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SUNDERLAND MARINE MUTUAL INSURANCE COMPANY LIMITED

NEW ZEALAND BRANCH

FINANCIAL STATEMENTS

31ST DECEMBER 2012



NPC# 08
18 JUN 2013



Independent Auditor's Report

To the Senior Officers outside New Zealand of Sunderland Mutual Marine Insurance Limited –New Zealand Branch

Report on the 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 2012 and the statements of comprehensive income, changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Senior Officers outside of New Zealand Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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.

Opinion

In our opinion the financial statements of Sunderland Mutual Marine Insurance Limited - the New Zealand Branch on pages 4 to 16:

- comply with generally accepted accounting practice in New Zealand;



- give a true and fair view of the financial position of the Branch as at 31 December 2012 and of its financial performance for the year ended on that date.

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 Sunderland Mutual Marine Insurance Limited - the New Zealand Branch as far as appears from our examination of those records.

KPMG

Darren Scammell
Partner

Melbourne

31 May 2013

Sunderland Marine Mutual Insurance Company Limited

New Zealand Branch

Annual Report

For the year ended 31 December 2012

The Board of Directors is pleased to present the financial statements of its New Zealand Branch for the year ended 31 December 2012 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 2012 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 31 May, 2013 in accordance with a resolution of the Directors.

For and on behalf of the Board of Management:



G.C. PARKINSON
Director

31 May, 2013



A.J. ALDEN
Director

31 May, 2013

Sunderland Marine Mutual Insurance Company Limited

New Zealand Branch

Statement of comprehensive income

For the year ended 31 December 2012

	Note	2012 \$NZ	2011 \$NZ
Revenue			
Premium	3(a)	4,636,883	4,535,062
Investment income	3(b)	<u>33,930</u>	<u>35,587</u>
Total operating revenue		4,670,813	4,570,649
Expenses			
Claims	3(a)	(2,314,858)	(998,691)
Underwriting expenses	3(a)	(166,708)	(543,327)
Administration expenses		<u>(1,274,052)</u>	<u>(1,442,877)</u>
Operating surplus before taxation		915,195	1,585,754
Income tax	10	<u>(253,625)</u>	<u>(444,164)</u>
Profit from operating activities after tax attributable to members of SMMI Co Ltd.		<u>661,570</u>	<u>1,141,590</u>

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 changes in Head Office Account

For the year ended 31 December 2012

HEAD OFFICE ACCOUNT	2012 \$NZ	2011 \$NZ
Head office account at the beginning of the year	1,438,217	1,660,732
Net surplus for the year	661,570	1,141,590
Transfer to head office on settlement of head office account	(872,457)	(1,364,105)
Head office account at the end of year	<u>1,227,330</u>	<u>1,438,217</u>

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 2012

	Note	2012 \$NZ	2011 \$NZ
Assets			
Land and buildings	5	790,722	795,247
Fixed assets		<u>39,294</u>	<u>95,803</u>
Total non-current assets		<u>830,016</u>	<u>891,050</u>
Current assets			
Cash on hand		91,096	130,439
Short term bank deposits		1,154,408	342,820
Financial assets	7	537,717	551,050
Debtors		4,655,875	5,709,197
Reinsurance receivable	8	1,055,849	126,741
Deferred tax asset		<u>21,455</u>	<u>4,848</u>
Total current assets		<u>7,516,400</u>	<u>6,865,095</u>
Total assets		<u><u>8,346,416</u></u>	<u><u>7,756,145</u></u>
Current liabilities			
Payables		216,297	600,168
Unearned premium		4,655,115	4,200,260
Provision for outstanding claims	9	<u>2,247,674</u>	<u>1,517,500</u>
Total current liabilities		<u>7,119,086</u>	<u>6,317,928</u>
Total liabilities		<u>7,119,086</u>	<u>6,317,928</u>
Head office current account		<u>1,227,330</u>	<u>1,438,217</u>
Total liabilities and head office account		<u>8,346,416</u>	<u>7,756,145</u>

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.

Sunderland Marine Mutual Insurance Company Limited

New Zealand Branch

Notes to the Financial Statements

For the year ended 31 December 2012

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 31 May 2013

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 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 ("the Act") and its financial statements comply with that Act.

Sunderland Marine Mutual Insurance Company Limited

New Zealand Branch

Notes to the Financial Statements

For the year ended 31 December 2012

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.

Sunderland Marine Mutual Insurance Company Limited

New Zealand Branch

Notes to the Financial Statements

For the year ended 31 December 2012

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 2012.

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 31 December 2012, the Branch had not deferred any costs.

Sunderland Marine Mutual Insurance Company Limited

New Zealand Branch

Notes to the Financial Statements

For the year ended 31 December 2012

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 2012 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 2012

	2012 \$NZ	2011 \$NZ
3 Operating Results		
(a) Underwriting result		
Gross premium income	8,567,350	7,006,613
(Decrease) in unearned premium	(465,377)	(147,955)
Reinsurance ceded	<u>(3,465,090)</u>	<u>(2,323,596)</u>
Net premium	<u>4,636,883</u>	<u>4,535,062</u>
Claims expense		
Claims paid	17,586,967	2,445,288
Claims settlement expenses	222,117	88,214
Increase/(decrease) in outstanding claims provision	694,333	(1,304,167)
Reinsurance recoveries	<u>(16,188,559)</u>	<u>(230,644)</u>
Total claims expense	<u>2,314,858</u>	<u>998,691</u>
Underwriting expenses		
Net commissions	334,916	336,434
Other income deductions	<u>(168,208)</u>	<u>206,893</u>
Total underwriting expenses	<u>166,708</u>	<u>543,327</u>
Underwriting result	<u>2,155,317</u>	<u>2,993,044</u>
(b) Investment income		
Interest	<u>33,930</u>	<u>35,587</u>
4 Auditor's Remuneration		
Amounts received, or due and receivable, by the auditors KPMG *	<u>-</u>	<u>-</u>

* Note: Audit fees are paid on behalf of the branch by Head Office

Sunderland Marine Mutual Insurance Company Limited

New Zealand Branch

Notes to the Financial Statements

For the year ended 31 December 2012

5 Land and Buildings

	\$NZ
Balance at 31 December 2012	
Cost/Revaluation	800,000
Accumulated depreciation	(4,753)
Carrying value	<u>795,247</u>
Current year depreciation	(4,525)
Net Carrying Value	<u>790,722</u>
Balance at 31 December 2011	
Cost/Revaluation	800,000
Accumulated depreciation	(227)
Carrying value	<u>799,773</u>
Current year rise	(4,526)
Net Carrying Value	<u>795,247</u>

Land and Buildings (at fair value) 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

	2012 \$NZ	2011 \$NZ
Current		
Gross claims incurred	18,281,300	1,141,121
Reinsurance and other recoveries	<u>(16,188,559)</u>	<u>(230,644)</u>
Net claims incurred	2,092,741	910,477
Claims settlement expenses	<u>222,117</u>	<u>88,214</u>
Net claims expense	<u>2,314,858</u>	<u>998,691</u>

(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 \$NZ	Prior periods \$NZ	2012 Total \$NZ	2011 Total \$NZ
Gross claims incurred and related expenses - undiscounted	19,029,169	(525,751)	18,503,418	1,229,335
Reinsurance and other recoveries - Undiscounted	<u>(16,310,305)</u>	<u>121,746</u>	<u>(16,188,559)</u>	<u>(230,644)</u>
Net claims incurred - undiscounted	2,718,864	(404,005)	2,314,859	998,691
Discount and discount movement- gross claims incurred	-	-	-	-
Net discount movement	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>2,718,864</u>	<u>(404,005)</u>	<u>2,314,859</u>	<u>998,691</u>

Sunderland Marine Mutual Insurance Company Limited

New Zealand Branch

Notes to the Financial Statements

For the year ended 31 December 2012

	2012	2011
	\$NZ	\$NZ
7 Financial Assets		
(a) Financial assets - fair value through profit or loss		
Debt securities - unsecured	537,717	551,050
Total financial assets - fair value through profit or loss	<u>537,717</u>	<u>551,050</u>
Current financial assets	537,717	551,050
Non-current financial assets	-	-
Total financial assets - fair value through profit or loss	<u>537,717</u>	<u>551,050</u>
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	1,055,849	126,741
Total reinsurance and other recoveries receivables	<u>1,055,849</u>	<u>126,741</u>

Sunderland Marine Mutual Insurance Company Limited

New Zealand Branch

Notes to the Financial Statements

For the year ended 31 December 2012

	2012 \$NZ	2011 \$NZ
9 Outstanding Claims		
a) Outstanding claims liability		
Outstanding claims (gross)	2,025,557	1,517,500
Claims handling cost	222,117	-
Risk margin	-	-
Total outstanding claims liability - undiscounted	<u>2,247,674</u>	<u>1,517,500</u>
Current	2,247,674	1,517,500
Total	<u>2,247,674</u>	<u>1,517,500</u>

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% (2011: 0%) has been adopted in determining the outstanding claims liability to achieve the probability of adequacy at a minimum confidence level of 75% (2011: 75%) which is deemed appropriate by management

c) Liability adequacy test

The liability adequacy 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	2,247,674	1,517,500
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 than 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.

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 and severity of claims and the subsequent development of long-tailed 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.

