SUNDERLAND MARINE INSURANCE COMPANY LIMITED
(previously known as Sunderland Marine Mutual Insurance Company Limited)

STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2015

Registered In England: Limited by Guarantee

The Quayside, Newcastle upon Tyne, NE1 3DU
Registered Number 16432

Sunderland Marine Insurance Company Limited (previously known as Sunderland Marine Mutual Insurance Company Limited)
20 February 2015

DIRECTORS

1 January to 28 February 2014

Director	Resigned (during period)	Committee membership	Position on board
TF Hart		A, D(C), E, I, N, Re (C), Ri(C), S(C)	Chairman
AJ Alden	28.02.14	D, Ri	
JD Alford	28.02.14	I(C)	
ADW Allan	28.02.14	A, D, E, I, N(C), Re, Ri, S	Vice Chairman
JP Crichton	28.02.14	D, Ri	
WJJ Crowe	28.02.14	A	
CJ Hilton	28.02.14	D, Ri	
PM Johnson		A(C),E,I,Re	
FJ Mattera			
GC Parkinson		D,E(C),I,N, Ri, S	
T Rutter	28.02.14		
PI Talley	28.02.14		
SW Taylor	28.02.14	A	
AC Vipond	28.02.14	D,Ri	

A	Audit
D	Defence Advisory
(C)	Chairman of committee
E	Executive
I	Investment
N	Nomination
P	Policyholders
Re	Remuneration
Ri	Risk
S	Security

From 28 February 2014

Director	Appointed (during period)	Committee membership	Position on board
TF Hart			Chairman
LB Christensen	25.04.14		
JM de Groot	25.04.14		
PA Jennings	25.04.14		
PM Johnson			
FJ Mattera		P (C)	
GC Parkinson			
PB Shirke	25.04.14		
AA Wilson	25.04.14		

Auditors
KPMG Audit Plc
Quayside House
110 Quayside
Newcastle Upon Tyne
NE1 3DX

Bankers
Barclays Bank Plc
1 Park Row
Leeds
LS1 5WU

Sunderland Marine Insurance Company Limited (previously known as Sunderland Marine Mutual Insurance Company Limited)
20 February 2015

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their report together with the financial statements of the company for the period from 1 January 2014 to 20 February 2015 (2013: year ended 31 December 2013).

Members & policyholders

On 28 February 2014 all conditions precedent for the merger of the company and The North of England Protecting and Indemnity Association Limited ("North") were met, including regulatory approval from the Prudential Regulatory Authority in the UK and overseas regulators specific to the jurisdictions in which the company operates. The transaction involved the company's board of directors appointing North as the sole member of the company, following which the merger was finalised.

The company forms part of the North group of companies (the "Group") which comprises North and its subsidiaries.

The company was a mutual company until the completion of the merger with North on 28th February 2014, when it was demutualized. The directors have formally closed policy years 2011 to 2014. No policy years remain open.

As a result of the demutualisation, the company changed its name from Sunderland Marine Mutual Insurance Company Limited to Sunderland Marine Insurance Company Limited on 31 July 2014.

Status

The company is limited by guarantee without share capital.

Corporate Governance

The directors are collectively responsible for the long-term success of the company, setting the company's strategic aims and ensuring that the obligations to policyholders and others are understood and met.

The board of directors is responsible for directing the affairs of the company in compliance with statutory and regulatory requirements. The board is comprised of 9 directors: 6 non-executive directors and 3 executive directors.

At completion of the merger with North a policyholders committee was established for the principal purpose of providing a means of engaging with the company's policyholders. At the request of the group Nominations committee the policyholders committee will be asked to provide recommendations in relation to non-executive director appointments to the company's board, the appointment of the chairman of the company's board, and the successor to the company's chief executive officer. The group nominations committee is responsible for the evaluation of directors.

Directors

The directors of the company are shown on page 1.

The company, through a group insurance policy, maintains insurance policies on behalf of all directors against liability arising from negligence, breach of duty and breach of trust in relation to the company.

Political contributions

No political contributions were made during the period (2013: £nil).

Sunderland Marine Insurance Company Limited (previously known as Sunderland Marine Mutual Insurance Company Limited)
20 February 2015

REPORT OF THE DIRECTORS (CONTINUED)

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.

