010 Fair value £'000
Equities	8,165	8,716
Bonds	10,568	9,783
Property	-	35
Hedge fund of funds	2,089	1,126
Cash	138	549
	20,960	20,209
Actual return on plan assets	(29)	2,206

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:

	2011 %	2010 %
Discount rate	4.9	5.5
Expected rate of return on plan assets	6.0	6.0
Expected return on plan assets at beginning of the period	6.0	6.5
Future salary increases	3.20	3.75
Inflation	2.95	3.50
Mortality	S1PAmc + u'pin	PA92mc

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 21 years (male) and 24 years (female).

The most recent full actuarial valuation of the pension scheme was completed for the period ended 31st December 2008.

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	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Present value of scheme liabilities	(22,983)	(21,103)	(18,257)	(13,202)	(15,077)
Fair value of scheme assets	20,960	20,209	16,994	12,139	12,854
Deficit	(2,023)	(894)	(1,263)	(1,063)	(2,223)

	2011 %	2010 %	2009 %	2008 %	2007 %
Experience adjustments on scheme liabilities as a percentage of scheme liabilities	(1.2)	(5.2)	(20.7)	25.1	(1.8)
Experience adjustments on scheme assets as a percentage of scheme assets	(6.0)	5.5	13.4	(31.6)	4.4

The company expects to contribute approximately £955,000 to its defined benefit plan in the next financial year.

35. Pension commitments (continued)

The company contributed £156,000 (2010: £159,000) 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 £218,000 (2010: £170,000). There were no outstanding or prepaid contributions at either the beginning or the end of the financial year. Contributions of £78,000 (2010: £61,000) were also made to a government superannuation scheme.

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 2011 the amount owing on the facility was £2,346,000, representing the charge over the assets that Barclays Bank Plc has on SM Insurance (Bermuda) Limited.

During the year the company had a guarantee in favour of Barclays Bank Plc to enable its subsidiary undertakings to enter into commercial loans with the bank. At 31st December the loans had been re-paid.

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 R100,000,000 (£7,933,000) of any claim.

37. Contingent liability

The group has received an assessment for indirect Canadian taxes totalling £360,000 since the year end. On the basis of professional advice and the group's intention to vigorously contest this assessment, no provision has been made.