Sunderland Marine Mutual Insurance Company Limited

New Zealand Branch

Notes to the Financial Statements

For the year ended 31 December 2012

10 Income Tax	2012 NZ\$	2011 NZ\$
a) Income tax expense		
Current taxes	271,242	440,273
Adjustments in respect of prior periods	(1,010)	-
Total current taxes	<u>270,232</u>	<u>440,273</u>
Deferred taxes		
Origination of timing differences	(16,607)	3,891
Income tax expense	<u>253,625</u>	<u>444,164</u>
b) Reconciliation of prima facie tax payable to income tax expense		
Profit from operating activities before income tax	915,195	1,585,754
Prima facie income tax payable (2012: 28%/ 2011: 28.5%)	256,255	451,940
Tax effect of amounts which are not deductible (taxable) in calculating taxable		
Non taxable income	(1,673)	(185)
Non deductible expenses	2,279	(8,341)
Timing differences	14,382	(3,141)
Prior year adjustments	(1,010)	-
Income tax expense	<u>270,233</u>	<u>440,273</u>
c) Income tax receivable/(payable)		
Opening balance at 1 January	(151,163)	(68,145)
Additional provisions recognised	(262,591)	(431,178)
Liabilities paid	261,333	280,015
Prior years recognised	151,163	68,145
Closing balance at 31 December	<u>(1,258)</u>	<u>(151,163)</u>
d) Deferred tax provision		
Opening balance at 1st January	4,848	8,739
Adjustments in respect of prior years	<u>2,225</u>	-
Adjusted opening balance at 1 January	7,073	8,739
Movement during the year	14,382	(3,891)
Closing balance at 31st December	<u>21,455</u>	<u>4,848</u>
Excess of taxation allowances over depreciation on fixed assets	(53)	(3,578)
Other timing differences	<u>21,508</u>	<u>8,426</u>
	<u>21,455</u>	<u>4,848</u>

Sunderland Marine Mutual Insurance Company Limited

New Zealand Branch

Notes to the Financial Statements

For the year ended 31 December 2012

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

The Branch is part of Sunderland Marine Mutual Insurance Company Limited, a company incorporated in United Kingdom with Limited liability.

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 October 2012 (2011: A-). At the date of this report, the parent entity has a credit rating of BBB+ from Standard & Poor's (2011: BBB+).

SUNDERLAND MARINE MUTUAL INSURANCE COMPANY LIMITED

**SUPPLEMENTARY
FINANCIAL INFORMATION**

**AS AT
31ST DECEMBER 2012**

Sunderland Marine Mutual Insurance Company Limited

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 2012 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 26 March 2013 when the group accounts were approved.

As such the statement of directors' responsibilities on page 18 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
Director

31st May 2013



A S ROWLAND
Company Secretary

31st May 2013

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 2012 as set out on pages 4 to 6 of the Supplementary Financial Information. The Company's results for the year ended 31 December 2012 are consolidated in the group financial statements of the Company for the same period, approved on 26 March 2013 (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

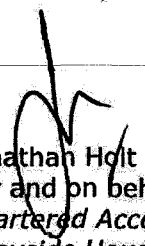
We conducted our review having regard to the International Standard on Review Engagements (UK & Ireland) 2410 *Review of Interim Financial Information performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK.

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 26 March 2013 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

31st May 2013

Sunderland Marine Mutual Insurance Company Limited

INCOME & EXPENDITURE ACCOUNT

COMPANY ACCOUNTS

For the year ended 31 December 2012

	2012 £000	2011 £000
Turnover	93,967	73,849
	<u>93,967</u>	<u>73,849</u>
Surplus/(deficit) derived from		
Insurance	2,581	(432)
Investments	794	582
Surplus before taxation	<u>3,375</u>	<u>150</u>
Taxation	(524)	(614)
Surplus/(deficit) after taxation	<u>2,851</u>	<u>(464)</u>
Surplus/(deficit) after taxation attributable to members of the company	2,851	(464)
Accumulated (deficit) brought forward	(2,496)	(210)
Foreign exchange rate movement	64	(284)
Actuarial surplus/(deficit) recognised in pension scheme	493	(1,538)
Accumulated surplus/(deficit) carried forward	<u>912</u>	<u>(2,496)</u>

In addition to the accumulated surplus, the company has a reserve fund of £26,007,000 (2011: £26,007,000) and a revaluation reserve of £10,026,000 (2011: £13,829,000), giving total capital and reserves of £36,945,000 (2011: £37,340,000).

Sunderland Marine Mutual Insurance Company Limited

CASH FLOW STATEMENT

COMPANY ACCOUNTS

For the year ended 31 December 2012

	Note	2012 £000	2011 £000
Operating activities			
Net cash inflow from operating activities	1	1,570	10,580
Dividends Received			
Joint venture		112	64
Subsidiary		295	283
Interest paid			
Bank interest paid		(156)	(181)
Taxation			
Corporation tax paid		(210)	(134)
Capital Expenditure			
Purchase of fixed assets		(121)	(75)
Sale of tangible fixed assets		503	12
Acquisition			
Acquisition of subsidiary		(335)	(502)
Financing			
Increase in loans to subsidiary undertakings		(231)	(22)
Expense from settlement of derivatives		(1,038)	(659)
		<u>389</u>	<u>9,366</u>
Cash flows were invested as follows:			
Increase in cash holdings	2	2,755	8,575
Portfolio investments			
Purchase of fixed income securities		49,425	38,766
Sale of fixed income securities		(51,791)	(37,975)
		<u>389</u>	<u>9,366</u>
Net investment of cash flows			
Movement in opening and closing portfolio investments net of financing			
Net cash inflow for year		2,755	8,575
Cash flow - portfolio investments		(2,366)	791
		<u>389</u>	<u>9,366</u>
Movement arising from cash flows	2	389	9,366
Changes in market values and exchange rate effects		(1,277)	(447)
Total movement in portfolio investments net of financing		<u>(888)</u>	<u>8,919</u>
Portfolio investments net of financing at 1st January		40,594	31,675
Portfolio investments net of financing at 31st December	2	<u>39,706</u>	<u>40,594</u>

NOTES TO THE SUPPLEMENTARY FINANCIAL STATEMENTS
For the year ended 31st December 2012

COMPANY ACCOUNTS

	2012 £000	2011 £000
1) Reconciliation of surplus/(deficit) before tax to net cash inflow from operating activities		
Surplus on ordinary activities before taxation	3,375	150
Dividend received from joint venture	(112)	(64)
Dividend received from subsidiary	(295)	(283)
Depreciation	368	376
Profit on sale of fixed assets	-	(4)
Derivative charge	455	911
Loss on sale of liquid investments	204	203
Adjustment to carrying value of liquid investments	47	(131)
Foreign exchange rate fluctuation	1,201	280
Tax suffered on investment income	(144)	(267)
Bank interest charge	156	175
Pension contributions in excess of expense in income and expenditure account	(494)	(409)
Increase in reinsurers' share of technical provisions	(11,675)	(5,310)
Increase in debtors	(10,360)	(1,869)
Increase in prepayments and accrued income	(1,456)	(761)
Increase in technical provisions	14,019	5,640
Increase in creditors	6,120	11,998
Increase/(decrease) in accruals and deferred income	161	(55)
Net cash inflow from operating activities	1,570	10,580

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

	Deposits and cash at bank net of bank loans and overdrafts £000	Fixed income securities £000	Land and buildings £000	Total £000
Balance at 1st January 2012	10,646	21,963	7,985	40,594
Cash flow	2,755	(2,366)	-	389
Changes to market value	-	(251)	(133)	(384)
Changes in currencies	(249)	(616)	(28)	(893)
Balance at 31st December 2012	13,152	18,730	7,824	39,706

Sunderland Marine Mutual Insurance Company Limited

Registered Number: 16432

Directors' Report and Financial Statements

Year Ended 31st December 2012

Sunderland Marine Mutual Insurance Company Limited
Directors' Report and Financial Statements
Year Ended 31st December 2012

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Sunderland Marine Mutual Insurance Company Limited
Company Information
Year Ended 31st December 2012

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

Sunderland Marine Mutual Insurance Company Limited
Directors' Report
Year Ended 31st December 2012

The directors present their report and financial statements for the year ended 31st December 2012.

Status

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

Principal activities

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

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

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

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

BUSINESS REVIEW

Forward looking statements

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

Strategy

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

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

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

Markets

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

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

This diversification is further enhanced geographically. The company's markets for marine are the UK (14.8%), North America (43.9%), Europe (10.8%), Australasia (19.6%), and others (10.9%), and for aquaculture they are UK (4.2%), North America (49.4%), Europe (21.3%), Australasia (6.7%), South America (18.1%) and others (0.3%).

Sunderland Marine Mutual Insurance Company Limited
Directors' Report (continued)
Year Ended 31st December 2012

Business environment

Despite the pervading competitive environment, with capacity for marine showing only minimal signs of reduction, the company achieved high levels of growth and retention.

Over the course of the year Sterling strengthened against the Australian, Canadian, Euro, United States 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 less other operating income 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 less other operating income 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 £95,325,000 reflects an increase of 27.0% from £75,076,000 in 2011. Taking out the currency effect the increase, in real terms, was 27.4%.

Operating performance was disappointing under difficult trading conditions with a technical underwriting deficit of £3,032,000 (2011: £8,115,000). Positive investment return in the non-technical account of £2,499,000 (2011: £1,213,000) produced a deficit before tax of £533,000 (2011: £6,902,000). Net of tax the deficit was £1,326,000 (2011: £7,873,000).