The employment policies of the company embody the principles of equal opportunity. The sole criteria for selection, training, development and promotion is the individual's suitability for the position of employment offered and his or her aptitudes and abilities. The company takes seriously its statutory obligations relating to disabled persons and seeks not to discriminate against current or prospective employees by reason of their disability.
The company maintains its commitment to providing employees with information on matters of concern to them as employees. Consultation with employees allows the company to take the view of employees into account in making decisions that are likely to affect their interests.

Financial Instruments

Sunderland Marine has exposure to financial instruments and details of these are include at Note 4 to the financial statements.

Statement of 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 or herself aware of any relevant audit information and to establish that the company's auditors are 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 Plc will therefore continue in office.

By order of the Board

AS Rowland
Secretary
13 May 2015

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the strategic report, 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 financial statements in accordance with IFRSs as adopted by the EU and applicable law.

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 company and of the profit or loss of the company for that period. In preparing these 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 they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the 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 company 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.

STRATEGIC REPORT

The directors present their strategic report for the period ended 20 February 2015.

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 policyholders 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 insurance and reinsurance and insurance broking.

The company mainly operates from its head office in Newcastle, UK but also has a number of branch offices.

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, 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 (15%), North America (47%), Europe (11%), Australasia (17%), and others (10%), and for aquaculture they are UK (18%), North America (41%), Australasia (10%), South America (17%) and Europe (14%).

Key performance indicators

The company's key financial and other performance indicators (KPIs) were as follows:

	Period ended 20 February $'000	Year ended 31 December $'000
Gross written premiums	175,702	142,876
Operating (deficit) / surplus	(5,844)	1,297
Investment return	4,457	14,071
Total accumulated surplus	61,081	60,394

STRATEGIC REPORT (CONTINUED)

Gross written premiums

Written premium increased from US$142,876,000 to US$175,702,000 which was an 8.4% increase when excluding the effect of the long period of account.

The marine division accounted for 80% of written premiums (2013: 82%).

Marine business is written worldwide. Protection and Indemnity business is focussed on the USA, Europe and Australia.

The aquaculture division accounted for 20% of written premium (2013:18%). The increase in premium was mainly due to an increase in the level of penalty premium being charged because of the loss experience in the year.

Operating performance

An operating loss before net finance income of US$5,844,000 (2013: surplus US$1,297,000) was disappointing. The loss was driven by both higher net claims and one-off costs associated with the merger with North.

Higher net claims in the period ended 20 February 2015 were mainly due to increased aquaculture claims.

The one-off costs in the income and expenditure account in the current year were a write-down of the cost of the Durham office by US$1,455,000 and a write-down of the cost of subsidiary investments of US$1,237,000.

The combined ratio, calculated by dividing total expenses by earned premiums net of reinsurance, is a measure of operating performance. The combined ratio for the period ended 20 February 2015 is 117% (2013: 165%). The combined ratio in 2013 was impacted by a reinsurance arrangement between the company and SM Insurance (Bermuda) Limited (SMIB) which ceased on 30 September 2013.

In the year ended 31 December 2013 this arrangement increased reinsurance premium by US$36,676,000, reinsurance commission by US$16,285,000 and amounts recovered from reinsurers by US$22,606,000. At 30 September 2013 the invested assets and technical provisions of SMIB were transferred to the company. On 17 December 2013 SMIB paid a dividend to the company of US$12,010,000.

Investment return

Investment income and fair value gains for the period ended 20 February 2015 are US$4,457,000 (2013: US$14,071,000).

Dividends from group undertakings are included in this figure and amounted to US$2,091,000 (2013: US$12,865,000). The investment return excluding dividends from group undertakings amounted to US$2,366,000 (2013: US$1,206,000).

During the period the company simplified its investment structure by disposing of its equity investments and reducing its investment in debt securities. The proceeds from these disposals was used to eradicate the company's borrowings and increase cash and cash equivalents by US$28,180,000.

Total accumulated surplus

The total accumulated surplus increased from US$60,394,000 at 31 December 2013 to US$61,081,000 at 20 February 2015.

The deficit on the statement of comprehensive income of US$14,759,000 has been off-set by the capital received from the parent company of US$15,446,000.

STRATEGIC REPORT (CONTINUED)

Capital structure

The company's markets and structure require it to meet regulatory capital requirements in six jurisdictions and to report to thirteen different supervisory authorities around the world.