The expense ratio is calculated by dividing net operating expenses, net of other operating income, by earned premium net of reinsurance. The expense ratio has decreased marginally to 35.1% (2011: 35.8%). The combined ratio has reduced to 107.5% (2011: 119.5%).

Marine

The marine division accounted for 78.5% of written premiums in 2012 (2011: 84.9%).

The business is written worldwide. Protection and Indemnity business is focussed on the USA, Europe and Australia and Personal Accident has a UK and Australian bias.

Gross written premium for marine business in 2012 increased by over 10% due to a combination of increases on existing business and new business attaching during the year. A significant proportion of this new business was non-fishing accounts including tugs, barges and short sea cargo vessels.

Marine underwriting results were more encouraging after a disappointing 2011. Hull claims returned to normal levels as the spike of high value claims in the preceding year did not re-occur. Globally the quantum of liability claims fell year on year.

Throughout 2012, underwriters looked for modest increases in rate and deductible across the existing book of business yet retention levels remained above 90%, highlighting the loyalty of the company's policyholders.

Sunderland Marine Mutual Insurance Company Limited
Directors' Report (continued)
Year Ended 31st December 2012

Aquaculture

The aquaculture division accounted for 21.5% of gross written premium in 2012 (2011: 15.1%).

Written premiums increased by £9,115,000 year on year. This rise was principally due to, in ascending order of value, rate increases on core business, new business acquisitions and additional premiums chargeable on certain key accounts to reflect deteriorating loss experience.

The positive trend reported in the previous year in respect of new business acquisitions has continued and is expected to be repeated in 2013. Consolidation of the aquaculture industry, which was curtailed in 2011, has again arisen during 2012. The industry is generally enjoying good results despite on-going challenges of market demand fluctuations and disease issues. Aquaculture results in 2012 were satisfactory and in line with target ratios. The increase in premium written has assisted in generating increased revenues from the targeted loss ratio result.

Management are confident in delivering a similar future performance, assisted by the consistent capital investment evident in most parts of the industry.

Investment return

The company's investment portfolio structure remained relatively stable during 2012. Underlying asset allocation remains heavily weighted toward bond investment. Exposure, however, to the high yield sector was reduced to re-balance relative weighting and underlying investment risk. Attendant gains were crystallised following the strong rally in this sector over the course of the year.

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 £2,499,000 (2011: £1,213,000). This is marginally above expectation and is reflective of strong performance of alternative assets and the 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 2013. 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 under whose auspices the capital regime for regulated insurance businesses continues to evolve. The FSA is to be replaced by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) with effect from 1st April 2013.

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 marginally strengthened this year from 86.6% in 2011 to 86.8% in 2012. The deficit in the year which has reduced reserves has been offset by lower earned premium net of reinsurance.

Sunderland Marine Mutual Insurance Company Limited
Directors' Report (continued)
Year Ended 31st December 2012

The total capital and reserves of the group are £35,278,000 compared with £36,120,000 at 31st December 2011. The reserve fund of the company is £26,007,000 (2011: £26,007,000) and the surplus retained in the income and expenditure account of the group is £9,069,000 (2011: £9,912,000).

The company is working towards Solvency II and has developed a framework 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 2010. Policy years 2011 to 2013 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 utilised £6,318,000 of cash (2011: generated £746,000).

Portfolio investments decreased by £8,918,000 (2011: decrease £12,177,000). Deposit and short-term cash holdings were increased by £1,534,000 (2011: increase £10,497,000).

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 10 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.

Sunderland Marine Mutual Insurance Company Limited
Directors' Report (continued)
Year Ended 31st December 2012

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:

W J J Crowe
P M Johnson
F J Mattera
G C Parkinson
P I Talley

The table below shows the composition of the board and its committees at 31st December 2012.

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
A.J. Alden (executive director)	*		*					*	
J.D. Alford	*				c				
A.D.W. Allan (Vice Chairman)	*	*	*	*	*	c	*	*	*
J.P. Crichton	*		*					*	
W.J.J. Crowe	*	*							
T.F. Hart (Chairman)	c	*	c	*	*	*	c	c	c
C.J. Hilton	*		*					*	
P.M. Johnson	*	c			*				
F.J. Mattera	*								
G.C. Parkinson (executive director)	*		*	c	*	*		*	*
T. Rutter (executive director)	*								
P.I. Talley	*								
S. W. Taylor	*	*							
A.C. Vipond (executive director)	*		*					*	

Sunderland Marine Mutual Insurance Company Limited
Directors' Report (continued)
Year Ended 31st December 2012

Retirements/appointments in 2012

The following directors retired from the Board on 27th June 2012:

P A Bobeff
A L Marr
D M Windmill

Mr Allan was appointed as vice chairman of the company and chairman of the Nomination Committee on 27th June 2012.

Mr Johnson was appointed as chairman of the Audit Committee and as a member of the Executive Committee on 27th June 2012.

Directors' biographical details

Allison J. Alden (42)

Mrs Alden commenced employment with the company in 2004. She was appointed to the board as an executive director in 2010. She is also a director of a subsidiary company and of the joint venture. 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 (50)

Mr Alford was appointed as a non-executive director of the company in 2009. He is also a director of the East Sussex Downs & Weald, West Sussex, Brighton & Hove and Hastings & Rother Primary Care Trusts. He is also a consultant for North of England P&I Association in connection with its investment committee. 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 (68) Vice Chairman

Mr Allan was appointed as a non-executive director in 1986 and appointed vice chairman on 27th June 2012. He is also a company nominated director of the corporate trustee of the company's pension scheme. He is 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.

J. Peter Crichton (64)

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 (65)

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 (68) 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 also a company nominated director of the corporate trustee of the company's pension scheme. He was previously a marine underwriter with a Lloyds' syndicate and is based in England.

Sunderland Marine Mutual Insurance Company Limited
Directors' Report (continued)
Year Ended 31st December 2012

Christopher J. Hilton (62)

Mr Hilton was appointed as a non-executive director in 2008. He is also a company nominated trustee and chairman of the corporate trustee of the company's pension scheme. He was a partner in Eversheds LLP, retiring in 2010. 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 a director of NEPIA Trust Company Limited. He is based in England.

Peter M. Johnson (64)

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.

Frederick J. Mattera (61)

Mr Mattera was appointed as a non-executive director in 1998. He is a retired 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 (57)

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. He is the Chief Executive Officer of the company and is based in England.

Thomas Rutter (52)

Mr Rutter commenced employment with the company in 1979. He was appointed to the board as an executive director in 2010. He is a director of a subsidiary company and also a company nominated director of the corporate trustee of the company's pension scheme. He is the Aquaculture Manager of the company and is based in England.

Peter I. Talley (67)

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 (59)

Mr Taylor was appointed as a non-executive director in 2011 and is also a director of a joint venture company. 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 (40)

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. She is the Corporate Risk Manager of the company and is based in England.

Sunderland Marine Mutual Insurance Company Limited
Directors' Report (continued)
Year Ended 31st December 2012

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 £7,000 (2011: £17,000). No political contributions were made (2011: £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 2012 represented 3 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.

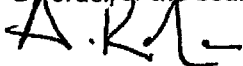
Disclosure of information to the auditor

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 auditor is 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 auditor is aware of that information.

Auditor

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

By order of the board



A.S. Rowland
Secretary
26th March 2013

Company registration number: 16432

Sunderland Marine Mutual Insurance Company Limited
Directors' Report on Corporate Governance
Year Ended 31st December 2012

**The UK Corporate Governance Code
(as annotated by the Association of Financial Mutuals) (the "Code")**

The board is committed to complying with best practice in corporate governance, but it does not consider that this should be a "box ticking" exercise. Where it believes there is a justifiable reason for a departure from the Code then it will do so, particularly if the board judges that such departure is in the best interests of members and that the governance of the company is not compromised.

The board considers that, except where stated, throughout the year ended 31st December 2012, the company has applied the relevant principles.

Leadership

The role of the board

The board meets four times a year, or more frequently as required, 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.

The board's principal role is to focus on:

- strategic aims and objectives, and monitoring 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.

To assist directors in complying with their statutory and other responsibilities under the Companies Act 2006 and all other applicable statutes and regulations the Board has adopted a procedure manual which is reviewed and approved annually.

Sunderland Marine Mutual Insurance Company Limited
Directors Report on Corporate Governance (continued)
Year Ended 31st December 2012

Division of responsibilities

Beneath the board there is in place clear and appropriate apportionment of responsibilities amongst the executive directors and senior managers. There is also clear segregation of the roles of chairman and chief executive as evidenced by separate job descriptions contained within the board procedure manual.

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 above, 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.

Board Effectiveness

Composition and balance

The board at 31st December 2012 comprised the non-executive chairman, nine 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 independent director. All the non-executive directors are judged to be independent. There are a number of board members with service periods exceeding nine years, however each has been individually considered and is believed to remain independent in both character and judgement and, having no relationships that are relevant to such independence, their circumstances are not such as to require that their independent status should be altered.

Biographies of all the directors appear on pages 7 and 8. Membership of the board committees is set out on page 6. The board is satisfied that the balance and range of expertise, experience and qualifications is appropriate for the current needs of the business.

Development

The chairman ensures that, on appointment, non-executive directors receive a tailored induction programme. 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. Individual training requirements for the directors are identified through the evaluation process.

Board committees

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

Audit committee

The members of the audit committee are shown on page 6. 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 reports from the compliance function and internal audit;

Sunderland Marine Mutual Insurance Company Limited
Directors Report on Corporate Governance (continued)
Year Ended 31st December 2012

- 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 chief risk officer, general counsel, the financial compliance officer and the internal auditor attend meetings of the committee as required.

The committee discharges its responsibilities through its consideration of the preceding points and in addition:

- the committee reviews and approves the scope, approach and timeline of the external audit;
- reviews the external auditor's management letters and management's response to them; and
- considers the presentations given to it by the external auditors during committee meetings.

These provide sufficient measurement of the independence and effectiveness of the external auditors and the audit process.

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 6. 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 6. 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 6. The committee meets four times a year, or more frequently if required, and its principle objective is to ensure that the company's investment strategy reflects objectives approved by the company. Its responsibilities include:

- recommending investment guidelines for the management of liquid assets of the company through asset allocation benchmarks, performance objectives and performance benchmarks for the group's funds; and
- monitoring the investment performance of the group's funds.

Sunderland Marine Mutual Insurance Company Limited
Directors Report on Corporate Governance (continued)
Year Ended 31st December 2012

Nomination committee

The members of the nomination committee are shown on page 6. The committee meets at least once a year, or more frequently if required, and the overriding objectives of the committee are to establish a formal, rigorous and transparent procedure for the appointment of new directors to the board and to approve appointments to senior management positions. Its responsibilities include:

- reviewing the structure, size and composition (including the skills, knowledge, experience and diversity including gender) 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.

Due to the niche nature of the sectors, which dominate the company's business, the nomination committee and the board, following due consideration, does not utilise external search consultancies or advertising in the appointment of chairmen or non-executive directors.

Remuneration committee

The members of the remuneration committee are shown on page 6 and are all non-executive directors. The committee meets at least once a year, or more frequently if required, and its principle objectives are to ensure and determine for board approval that:

- there is a formal process of considering, in a fair and thorough manner, the remuneration of:-
 - the company's directors; and
 - persons appointed as advisors to any of its committees.
- the company adopts a coherent approach to remuneration in respect of all employees.
- there is oversight of the company's remuneration policy and outcomes in respect of all senior employees.

In addition, the committee will consider, in a fair and thorough manner, the structure and implementation of any bonus plan which may be introduced for staff.

Risk committee

The members of the risk committee are shown on page 6. 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 6. 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.

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

Sunderland Marine Mutual Insurance Company Limited
Directors Report on Corporate Governance (continued)
Year Ended 31st December 2012

Meetings and attendance

Forum	Number of members	Attendance at Meeting						
		Jan	Mar	May	Jun	Sep	Nov	Dec
Board	17 (14 after 27.06.12)	13	16	16	17	14	-	13
Audit	7 (5 after 27.06.12)	-	7	-	-	-	4	-
Investment	7 (5 after 27.06.12)	-	7	-	6	5	-	5
Nomination	4 (3 after 27.06.12)	-	-	-	-	-	-	3
Remuneration	3 (2 after 27.06.12)	-	3	-	-	-	-	-
Risk	8 (7 after 27.06.12)	-	8	-	-	-	-	7
Security	4 (3 after 27.06.12)	4	-	-	-	-	-	-

"-" denotes no meeting.

The defence advisory and executive committees meet as required. No meetings of these committees were held during 2012.

Performance evaluation

The board has established a formal annual evaluation of its own performance, and that of its committees, individual directors and the chairman. 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, and he also reports through the nomination committee to the board.

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.

Re-election of directors

Under the company's articles of association, directors have to submit themselves for re-election at least once every three years. Directors are therefore not individually subject to annual re-election but each director is reviewed annually by the nomination committee with regards to performance and continued independence in both character and judgement.

Accountability

The board as a whole is accountable to the membership for the performance of the company. The annual report and accounts provides a comprehensive review of the group's financial and operational performance in 2012.

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 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.

Sunderland Marine Mutual Insurance Company Limited
Directors Report on Corporate Governance (continued)
Year Ended 31st December 2012

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.

Risk management

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 chief risk officer. The committee meets as required.

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.

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

Compliance

The group has a compliance department which:

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

Internal audit

The group has an internal audit function, which:

- 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;

Sunderland Marine Mutual Insurance Company Limited
Directors Report on Corporate Governance (continued)
Year Ended 31st December 2012

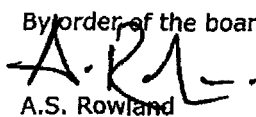
- conducts audits in line with that plan or additionally where required; and
- includes recommendations within all audit reports and monitors the implementation of these recommendations.

Relations with members

The company's website at www.sunderlandmarine.com contains up to date information on the group. The company produces a regular newsletter which is distributed to members. 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@sunderlandmarine.com.

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
26th March 2013

Sunderland Marine Mutual Insurance Company Limited
Directors Remuneration Report
Year Ended 31st December 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.

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.

Sunderland Marine Mutual Insurance Company Limited
Directors Responsibilities Statement
Year Ended 31st December 2012

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
Year Ended 31st December 2012

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 2012 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 2012 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

26th March 2013

Sunderland Marine Mutual Insurance Company Limited
Consolidated Income and Expenditure Account
Year Ended 31st December 2012

Technical account - general business			
	Note	2012 £'000	2011 £'000
Earned premiums, net of reinsurance			
Gross premiums written		95,325	75,076
Outward reinsurance premiums		(55,816)	(32,529)
		39,509	42,547
Change in the gross provision for unearned premiums	26	(7,862)	(2,203)
Change in the provision for unearned premium, reinsurers' share	18	9,017	1,367
		1,155	(836)
		40,664	41,711
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(61,863)	(47,588)
Reinsurers' share		27,252	15,569
		(34,611)	(32,019)
Change in provision for claims			
Gross amount	26	(8,899)	(4,106)
Reinsurers' share	18	13,651	1,657
Unexpired risk reserve	26	422	(422)
		5,174	(2,871)
		(29,437)	(34,890)
Net operating expenses before goodwill and purchase costs		(15,243)	(15,759)
Goodwill and purchase costs		(1,537)	(1,423)
Net operating expenses	5	(16,780)	(17,182)
Other operating income			
Brokerage income: group and share of joint ventures		3,961	4,040
Less: share of joint ventures' brokerage income		(1,724)	(2,007)
Group brokerage income		2,237	2,033
Share of joint venture operating profit		284	213
Balance on the technical account - general business		(3,032)	(8,115)

Sunderland Marine Mutual Insurance Company Limited
Consolidated Income and Expenditure Account (continued)
Year Ended 31st December 2012

Non-technical account – general business

	Note	2012 £'000	2011 £'000
Balance on the technical account - general business		(3,032)	(8,115)
Investment Income	7	2,490	3,215
Unrealised gains/(losses) on investments	8	486	(222)
Investment expenses and charges	9	(477)	(1,780)
Operating surplus/(deficit) before goodwill and purchase costs	1,004	(5,479)	
Goodwill and purchase costs	(1,537)	(1,423)	
Operating deficit	10	(533)	(6,902)
Deficit on ordinary activities before tax	11	(533)	(6,902)
Tax on deficit on ordinary activities	13	(793)	(971)
Deficit on ordinary activities after tax		(1,326)	(7,873)
Minority Interests		(94)	(105)
Deficit after taxation attributable to members of the parent company for the financial year		(1,420)	(7,978)

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 2012

	Note	2012 £'000	2011 £'000
Group deficit for the financial year		(1,420)	(7,978)
Foreign exchange rate movements	25	85	(394)
Actuarial surplus/(deficit) on pension scheme	36	493	(1,538)
<hr/>			
Total losses recognised since the last annual report		(842)	(9,910)

Sunderland Marine Mutual Insurance Company Limited
Consolidated Balance Sheet
As at 31st December 2012

	Note	2012 £'000	2011 £'000
Assets			
Intangible assets			
Goodwill	14	3,341	4,678
Investments			
Land and buildings	15	8,249	8,440
Investment in group undertakings and participating interests	16	606	475
Financial assets:			
- Equity securities at fair value through income	17	4,144	3,949
- Debt securities at fair value through income	17	42,549	51,910
- Derivatives at fair value through income	17	363	187
- Deposits with credit institutions		11,208	15,240
		67,119	80,201
Reinsurers' share of technical provisions			
Provision for unearned premiums	18	23,820	15,397
Provision for unearned commission	18	(4,633)	(3,627)
Claims outstanding	18	28,433	15,205
		47,620	26,975
Debtors			
Debtors arising out of direct insurance operations	19	25,210	18,837
Debtors arising out of reinsurance operations	20	10,202	6,843
Other debtors	21	2,846	1,898
		38,258	27,578
Other assets			
Tangible assets	22	532	1,200
Cash and cash equivalents		6,101	3,310
		6,633	4,510
Prepayments and accrued income			
Accrued interest and rent		429	441
Deferred acquisition costs	23	6,135	4,789
Other prepayments and accrued income		256	324
		6,820	5,554
Total assets		169,791	149,496

Sunderland Marine Mutual Insurance Company Limited
Consolidated Balance Sheet (continued)
As at 31st December 2012