The company's primary regulators are the UK's Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA) under whose auspices the capital regime for regulated insurance businesses continues to evolve.

The company has developed a framework using the PRA'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 and its branches all satisfy existing regulatory requirements at the year-end. The period ended 20 February 2015 was a challenging period for the company arising from a technical defict and an increase in the liability associated with the defined benefit retirement scheme. During February 2015 the company received capital from its parent company of US$15,446,000. The company's capital structure is considered appropriate to support the business needs for the foreseeable future.

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 aim to achieve compliance by the implementation date.

Risk management

The risks, related uncertainties and details on how the company mitigates these risks are reported on in detail in note 4 to the financial statements.

By order of the Board

AS Rowland
Secretary
13 May 2015

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the member of Sunderland Marine Insurance Company Limitec

We have audited the financial statements of Sunderland Marine Insurance Company Limited for the period ended 20 February 2015 set out on pages 9 to 47. The financial reporting framework that has been applied in their preparation is applicable law and International Financial reporting Standards (IFRSs) as adopted by the EU.

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 auditoı

As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 20 February 2015 and of its deficit for the period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; 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 strategic report and directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

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
18 May 2015

Sunderland Marine Insurance Company Limited (previously known as Sunderland Marine Mutual Insurance Company Limited)
(All amounts in US $ thousands unless otherwise stated)
20 February 2015

STATEMENT OF FINANCIAL POSITION	Note	**At 20 February 2015**	**At 31 December 2013**
Assets			
Investment in group undertakings	7	14,560	16,187
Intangible assets	5	59	85
Property, plant and equipment	6	9,914	12,873
Reinsurers' share of technical provision			
Provision for unearned premium	11	41,097	38,443
Claims outstanding	11	80,717	59,103
Deferred acquisition costs	11	9,194	10,312
Deferred tax asset	20	222	244
Current tax receivable		20	220
Financial assets			
Derivative financial instruments	8	293	803
Equity securities - at fair value through profit or loss	8	-	5,870
Debt securities - at fair value through profit or loss	8	42,879	61,905
Loans and receivables including insurance and reinsurance receivables	9	63,369	50,439
Cash and cash equivalents	10	47,733	21,891
Total assets		**310,057**	**278,375**
Accumulated Surplus			
Income and expenditure account	21	6,030	17,197
Translation reserve	21	(754)	(367)
Revaluation reserve	21	187	585
Other reserves	21	55,618	42,979
Total accumulated surplus, all attributable to owners of the parent		**61,081**	**60,394**
Liabilities			
Technical provision			
Provision for unearned premium	11	63,162	62,339
Claims outstanding	11	121,297	103,903
Provision for unearned reinsurance commission	11	9,262	8,085
Derivative financial instruments	8	131	233
Reinsurance payables		41,353	32,852
Trade and other payables	12	8,410	6,431
Borrowings	12	-	2,338
Deferred tax liability	20	40	40
Current tax liability		12	203
Retirement benefit liability	26	5,309	1,557
Total liabilities		**248,976**	**217,981**
Total accumulated surplus and liabilities		**310,057**	**278,375**

These financial statements were approved by the board of directors on 13 May 2015 and signed on its behalf by:

TF Hart

Company registered number 16432

Sunderland Marine Insurance Company Limited (previously known as Sunderland Marine Mutual Insurance Company Limited)
(All amounts in US $ thousands unless otherwise stated)
20 February 2015

INCOME STATEMENT	Note	**Period ended 20 February 2015**	**Year ended 31 December 2013**
Gross insurance premium revenue		175,702	142,876
Gross insurance premium ceded to reinsurers		(114,763)	(132,743)
Net insurance premium revenue		60,939	10,133
Change in provision for unearned premium		(5,492)	916
Reinsurers' share of change in unearned premium		4,928	8,580
Change in the net provision for unearned premium		(564)	9,496
Earned premiums net of reinsurance		60,375	19,629
Investment income	13	2,802	13,600
Net fair value gains at fair value through profit or loss	14	1,655	471
Net income		**64,832**	**33,700**
Insurance claims and loss adjustment expenses	11	(143,230)	(103,615)
Insurance claims and loss adjustment expenses recovered from reinsurers	11	96,345	88,184
Net insurance claims		(46,885)	(15,431)
Expenses for the acquisition of insurance contracts		(27,780)	(22,865)
Expenses for marketing and administration		(17,517)	(14,554)
Reinsurance commission		24,353	36,483
Other gains and losses	15	(2,692)	(15,936)
Expenses for asset services rendered		(155)	(100)
Operating expenses	16	(23,791)	(16,972)
Total expenses		**(70,676)**	**(32,403)**
Results of operating activities		(5,844)	1,297
Net finance income	19	1,071	535
(Deficit) / surplus before tax		(4,773)	1,832
Tax expense	20	(218)	(309)
(Deficit) / surplus for the period / year, attributable to owners of the parent		**(4,991)**	**1,523**