	Note	2012 £'000	2011 £'000
Liabilities			
Capital and reserves			
Reserves			
Revaluation reserve	24	202	201
Other reserves: reserve fund	24	26,007	26,007
Income and expenditure account accumulated surplus	24	9,069	9,912
Total capital and reserves	25	35,278	36,120
Minority interest		190	293
Technical provisions			
Provision for unearned premiums: gross amount	26	40,728	33,897
Claims outstanding: gross amount	26	62,044	54,595
Unexpired risk reserve	26	-	422
		102,772	88,914
Financial liabilities			
- Derivatives at fair value through income	28	37	565
- Creditors arising out of direct insurance operations		2,757	2,280
- Creditors arising out of reinsurance operations	29	23,839	12,874
- Borrowings	30	-	2,346
- Other creditors, including taxation and social security	31	2,539	2,855
		29,172	20,920
Accruals and deferred income		1,343	1,226
		168,755	147,473
Pension liability	36	1,036	2,023
Total liabilities		169,791	149,496

These financial statements were approved by the board of directors on 26th March 2013 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 2012

	Note	2012 £'000	2011 £'000
Assets			
Investments			
Land and buildings	15	7,824	7,985
Investments in group undertakings and participating interests	16	17,826	21,300
Financial assets:			
- Debt securities at fair value through income	17	18,730	21,963
- Derivatives at fair value through income	17	274	106
- Deposits with credit institutions		9,797	11,740
		54,451	63,094
Reinsurers' share of technical provisions			
Provision for unearned premiums	18	36,830	31,137
Provision for unearned commission	18	(10,651)	(8,681)
Claims outstanding	18	57,626	49,674
		83,805	72,130
Debtors			
Debtors arising out of direct insurance operations	19	25,294	18,968
Debtors arising out of reinsurance operations	20	10,202	6,843
Other debtors	21	1,377	964
		36,873	26,775
Other assets			
Tangible assets	22	342	960
Cash and cash equivalents		3,355	1,252
		3,697	2,212
Prepayments and accrued income			
Accrued interest and rent		163	111
Deferred acquisition costs	23	6,224	4,728
Other prepayments and accrued income		211	303
		6,598	5,142
Total assets		185,424	169,353

Sunderland Marine Mutual Insurance Company Limited
Company Balance Sheet (continued)
As at 31st December 2012

	Note	2012 £'000	2011 £'000
Liabilities			
Capital and reserves			
Revaluation reserve	24	10,026	13,829
Other reserves: reserve fund	24	26,007	26,007
Income and expenditure account accumulated deficit	24	912	(2,496)
Total capital and reserves	25	36,945	37,340
Technical provisions			
Provision for unearned premiums: gross amount	26	40,050	33,237
Claims outstanding: gross amount	26	61,665	54,417
Unexpired risk reserve	26	-	42
		101,715	87,696
Financial liabilities			
- Derivatives at fair value through income	28	37	452
- Creditors arising out of direct insurance operations		2,775	2,308
- Creditors arising out of reinsurance operations	29	40,998	35,182
- Borrowings	30	-	2,346
- Other creditors, including taxation and social security	31	787	1,036
		44,597	41,324
Accruals and deferred income		1,131	970
		184,388	167,330
Pension liability	36	1,036	2,023
Total liabilities		185,424	169,353

These financial statements were approved by the board of directors on 26th March 2013 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 2012

	Note	2012 £'000	2011 £'000
Operating activities			
Net cash (outflow)/inflow from operating activities	33	(6,318)	746
Dividends received from joint venture		112	64
Interest paid			
Bank interest paid		(157)	(183)
Taxation			
UK corporation tax paid		(210)	(134)
Capital expenditure			
Purchase of tangible fixed assets		(157)	(137)
Sale of tangible fixed assets		507	13
Acquisition			
Acquisition of subsidiary net of cash acquired		(335)	(455)
Financing			
Repayment of loan		-	(602)
Dividend paid by subsidiary undertaking		(97)	(113)
Expense from settlement of derivatives		(729)	(879)
		(7,384)	(1,680)
Cash flows were invested as follows:			
Increase in cash holdings	34	1,534	10,497
Portfolio investments			
Purchase of equity securities at fair value through income		120	-
Purchase of debt securities at fair value through income		88,333	90,043
Sale of equity securities at fair value through income		(207)	-
Sale of debt securities at fair value through income		(97,164)	(102,220)
Net investment of cash flows		(7,384)	(1,680)
Movement in opening and closing portfolio investments net of financing			
Net cash inflow for year		1,534	10,497
Cash flow – portfolio investments		(8,918)	(12,177)
– decrease in loans		-	602
Movement arising from cash flows	34	(7,384)	(1,078)
Changes in market values and exchange rate effects	34	(868)	(632)
Total movement in portfolio investments net of financing		(8,252)	(1,710)
Portfolio investments net of financing at 1st January		80,503	82,213
Portfolio investments net of financing at 31st December	34	72,251	80,503

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements
Year Ended 31st December 2012

1. Accounting policies

Basis of presentation

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

The financial statements have been prepared in accordance with 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 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.

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

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

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, case by case 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.

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

Accounting policies (continued)

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 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, exclusive of any goodwill. The premium paid on acquisition is amortised over its estimated useful economic life.

Premiums

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

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

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

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

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.

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

Accounting policies (*continued*)

Acquisition costs

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

Unexpired risks

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

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*'.

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

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 28.

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.

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

Accounting policies (continued)

Fixed assets and depreciation

All fixed assets are initially recorded at cost.

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

Freehold buildings	-	2% straight line
Fixtures & fittings	-	12.5% - 33.3% straight line
Motor vehicles	-	20% - 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.

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

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.

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

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 approves the group risk management policies.

Capital management framework

The group has an internal risk management framework for identifying risks to which the group is exposed and to quantify their impact on economic capital. The internal framework indicates how much capital is needed to mitigate the risk of 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.

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

Risk management (continued)

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

The group has also limited its exposure 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:-

	Gross £'000	2012 Reinsurance £'000	Net £'000	Gross £'000	2011 Reinsurance £'000	Net £'000
Marine	86,570	39,257	47,313	77,723	22,084	55,639
Aquaculture	16,202	12,996	3,206	10,769	8,518	2,251
Total	102,772	52,253	50,519	88,492	30,602	57,890

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.

	Gross £'000	2012 Reinsurance £'000	Net £'000	Gross £'000	2011 Reinsurance £'000	Net £'000
Australasia	18,160	8,073	10,087	15,732	5,597	10,135
Europe	16,100	8,086	8,014	14,347	5,153	9,194
North America	42,257	25,337	16,920	34,469	13,704	20,765
United Kingdom	15,618	6,793	8,825	14,453	3,237	11,216
Others	10,637	3,964	6,673	9,491	2,911	6,580
Total	102,772	52,253	50,519	88,492	30,602	57,890

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

Risk management (continued)

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.

Accident year at end of	Gross claims incurred					
	2007 £'000	2008 £'000	2009 £'000	2010 £'000	2011 £'000	2012 £'000
Accident year	59,646	46,381	54,648	49,771	53,137	72,004
One year later	56,077	45,213	54,542	49,182	51,957	
Two years later	56,345	44,375	54,225	48,902		
Three years later	56,269	45,620	54,553			
Four years later	55,755	45,008				
Five years later	55,438					

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.

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

Risk management (continued)

The maximum exposure to credit risk amounts to £98,116,000 (2011: £98,038,000). This exposure includes all financial assets (with the exception of equities and derivatives) as detailed in note 32. 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	2012		2011	
	Debt securities £'000	Outward reinsurance debtors £'000	Debt securities £'000	Outward reinsurance debtors £'000
AAA	25,871	-	24,614	-
AA	5,841	7,621	13,331	4,160
A	4,463	2,127	6,095	2,397
BBB	3,397	85	3,377	-
BB	1,003	-	1,264	-
B	1,328	-	1,836	-
CCC - C	565	-	1,004	-
Not rated	81	113	389	112
Total	42,549	9,946	51,910	6,669

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 31 st December 2012	No contractual maturity £'000	Less than one year £'000	Total £'000
Derivative financial liabilities	-	37	37
Creditors arising out of direct insurance operations	2,757	-	2,757
Creditors arising out of reinsurance operations	23,839	-	23,839
Borrowings	-	-	-
Other creditors, including taxation and social security	2,539	-	2,539
Total	29,135	37	29,172

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

Risk management (*continued*)

At 31st December 2011

	No contractual maturity £'000	Less than one year £'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

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.

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

Risk management (*continued*)

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

At 31 st December 2012	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	4,144	-	-	4,144
Debt securities at fair value through income	15,789	26,013	747	42,549
Derivatives at fair value through income	-	363	-	363
Deposits with credit institutions	11,208	-	-	11,208
	31,141	26,376	747	58,264
Financial liabilities				
Derivatives at fair value through income	-	(37)	-	(37)
At 31 st 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)

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

Risk management (*continued*)

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

	Total £'000
Balance at 1 st January 2012	596
Purchases	514
Sales	(428)
Realised gains	7
Unrealised gains	60
Balance at 31st December 2012	749

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.

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

Risk management (continued)

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.

	Assets	Liabilities	Net assets/ (liabilities)	Forward contracts	Net assets/ (liabilities) after forward contracts
At 31 st December 2012	£'000	£'000	£'000	£'000	£'000
Australian Dollars	23,645	(16,609)	7,036	(8,453)	(1,417)
Canadian Dollars	29,285	(20,378)	8,907	(10,325)	(1,418)
Euro	16,871	(21,906)	(5,035)	4,919	(116)
Norwegian Kroner	85	(194)	(109)	-	(109)
New Zealand Dollars	5,061	(4,021)	1,040	(608)	432
US Dollars	34,536	(39,894)	(5,358)	4,782	(576)
South African Rand	2,891	(1,344)	1,547	(730)	817
	112,374	(104,346)	8,028	(10,415)	(2,387)
Sterling	57,417	(30,167)	27,250	10,415	37,665
	169,791	(134,513)	35,278	-	35,278
At 31st December 2011					
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

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

Risk management (continued)

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:

	2012 £'000	2011 £'000
0.5% increase in interest rates	(246)	(300)
0.5% decrease in interest rates	289	417

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	2012 Total £'000	Less Than Five years £'000	Five To Ten years £'000	Over twenty Five years £'000	2011 Total £'000
Greece	-	-	-	-	-	-	22	22
Ireland	148	-	-	148	195	-	-	195
France	721	-	-	721	1,250	-	-	1,250
Germany	2,259	-	40	2,299	986	-	-	986
The Netherlands	1,042	263	-	1,305	1,533	-	-	1,533
Denmark	-	91	-	91	193	-	-	193
Finland	500	100	-	600	347	-	-	347
Norway	383	-	-	383	-	-	-	-
Supranational	-	-	-	-	286	-	-	286
Turkey	267	-	-	267	-	-	-	-
Portugal	16	-	-	16	-	-	-	-
Italy	24	-	-	24	-	-	-	-
Spain	7	-	-	7	-	-	-	-
Luxembourg	98	114	-	212	-	-	-	-
	5,465	568	40	6,073	4,790	-	22	4,812

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

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

Risk management (*continued*)

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

	2012 £'000	2011 £'000
10% increase in equity price	414	395
10% decrease in equity price	(414)	(395)

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 2012.

The group capital comprises the capital and reserves of £35,278,000 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 £36,956,000 as at 31st December 2012 (2011: £36,959,000) of which a total of £20,748,000 (2011: £24,476,000) was held in local currency to support local solvency requirements in Australia, USA, Canada and New Zealand.

At 31st December 2012, the insurance subsidiary Sunderland Marine (Africa) Limited held regulatory capital of £1,465,000 (2011: £1,533,000).

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

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:

	2012 £'000	2011 £'000
In the United Kingdom	11,917	13,080
In other countries	82,116	60,784
	94,033	73,864

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:

	2012 £'000	2011 £'000
Direct	1,307	2,038
Inward reinsurance	357	(596)

5. Net operating expenses

	2012 £'000	2011 £'000
Acquisition costs	14,966	11,346
Change in deferred acquisition costs (note 23)	(1,539)	(710)
Administration expenses	13,871	13,169
Reinsurance commissions and profit participation	(11,792)	(6,236)
Change in unearned reinsurance commission (note 18)	1,274	(387)
	16,780	17,182

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

6. Particulars of employees

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

	2012 No	2011 No
Number of staff – full time	113	112
Number of staff – part time	22	22
	135	134
Staff employed by joint venture companies	36	41
	171	175

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

	2012 £'000	2011 £'000
Wages and salaries	6,920	6,694
Social security costs	396	428
Staff pension contributions	875	926
Directors' pension contributions	61	55
	8,252	8,103

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

	2012 £'000	2011 £'000
Emoluments receivable	1,342	1,346
Value of company pension contributions to defined benefit schemes	61	55
	1,403	1,401

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

Fees of £68,521 (2011: £55,850) payable to one director were paid, with the addition of VAT, to his company, Sandwood Services Limited. Fees of £49,648 (2011: £24,875 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 £411,140 (2011: £411,837) including pension contributions of £nil (2011: £nil). His accrued pension at the year-end was £152,512 (2011: £149,565) and his accrued lump sum was £375,000 (2011: £450,000).

Four directors accrued benefits under a company pension scheme (2011: 4).

7. Investment income

	2012 £'000	2011 £'000
Interest income: group and share of joint ventures	672	683
Less: share of joint ventures' interest income	(2)	(8)
	670	675
Gains on the realisation of investments	-	385
Other investment income	1,458	2,092
Interest on defined benefit pension plan obligation	(1,134)	(1,173)
Expected return on defined benefit pension plan assets	1,277	1,236
Exchange gain	219	-
	2,490	3,215

Income from listed investments included in other investment income was £1,458,000 (2011: £2,092,000).

8. Unrealised gains/(losses) on investments

	2012 £'000	2011 £'000
Unrealised gains/(losses) on investments	486	(222)

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

9. Investment expenses and charges

	2012 £'000	2011 £'000
Investment management expenses, including interest	350	384
Exchange and translation losses	-	18
Derivative charge	25	1,378
Losses on the realisation of investments	102	-
	477	1,780

10. Operating deficit

Of the group operating result, £284,000 surplus (2011: £213,000) is attributable to the share of operating results in joint ventures.

11. Deficit on ordinary activities before tax

	2012 £'000	2011 £'000
Deficit on ordinary activities before tax is stated after charging/(crediting):		
Overdraft interest	157	175
Loan interest	-	15
Depreciation on land and buildings	142	142
Depreciation on tangible fixed assets	309	323
Profit on sale of fixed assets	-	(4)
Amortisation of goodwill	1,537	1,423
Exchange and translation gains	(228)	(218)
Derivative charge	25	1,378
Operating lease costs - land and buildings	319	243
- other items	233	217
Auditors' remuneration:		
Audit of these financial statements	152	139
Amounts receivable by the auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	56	72
Other services pursuant to such legislation	237	219
Audit of pension scheme	4	4
All other services (principally pension advice in 2012 and regulatory in 2011)	202	22

12. Surplus/(deficit) attributable to members of the parent company

The surplus in the accounts of the parent company was £2,851,000 (2011: deficit £464,000).

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

13. Tax on deficit on ordinary activities

	2012 £'000	2011 £'000
The charge for taxation is computed as follows:		
UK corporation tax on the taxable surplus for the year at 24.5% (2011: 26.5%)	137	256
Adjustment in respect of previous periods	(7)	17
	130	273
Double taxation relief	(5)	(5)
	125	268
Overseas tax	540	577
Adjustment in respect of previous periods	(10)	(12)
	530	565
Share of joint ventures' current taxation	59	52
Share of joint ventures' adjustment in respect of previous periods	(18)	11
	41	63
Total current taxation	696	896
Deferred tax (note 27)		
Reversal of timing differences	97	75
Total deferred taxation	97	75
Tax on deficit on ordinary activities	793	971

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

13. Tax on deficit on ordinary activities (continued)

	2012 £'000	2011 £'000
Factors affecting the tax charge for the period:		
Deficit on ordinary activities before tax	(533)	(6,902)
Current tax at 24.5% (2011: 26.5%)	(131)	(1,829)
Effects of:		
Non taxable income	(1,240)	(470)
Expenses not deductible for tax purposes	579	598
Higher rates of overseas tax	1,037	2,017
Capital allowances in excess of depreciation	143	(1)
Other short-term timing differences	(240)	(74)
Double taxation relief	(5)	(5)
Adjustments to tax charge in respect of previous periods	(35)	16
Losses utilised	276	99
Deferred tax asset not recognised	312	545
Total current tax charge (see above)	696	896

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

14. Goodwill

Group

	2012 £'000
Cost	
At 1 st January 2012	9,865
Adjustment due to exchange rates	(85)
Addition	242
At 31 st December 2012	10,022
Amortisation	
At 1 st January 2012	5,187
Adjustment due to exchange rates	(43)
Charged in year	1,537
At 31 st December 2012	6,681
Net book value	
At 31 st December 2012	3,341
At 31 st December 2011	4,678

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

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 Arkesteljn 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 20th February 2012 the company acquired an additional 9% shareholding in Van Olst de Graaff & Co BV, a broker trading in the Netherlands for a consideration of £335,000 satisfied solely by cash. 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. Goodwill of £242,000 arising on the acquisition is being amortised over five 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
The 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 to December 2011 was £42,000.

The subsidiary undertaking acquired in 2011 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 during that year.

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

15. Land and buildings	Freehold land and buildings £'000
Group	
Valuation	
At 1 st January 2012	8,630
Adjustment due to exchange rates	(50)
At 31 st December 2012	8,580
Depreciation	
At 1 st January 2012	190
Adjustment due to exchange rates	(1)
Charge for the year	142
At 31 st December 2012	331
Net book value	
At 31 st December 2012	8,249
At 31 st December 2011	8,440
Company	
Valuation	
At 1 st January 2012	8,162
Adjustment due to exchange rates	(28)
At 31 st December 2012	8,134
Depreciation	
At 1 st January 2012	177
Charge for the year	133
At 31 st December 2012	310
Net book value	
At 31 st December 2012	7,824
At 31 st December 2011	7,985

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

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 2012 was £8,578,000 (2011: £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	82%	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
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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.

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

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

16. Investments in group undertakings and participating interests (continued)	Shares in group undertakings £'000
Group	
At 1 st January 2012	475
Share of profits of joint ventures	284
Share of joint venture current taxation	(41)
Dividend paid	(112)
At 31 st December 2012	606
Company	
At 1 st January 2012	21,300
Adjustment due to exchange movements	(307)
Increase in loans owed by subsidiary undertakings	231
Revaluation of subsidiaries through reserves	(3,733)
Acquisition	335
At 31 st December 2012	17,826

Sunderland Marine (Africa) Limited and SM Insurance (Bermuda) Limited have been valued at net asset value in the company balance sheet at 31st December 2012.

Salvus Bain Management (USA) LLC and the company's share of 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.