STATEMENT OF COMPREHENSIVE INCOME	**Period ended 20 February 2015**	**Year ended 31 December 2013**
(Deficit) / surplus for the period / year	**(4,991)**	**1,523**
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods		
Exchange differences on translation of foreign operations	(3,789)	694
Income tax effect	-	-
Net other comprehensive income to be reclassified to profit or loss	(3,789)	694
Other comprehensive income not to be reclassified to profit or loss in subsequent periods		
Revaluation of land and buildings	(375)	242
Remeasurement losses on defined benefit plans	(5,604)	(5)
Income tax effect	-	-
Net other comprehensive income not to be reclassified to profit or loss	(5,979)	237
Total comprehensive income for the period / year, net of tax, attributable to owners of the parent	(14,759)	2,454

Sunderland Marine Insurance Company Limited (previously known as Sunderland Marine Mutual Insurance Company Limited)
(All amounts in US $ thousands unless otherwise stated)
20 February 2015

STATEMENT OF CHANGES IN EQUITY

	Note	I&E Account	Revaluation Reserve	Translation Reserve	Reserve fund	Total
At 1st January 2014		17,197	585	(367)	42,979	60,394
Total comprehensive income for the period						
Deficit for the period	21	(4,991)	-	-	-	(4,991)
Other comprensive income						
Foreign exchange rate movements		(572)	(23)	(387)	(2,807)	(3,789)
Remeasurement loss on defined benefit plan	26	(5,604)	-	-	-	(5,604)
Revaluation of land and buildings	21	-	(375)	-	-	(375)
Total comprehensive income for the period		(11,167)	(398)	(387)	(2,807)	(14,759)
Transactions with owners, recorded directly in equity						
Capital received from parent company		-	-	-	15,446	15,446
Total contributions by and distributions to owners		-	-	-	15,446	15,446
At 20 February 2015		6,030	187	(754)	55,618	61,081

	Note	I&E Account	Revaluation Reserve	Translation Reserve	Reserve fund	Total
At 1st January 2013	21	15,338	328	-	42,274	57,940
Total comprehensive income for the period						
Surplus for the year		1,523	-	-	-	1,523
Other comprehensive income						
Foreign exchange rate movements		341	15	(367)	705	694
Remeasurement loss on defined benefit plan	26	(5)	-	-	-	(5)
Revaluation of land & buildings	21	-	242	-	-	242
Total comprehensive income		1,859	257	(367)	705	2,454
At 31 December 2013		17,197	585	(367)	42,979	60,394

STATEMENT OF CASH FLOWS

	Note	Period ended 20 February 2015	Year ended 31 December 2013
Operating Activities			
Cash generated from / (absorbed by) operating activities	25	12,855	(10,134)
Tax paid		(202)	(516)
Net cash from operating activities		12,653	(10,650)
Cash Flows (used in) / from investing activities			
Purchases of property, plant and equipment	6	(136)	(139)
Dividend received from joint venture		-	338
Dividend received from subsidiaries		2,091	12,527
Additional capital invested in subsidiary		(636)	-
Acquisition of subsidiary		-	(4,320)
Proceeds from sale of property, plant and equipment		39	62
Net cash from investing activities		1,358	8,468
Cash flows from financing activities			
Capital received from parent company		15,446	-
Net cash from financing activities		15,446	-
Net increase / (decrease) in cash and cash equivalents		29,457	(2,182)
Effects of exchange rate adjustments on cash held		(1,277)	356
Cash and cash equivalents at beginning of year		19,553	21,379
Cash and cash equivalents at end of year	10	47,733	19,553

(All amounts in US $ thousands unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

1. General Information

The company is exempt by virtue of S400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the company as an individual undertaking and not about its group.

The company's results are consolidated into the financial statements of The North of England Protection and Indemnity Association Limited, a company incorporated in England. Copies of the above accounts can be obtained from the Company Secretary, The North of England Protection and Indemnity Association Limited, The Quayside, Newcastle upon Tyne NE1 3DU.

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of presentation

These financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union for the first time. Accordingly all comparatives have been restated. The prior year financial statements have also been restated to correct an error made under the previous GAAP. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS, and details of the restatement arising from the rror made under the previous GAAP, are given in note 27.

The company has aligned its year-end with that of its parent. These financial statements are therefore for the period from 1 January 2014 to 20 February 2015 whilst the comparatives are for the year ended 31 December 2013. As a result, the two periods are not directly comparable.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and financial instruments.

The financial statements are presented in US Dollars (US$) rounded to the nearest thousand, unless otherwise stated. The principal rates of exchange to sterling used in preparing these financial statements are:

	Period ended 20 February 2015	Year ended 31 December 2013
United States Dollar	1.6296	1.5638

	At 20 February 2015	At 31 December 2013
United States Dollar	1.54464	1.6526

At the date of authorisation of these financial statements, the following standards and amendments were in issue and endorsed by the EU but have not been applied in these financial statements because they are not yet effective:

- Defined benefit plans:employer contributions - amendments to IAS 19
- Annual improvements to IFRSs - 2010-2012 cycle
- Annual improvements to IFRSs - 2011-2013 cycle
- Annual improvements to IFRSs - 2012-2014 cycle

The directors believe that there will be no material impact on the figures in these financial statements following the implementation of these amendments.

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 financial statements.

The company has reviewed the use of the going concern assumption in the financial statements and is confident that this assumption remains appropriate. Despite a challenging year, arising from a technical deficit and an increase in the liability associated with the defined benefit pension scheme, the company, in the opinion of the directors, is fully able to meet its debts as they fall due. Capital was boosted towards the end of the period by a capital injection of US$15,446,000 from its parent company in order to support its position following the difficult results. Further support is available to the company in the event of need, in the form of a legally binding parent company guarantee.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires the company to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(All amounts in US $ thousands unless otherwise stated)

Accounting Policies (continued)

2.2 Foreign currency

The figures in these financial statements are presented in US Dollars which is the company's presentational currency.

The income and expenses of the company are translated into the presentational currency at an average rate for the period. The assets and liabilities of the company are translated into the presentational currency at the rate of exchange prevailing at the reporting date and the resulting exchange differences are recognised in other comprehensive income.

The company's functional currency is Sterling.

A branch of the company 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 when practical or at an average rate for the month in which the transaction arose. 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 other comprehensive income.

Foreign currency transactions are transactions undertaken by the company or its foreign operations other than in their functional currency. Foreign currency transactions during the period are translated into the functional currency at the exchange rate ruling at the date of the transactions when practical or at an average rate for the month in which the transaction arose.

Monetary assets and liabilities denominated in foreign currencies are retranslated 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 statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currencies are not retranslated.

Translation differences on monetary items held at fair value through profit or loss are reported as part of the fair value gain or loss.

2.3 Intangible assets

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. Costs in respect of computer software that is not an integral part of the related hardware are capitalised in intangible assets in the statement of financial position and amortised over the expected life of the software. Amortisation is charged once the asset is available for use.

Amortisation is charged at 20% - 33.3% p.a. straight line.

2.4 Property, plant and equipment

Land and buildings comprise the offices occupied by the company. Land and buildings are shown at fair value, based on periodic valuations by external independent appraisers.

All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the assets carrying value or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance is charged to the income statement during the financial period in which it is incurred.

An asset's carrying amount is written down immediately through the income statement to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount; except that decreases in valuation that offset previous increases of the same asset are charged to other comprehensive income. Any decrease in valuation in excess of an amount previously credited to other comprehensive income is charged to the income statement.

Freehold land is not depreciated.

Depreciation on property, plant and equipment is calculated as follows:

Freehold buildings	2% straight line
Short leasehold land and buildings	7% straight line
Fixtures & fittings	12.5% - 33.3% straight line
Motor vehicles	20% - 33.3% reducing balance
Computers	20% - 33.3% straight line

Accounting Policies (continued)

The assets' residual values and useful lives are reviewed at each reporting date and adjusted if appropriate.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

2.5 *Investment in group undertakings*

The company has applied the IFRS 1 election to record its investment in group undertakings at deemed cost being its previous GAAP carrying amount at the date of transition to IFRS. The value of the investment in group undertakings is reviewed for impairment when events or circumstances indicate that the carrying value may be impaired.