The investment in Van Olst de Graaff & Co BV held by the company at December 2010 was re-valued in the company balance sheet by suitably qualified valuers. The valuation was increased during 2012 by the cost of acquiring another 9% of the shares in the company.

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

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

	2012 £'000	2011 £'000
Share of joint ventures' assets	1,397	1,351
Share of joint ventures' liabilities	(791)	(876)
	606	475

At the year end the balance due to the group from its joint venture was as follows:-

	2012 £'000	2011 £'000
Knighthood Corporate Assurance Services Plc - trading balance	333	382

The total cost of investments in group undertakings at 31st December 2012 is £9,179,000 (2011: £8,844,000).

17. Financial assets

	2012 £'000	Group 2011 £'000	2012 £'000	Company 2011 £'000
Equity securities at fair value through income				
Market value	4,144	3,949	-	-
Cost	4,298	4,386	-	-
Debt securities at fair value through income				
Market value	42,549	51,910	18,730	21,963
Cost	42,074	51,638	18,628	21,908
Derivatives at fair value through Income	363	187	274	106

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.

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

18. Reinsurers' share of technical provisions

	Provision for unearned premiums £'000	Provision for unearned commission £'000	Claims outstanding £'000	Total £'000
Group				
At 1 st January 2012	15,397	(3,627)	15,205	26,975
Adjustment due to exchange movements	(594)	268	(423)	(749)
Movement during the year	9,017	(1,274)	13,651	21,394
At 31 st December 2012	23,820	(4,633)	28,433	47,620
Company				
At 1 st January 2012	31,137	(8,681)	49,674	72,130
Adjustment due to exchange movements	(1,221)	447	(1,314)	(2,088)
Movement during the year	6,914	(2,417)	9,266	13,763
At 31 st December 2012	36,830	(10,651)	57,626	83,805

19. Debtors arising out of direct insurance operations

	2012 £'000	Group 2011 £'000	2012 £'000	Company 2011 £'000
Amounts owed by policyholders	25,113	18,631	25,197	18,762
Amounts owed by Intermediaries	97	206	97	206
	25,210	18,837	25,294	18,968

20. Debtors arising out of reinsurance operations

	2012 £'000	Group 2011 £'000	2012 £'000	Company 2011 £'000
Debtors arising out of inward reinsurance operations	256	174	256	174
Debtors arising out of outward reinsurance operations	9,946	6,669	9,946	6,669
	10,202	6,843	10,202	6,843

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

21. Other debtors

	2012 £'000	Group 2011 £'000	2012 £'000	Company 2011 £'000
Other taxation	811	133	746	73
Deferred taxation (note 27)	355	463	115	377
Other debtors	1,680	1,302	516	514
	2,846	1,898	1,377	964

22. Tangible fixed assets

	Fixtures & fittings £'000	Motor vehicles £'000	Computers £'000	Total £'000
Group Cost				
At 1 st January 2012	998	386	1,566	2,950
Adjustment due to exchange movements	(11)	(8)	(10)	(29)
Additions	12	53	92	157
Disposals	(11)	(88)	(496)	(595)
At 31 st December 2012	988	343	1,152	2,483
Depreciation				
At 1 st January 2012	777	159	814	1,750
Adjustment due to exchange movements	(7)	(5)	(8)	(20)
Charge for the year	108	64	137	309
On disposals	(11)	(53)	(24)	(88)
At 31 st December 2012	867	165	919	1,951
Net book value				
At 31 st December 2012	121	178	233	532
At 31 st December 2011	221	227	752	1,200

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

22. Tangible fixed assets (continued)

	Fixtures & fittings £'000	Motor vehicles £'000	Computers £'000	Total £'000
Company Cost				
At 1 st January 2012	406	171	906	1,483
Adjustments due to exchange movements	(4)	(1)	1	(4)
Additions	7	53	61	121
Disposals	-	(51)	(477)	(528)
At 31 st December 2012	409	172	491	1,072
Depreciation				
At 1 st January 2012	259	60	204	523
Adjustments due to exchange movements	(2)	(1)	-	(3)
Charge for the year	86	34	115	235
Disposals	-	(21)	(4)	(25)
At 31 st December 2012	343	72	315	730
Net book value				
At 31 st December 2012	66	100	176	342
At 31 st December 2011	147	111	702	960

23. Deferred acquisition costs

	£'000
Group	
At 1 st January 2012	4,789
Adjustment due to exchange movements	(193)
Movement during the year	1,539
At 31 st December 2012	6,135
Company	
At 1 st January 2012	4,728
Adjustment due to exchange movements	(189)
Movement during the year	1,685
At 31 st December 2012	6,224

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

24. Capital and reserves

	Revaluation reserve £'000	Reserve fund £'000	Income & expenditure account		
			Translation reserve £'000	I&E reserve £'000	Total £'000
Group					
At 1 st January 2012	201	26,007	(361)	10,273	9,912
Deficit for year	-	-	-	(1,420)	(1,420)
Foreign exchange rate movements	1	-	84	-	84
Actuarial surplus recognised in pension scheme	-	-	-	493	493
At 31 st December 2012	202	26,007	(277)	9,346	9,069

	Revaluation reserve £'000	Reserve fund £'000	Income & expenditure account		
			Translation reserve £'000	I&E reserve £'000	Total £'000
Company					
At 1 st January 2012	13,829	26,007	(902)	(1,594)	(2,496)
Surplus for year	-	-	-	2,851	2,851
Revaluation of subsidiaries	(3,733)	-	-	-	-
Foreign exchange rate movements	(70)	-	64	-	64
Actuarial deficit recognised in pension scheme	-	-	-	493	493
At 31 st December 2012	10,026	26,007	(838)	1,750	912

25. Reconciliation of movements on capital and reserves

	2012 £'000	Group 2011 £'000	2012 £'000	Company 2011 £'000
At 1 st January	36,120	46,030	37,340	45,998
(Deficit)/surplus for year	(1,420)	(7,978)	2,851	(464)
Revaluation of subsidiaries	-	-	(3,733)	(6,205)
Foreign exchange rate movements	85	(394)	(6)	(451)
Actuarial surplus/(deficit) recognised in pension scheme	493	(1,538)	493	(1,538)
At 31 st December	35,278	36,120	36,945	37,340

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

26. Technical provisions – gross amounts	Provision for unearned premiums £'000	Claims outstanding £'000	Unexpired risk reserve £'000	Total £'000
Group				
At 1 st January 2012	33,897	54,595	422	88,914
Adjustment due to exchange movements	(1,031)	(1,450)	-	(2,481)
Movement during the year	7,862	8,899	(422)	16,339
At 31 st December 2012	40,728	62,044	-	102,772
Company				
At 1 st January 2012	33,237	54,417	42	87,696
Adjustment due to exchange movements	(984)	(1,429)	-	(2,413)
Movement during the year	7,797	8,677	(42)	16,432
At 31 st December 2012	40,050	61,665	-	101,715

27. 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:

	2012 £'000	Group 2011 £'000	2012 £'000	Company 2011 £'000
At 1 st January	463	520	377	457
Adjustment due to exchange movements	(11)	(8)	(6)	(1)
Adjusted provision at 1 st January	452	512	371	456
Movement during year	(97)	(75)	(256)	(79)
Acquired with subsidiary	-	26	-	-
At 31 st December	355	463	115	377
Excess of taxation allowances over depreciation on fixed assets	129	(12)	(38)	(31)
Other timing differences	226	475	153	408
	355	463	115	377

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 that it is probable that they are recoverable in the next five years.

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

28. Derivative liabilities

	2012 £'000	Group 2011 £'000	2012 £'000	Company 2011 £'000
Derivatives at fair value through income	37	565	37	452

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

29. Creditors arising out of reinsurance operations

	2012 £'000	Group 2011 £'000	2012 £'000	Company 2011 £'000
Amounts owing to subsidiary undertakings	-	-	17,178	22,308
Other creditors arising out of reinsurance operations	23,839	12,874	23,820	12,874
	23,839	12,874	40,998	35,182

30. Creditors – borrowings

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

	2012 £'000	Group 2011 £'000	2012 £'000	Company 2011 £'000
Bank overdraft	-	2,346	-	2,346
	-	2,346	-	2,346
Amounts repayable:				
In one year or less or on demand	-	2,346	-	2,346
	-	2,346	-	2,346

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

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

31. Other creditors including taxation and social security

	2012 £'000	Group 2011 £'000	2012 £'000	Company 2011 £'000
Corporation tax	124	210	124	210
Other taxes and social security	507	461	425	426
Other creditors	1,908	2,184	238	400
	2,539	2,855	787	1,036

32. Financial assets and liabilities

Group	Fair value through income £'000	Loans and receivables £'000	Amortised cost £'000	Total carrying value £'000	Total fair value £'000
At 31st December 2012					
Financial assets					
Equity securities at fair value through income	4,144	-	-	4,144	4,144
Debt securities at fair value through income	42,549	-	-	42,549	42,549
Derivatives at fair value through income	363	-	-	363	363
Deposits with credit institutions	-	11,208	-	11,208	11,208
Debtors arising out of direct insurance operations	-	25,210	-	25,210	25,210
Debtors arising out of reinsurance operations	-	10,202	-	10,202	10,202
Other debtors	-	2,846	-	2,846	2,846
Cash and cash equivalents	-	6,101	-	6,101	6,101
At 31st December 2012	47,056	55,567	-	102,623	102,623
Financial liabilities					
Derivatives at fair value through income	(37)	-	-	(37)	(37)
Creditors arising out of direct insurance operations	-	-	(2,757)	(2,757)	(2,757)
Creditors arising out of reinsurance operations	-	-	(23,839)	(23,839)	(23,839)
Other creditors, including taxation and social security	-	-	(2,539)	(2,539)	(2,539)
At 31st December 2012	(37)	-	(29,135)	(29,172)	(29,172)