2.6 Financial assets at fair value through profit or loss

Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

Non-derivative financial investments are classified as financial assets at fair value through profit or loss. Non-derivative financial assets at fair value through profit or loss are initially recognised and subsequently measured at fair value in the statement of financial position with transaction costs taken directly to the income statement. Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise.

Regular purchases and sales of investments are recognised on trade date, the date on which the company commits to purchase or sell the asset. Investments are initially recognised at fair value. Investments are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the company has also transferred substantially all risks and rewards of ownership.

The fair value of quoted investments is based on current bid price.

2.7 Derivative financial instruments

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

2.8 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the company intends to sell in the short term or that it has designated as at fair value through profit or loss or available for sale. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment when events or changes in circumstances indicate the value may be impaired.

2.9 Impairment of assets

The company assesses at each reporting date whether there is any objective evidence that a financial asset or non financial asset is impaired. An asset is deemed to be impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the asset that can be reliably estimated.

Accounting Policies (continued)

Objective evidence that an asset or group of assets is impaired includes observable data that comes to the attention of the company about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flow or carrying amount from an asset or group of assets since the initial recognition of those assets.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed. The amount of the reversal is recognised in the income statement.

2.10 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less, and, for the purposes of the cash flow statement only, bank overdrafts.

2.11 Provisions and contingent liabilities

A provision is recognised when the company has a present legal or constructive obligation, as a result of a past event, which is likely to result in an outflow of resources and where a reliable estimate of the amount of the obligation can be made. Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reliably estimated.

2.12 Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries in which the company operates and generates taxable income.

Current income tax relating to items recognised in other comprehensive income is recognised in other comprehensive income and not in the income statement.

2.13 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 temporary 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 temporary differences are expected to reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

2.14 Retirement benefit scheme

The company operates a pension scheme providing benefits based upon final salary for employees, known as a defined benefit scheme. The assets of the scheme are held separately from those of the company, being invested with professional managers.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method with actuarial valuations being carried out at each statement of financial position date. Remeasurements including actuarial gains and losses but excluding net interest are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income ("OCI") in the period in which they occur. Remeasurements are not reclassified to income in subsequent periods.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. Net interest income or expense plus service costs are recognised in the income statement as incurred.

The company 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 statement represent the contributions payable to the schemes in respect of the accounting period.

Accounting Policies (continued)

2.15 Revenue and expense recognition

All elements of revenue arising from insurance contracts offered by the company and expenses are recognised on an accruals basis in the accounting period in which the contract is related.

2.16 Premiums and reinsurance premiums

Premiums written are accounted for in the year in which the risk commences. Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Reinsurance premiums, less returns, are charged to the income statement on an accrual basis, including a provision for the future expected costs of adjustments to the premium due under existing reinsurance policies.

Unearned reinsurance premiums and related commissions are those proportions of premiums and commissions written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums and commissions are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses occurring contracts.

2.17 Acquisition costs

Acquisition costs comprise the expenses, both direct and indirect, of acquiring insurance policies written during the financial period. Acquisition costs which relate to a subsequent financial period 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 reporting date.

2.18 Claims and related recoveries

Claims paid are those claims transactions settled up to the reporting date including the internal and external claims settlement expenses allocated to those transactions. The reinsurers' share represents recoveries received from reinsurance protections in the period plus recoveries receivable against claims paid that have not been received at the reporting date, net of any provision for bad debt.

Claims reserves are estimated on an undiscounted basis. Claims reserves are made for known or anticipated liabilities under insurance contracts which have not been settled up to the reporting date. Included within the provision is an allowance for the future costs of handling those claims. This is estimated based on past experience and current expectations of future cost levels.

Although the claims reserves are considered to be reasonable, having regard to previous claims experience (including the use of certain statistically based projections), case by case reviews of notified losses and on the basis of information available at the date of determining the provision, the ultimate liabilities will vary as a result of subsequent information and events. This uncertainty is discussed further in note 3.

2.19 Unexpired risks provision

Provision is made where the cost of claims and expenses arising after the end of the period 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. The unexpired risks provision is included in claims outstanding.

2.20 Investment income and net fair value gains

Investment income includes rental income and interest on cash deposits and interest bearing securities and is recognised on an accruals basis.

Net fair value gains or losses on assets at fair value through profit or loss consists of income from equities and debt securities and realised and unrealised gains and losses.

2.21 Finance expense

Finance expense includes interest payable on borrowings accounted for on an accruals basis. It also comprises investment management expenses and derivative charges, and gains and losses relating to foreign exchange movements.

Accounting Policies (continued)

2.22 Employee benefits

Salaries and other employee benefits, including holiday pay, are accounted for on an accrual basis. Payments to staff under the discretionary staff performance related bonus scheme are accounted for in the financial period in which they are awarded.

2.23 Operating lease agreements

Where a significant proportion of the risks and rewards of ownership are retained by the lessor, leases are classified as operating leases. Payments made as lessee under operating leases (net of incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the relevant lease.

2.24 Changes in accounting policies

As a first-time adopter of IFRS, accounting policies have been selected and applied to both the current and comparative period based on IFRSs effective at 20 February 2015, being the company's first IFRS reporting date, in accordance with IFRS 1 *First -time adoption of International Reporting Standards* . There are therefore no changes to accounting policies applied in the period to 20 February 2015.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 Critical Accounting Estimates and Judgements used in Applying Accounting Policies

The preparation of the figures in these financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and judgements are continually evaluated and are based on historical information and experience, actuarial analyses, financial modelling and other analytical techniques.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

3.1 Claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the company will ultimately pay for such claims, such as the extent to which claims have occurred but not been reported to the company, the length of time it takes to finalise a claims award and the extent to which fees will be incurred in the management of a case.

Each individual claim reserve is set at an appropriate level by an experienced claims adjuster, based upon their judgement and experience, who is responsible for the 'hands on' management of the case. Case reserves are monitored and agreed by members of the claims department. Internal file audits are performed regularly in order to maintain high standards of claims management and reserving.

The ultimate cost of claims is only known at their conclusion. Provision is made for outstanding claims based upon management's estimate of the ultimate likely cost of individual claims following advice from an internal actuarial consultant.

The main statistical methods used for review of reserve adequacy are the chain ladder triangulation and the Bornhuetter-Ferguson methods. The chain ladder triangulation 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 Bornhuetter-Ferguson method is a blend of the chain ladder method and of the loss ratio method whereby ultimate claims levels are estimated by applying a judgementally selected ultimate loss ratio to the ultimate earned premium for each accident year. The weight applied to each of these methods varies depending on the maturity of the accident year, with the later accident years having more weight given to the loss ratio method and less weight given to the level of claims incurred to date.

Reserves are set at a best estimate level and a measure of prudence is then applied according to the reserving policy set by the board in order to ensure that the financial statements are prepared on a prudent basis.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3.1 Claims made under insurance contracts (continued)

There are a number of assumptions and areas of judgement within the process of estimating reserves. The main methods used in estimating reserves are described above. Each requires a number of assumptions made by the actuary in applying these methods; some of the key assumptions are:

- The choice of paid or incurred claims data used for projections – projections using different data sets may yield different reserve estimates.
- The subdivision of claims data into projection categories, including the split by class, currency, claims type or claims size. The choice of subdivision of claims data can lead to different reserve estimates as well as impacting the choice of other assumptions. - The selected development pattern for the chain ladder method, arising out of judgements around the number of prior years' claims history to include within the selection, the type of method used to average prior years' claims movements, and the inclusion or exclusion of any unusual prior year movements. The more variable the prior year claims development and the longer the length of the tail of the class, the more sensitive the reserve estimates will be to this assumption.
- The initial expected loss ratio used within the Bornhuetter-Ferguson method. This loss ratio is set using a combination of prior year claims experience, discussions with underwriters and actuarial judgement. The impact of this assumption is more material for later accident years, that are less developed, than for earlier accident years. The impact is also more material for longer tailed classes.

Due to the large number of factors that make up these assumptions and possible combinations of varying these sets of factors it is not felt practical to include quantification of the impact of sensitivity testing.

In respect of the volatility of reserves, increasing the prudence measure applied by 10 percentile points would increase reserves by US$1,911,000. Decreasing the prudence by 10 percentile points wouold reduce reserves by US$1,310,000.