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

32. Financial assets and liabilities (continued)

At 31 st 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 31 st 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 31 st December 2011	(565)	-	(20,355)	(20,920)	(20,920)

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

33. Reconciliation of deficit on ordinary activities before taxation to net cash outflow from operating activities

	2012 £'000	2011 £'000
Deficit on ordinary activities before taxation	(533)	(6,902)
Share of profit of joint ventures	(284)	(213)
Amortisation of goodwill	1,537	1,423
Depreciation	451	465
Profit on sale of fixed assets	-	(4)
Derivative charge	25	1,378
Loss/(gain) on sale of liquid investments	102	(385)
Adjustment to carrying value of liquid investments	(486)	222
Foreign exchange rate fluctuation	1,250	305
Tax suffered on investment income	(531)	(565)
Bank interest charge	157	190
Pension contributions in excess of expense in income and expenditure account	(494)	(409)
Increase in reinsurers' share of technical provisions	(20,645)	(3,110)
Increase in debtors	(10,788)	(1,166)
Increase in prepayments and accrued income	(1,266)	(347)
Increase in technical provisions	13,858	5,859
Increase in creditors	11,212	4,067
Increase/(decrease) in accruals and deferred income	117	(62)
Net cash inflow/(outflow) from operating activities	(6,318)	746

34. 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	Total £'000
At 1 st January 2012	16,204	3,949	51,910	8,440	80,503
Cash flow	1,534	(87)	(8,831)	-	(7,384)
Changes to market value	-	282	102	(142)	242
Changes in currencies	(429)	-	(632)	(49)	(1,110)
At 31 st December 2012	17,309	4,144	42,549	8,249	72,251

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

35. Commitments under operating leases

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

	Land & buildings £'000	2012 Other items £'000	Land & buildings £'000	2011 Other items £'000
Group				
Operating leases which expire:				
Within one year	157	25	30	46
Within two to five years	120	139	215	121
Over five years	-	-	34	-
	277	164	279	167

36. Pension commitments

Group and company

Defined benefit pension scheme

	2012 £'000	2011 £'000
Present value of funded defined benefit obligations	(25,652)	(22,983)
Fair value of plan assets	24,616	20,960
Deficit	(1,036)	(2,023)

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

36. Pension commitments (continued)

Movements in present value of defined benefit obligation

	2012 £'000	2011 £'000
At 1 st January	22,983	21,103
Current service cost	573	685
Interest cost	1,134	1,173
Actuarial losses	1,230	273
Benefits paid	(444)	(436)
Contributions by members	176	185
At 31 st December	25,652	22,983

Movements in fair value of plan assets

	2012 £'000	2011 £'000
At 1 st January	20,960	20,209
Expected return on plan assets	1,277	1,236
Actuarial (losses)/gains	1,723	(1,265)
Contributions by employer	924	1,031
Contributions by members	176	185
Benefits paid	(444)	(436)
At 31 st December	24,616	20,960

Expense recognised in the income and expenditure account

	2012 £'000	2011 £'000
Current service cost	573	685
Interest on defined benefit pension plan obligation	1,134	1,173
Expected return on defined benefit pension plan assets	(1,277)	(1,236)
Total	430	622

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

36. Pension commitments (continued)

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

	2012 £'000	2011 £'000
Net operating expenses	573	685
Investment income	(143)	(63)
	430	622

The total amount recognised in the statement of total recognised gains and losses in respect of actuarial gains and losses is a surplus of £493,000 (2011: deficit of £1,538,000).

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

	2012 Fair value £'000	2011 Fair value £'000
Equities	10,372	8,165
Bonds	12,510	10,568
Hedge fund of funds	1,286	2,089
Cash	448	138
	24,616	20,960
Actual return on plan assets	3,000	(29)

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.

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

36. Pension commitments (continued)

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

	2012 %	2011 %
Discount rate	4.65	4.90
Expected rate of return on plan assets	5.75	6.0
Expected return on plan assets at beginning of the period	6.0	6.0
Future salary increases	3.0	3.20
Inflation	3.20	2.95
Mortality	S1PAmc + u'pin	S1PAmc + u'pin

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 65 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	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Present value of scheme liabilities	(25,652)	(22,983)	(21,103)	(18,257)	(13,202)
Fair value of scheme assets	24,616	20,960	20,209	16,994	12,139
Deficit	(1,036)	(2,023)	(894)	(1,263)	(1,063)
	2012 %	2011 %	2010 %	2009 %	2008 %
Experience adjustments on scheme liabilities as a percentage of scheme liabilities	(4.8)	(1.2)	(5.2)	(20.7)	25.1
Experience adjustments on scheme assets as a percentage of scheme assets	7.0	(6.0)	5.5	13.4	(31.6)

The company expects to contribute approximately £991,000 to its defined benefit plan in the next financial year.

Sunderland Marine Mutual Insurance Company Limited
Notes to the Financial Statements (continued)
Year Ended 31st December 2012

36. Pension commitments (continued)

The company contributed £92,000 (2011: £156,000) 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 £282,000 (2011: £218,000). There were no outstanding or prepaid contributions at either the beginning or the end of the financial year. Contributions of £81,000 (2011: £78,000) were also made to a government superannuation scheme.

37. 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 2012 the amount owing on the facility was £nil, representing the charge over the assets that Barclays Bank Plc has on SM Insurance (Bermuda) Limited.

The company has granted a number of guarantees in favour of its subsidiary company Sunderland Marine (Africa) Limited. The level of guarantees range from R3,000,000 to unlimited. The guarantees provide comfort to the policyholders of Sunderland Marine (Africa) Limited as the company will stand as a guarantor on certain policies written by that company.

The company has entered into guarantees in the normal course of business. Whilst the outcome of some of these matters cannot precisely be foreseen, the directors do not expect any of these arrangements, after allowing for provisions already made, to result in significant loss to the company.



Appointed actuary's report to the Directors of Sunderland Marine Mutual Insurance Limited – New Zealand Branch

Report in respect of a review of actuarial information in, or used in the preparation of, financial statements

This report is provided under section 78 of the Insurance (Prudential Supervision) Act 2010 ("the Insurance Act"), and relates to a review of the actuarial information in, or used in the preparation of, the financial statements of the New Zealand branch of Sunderland Marine Mutual Insurance Limited ("SMMI NZ") for the year ended 31 December 2012.

The financial statements were authorised for issue by the Board of Directors of Sunderland Marine Insurance Limited ("SMMI") on 16 May 2013 and the accompanying independent auditors' report was issued on 6 May 2013.

Name of appointed actuary conducting the review

I, Daniel Smith, an employee of Taylor Fry Consulting Actuaries ("Taylor Fry") am a Fellow of the New Zealand Society of Actuaries. This review has been conducted by me in my role as appointed actuary to SMMI NZ.

Other than the role of appointed actuary, I confirm that I have no relationship with, or any other interests in, SMMI NZ.

Exemption from solvency standard

ADINZ has been granted a Section 59 exemption under the Insurance Act, which applies to overseas insurers of approved jurisdictions. This provides an exemption from compliance with the New Zealand Solvency Standard for Non-life Insurance Business and is dated 18 October 2012. I understand that under this exemption, the Reserve Bank of New Zealand considers the solvency of SMMI NZ based on the solvency ratio of SMMI under the United Kingdom Financial Services Authority ("FSA") requirements. I have been provided with SMMI's solvency margin, calculated under FSA requirements, which I note comfortably exceeds the UK regulatory minimum. I have not reviewed these calculations but have relied on their accuracy, noting that they have been provided to the FSA in the UK. I have also been provided with a letter from the FSA dated 8 May 2012 confirming SMMI's compliance.

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Work done in relation to actuarial information used in the financial statements

The actuarial information used in the financial statements comprises the outstanding claims liability as at 31 December 2012 shown in the statement of financial position. This amount was determined in accordance with the New Zealand Equivalent to International Financial Reporting Standard 4 ("NZ IFRS 4"), and represents the net central estimate plus a risk margin to provide a 75% probability of sufficiency. The value shown in the accounts has been determined by SMMI's internal actuary, Martha Kendall, as part of the global reserving process. The figure in the accounts is higher than the figure I estimated in an Insurance Liability Valuation Report ("ILVR") dated 24 May 2013. Thus, if anything, the accounts provide a pessimistic picture of SMMI NZ's financial position.

I have carried out a Liability Adequacy Test, and confirm that the unearned premium in the accounts is less than actuarial estimate of the net premium liabilities. I note that there is no allowance for deferred acquisition costs in the accounts.

In carrying out this review, I confirm that I have been provided with all required information and explanations from SMMI NZ and SMMI.

Opinion

In my opinion:

- The actuarial information contained in the financial statements for SMMI NZ has been appropriately included in those statements and are based on the figures determined as part of SMMI's global reserving process; and,
- The actuarial information used in the preparation of the financial statements for SMMI NZ has been used appropriately.

Scope and limitations of review

This report is prepared for the Directors of SMMI, solely for the purposes set out in section 78 of the Insurance Act and for no other purpose.



Daniel Smith
Fellow of the New Zealand Society of Actuaries

31 May 2013