The company is required to provide for the future in house claims handling costs for previous policy years. The future claims handling costs which would be incurred in managing previous policy years is uncertain. A review is performed annually by management of expected run off costs and a provision made accordingly. The basis for the provision is a judgemental assessment based upon the experience of management.

3.2 Pensions and other post-retirement benefits

The company operates a defined benefit pension scheme. The key assumptions used for the actuarial valuation are based on the directors' best estimate of the variables that will determine the ultimate cost of providing post-employment benefits. Further detail on the assumptions is provided in note 26.

3.3 Receivables

Receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised as an expense when there is objective evidence that the asset is impaired. In making their assessment of the recoverability of premiums and the likely provision for impairment of member receivables the management take into account the right of retrospective cancellation of cover permitted under the SMI Rules in the event of non payment of premium. The assessment of impairment also includes an assessment of whole account recoverability based upon historical experience of managing a book of premiums through a number of insurance cycles.

It is not practical to quantify the sensitivity of the carrying value of receivables to any one change in estimate, as recoverability is assessed on a debtor by debtor basis taking into account a number of factors, such as credit rating, past payment history and relationship with the debtor.

3.4 Reinsurance Recoveries

Reinsurance recoveries are accrued against gross claims reserves, as noted above, including estimates and provisions where the company has an entitlement to make such recoveries.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Risk management

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

4.1 Governance framework

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

4.2 Risk management framework

The company has an internal risk management framework for identifying risks to which the company is exposed and to quantify their impact on economic capital. The framework indicates how much capital is needed to mitigate the risk of capital exhaustion to a confidence level of 99.5% over one year.

4.3 Regulatory framework

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

The operations of the company 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.

4.4 Asset liability management framework

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

4.5 Insurance risk

The company issues contracts that transfer insurance risk.

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

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

This risk exposure is mitigated by:

1. careful selection and implementation of underwriting strategy guidelines.

2. diversification across a large portfolio of insurance contracts and geographical areas.

3. the use of strict claim review processes that assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims. These policies and processes ensure that claims are actively managed to reduce the possibility of unpredictable future claims developments.

4. the company using reinsurance to reduce its exposure to losses and protect capital resources. The company uses a combination of proportional and non-proportional reinsurance to reduce its net exposure to claims and to limit its exposure to catastrophic events. 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 company 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 company's placement of reinsurance is diversified such that it is not dependent on a single reinsurer.

(All amounts in US $ thousands unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Risk management (continued)

The table below sets out the concentration of the company's outstanding claims provisions and related reinsurance by type of contract:-

	At 20 February 2015			At 31 December 2013		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Marine	91,106	(57,564)	33,542	91,628	(49,566)	42,062
Aquaculture	30,191	(23,153)	7,038	12,275	(9,537)	2,738
	121,297	(80,717)	40,580	103,903	(59,103)	44,800

The geographical concentration of the company's outstanding claims provisions and related reinsurance is shown in the table below with disclosure based on the countries where the business is written.

	At 20 February 2015			At 31 December 2013		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Australasia	11,679	(6,861)	4,818	13,353	(6,881)	6,472
Europe	20,632	(14,736)	5,896	20,753	(11,666)	9,087
North America	43,642	(34,603)	9,039	37,169	(24,878)	12,291
United Kingdom	29,108	(17,148)	11,960	20,848	(12,279)	8,569
Others	16,236	(7,369)	8,867	11,780	(3,399)	8,381
	121,297	(80,717)	40,580	103,903	(59,103)	44,800

4.6 Financial risk

The company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts.

The most important components of financial risk are market risk, currency risk and credit risk.

4.6.1 Market risk

Market risk is the risk that the value of the company's assets, liabilities or income from its assets may fluctuate as a result of market movements. Sources of general market risk include movements in interest rates (interest rate risk) and exchange rates (currency risk). It is important to note that none of these sources of risk is independent of the others. Market risk is managed by adjusting the allocation to asset classes to reflect the investment risk appetite approved by the directors. The concentration of investments into any one asset is also restricted.

The asset class allocation matches assets against the company's technical provisions by currency and maturity. In addition, the company ensures minimal risk is taken with the committed regulatory capital.

a) Currency risk

Currency risk is the risk that the fair value of future cash flows of assets and liabilities 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, and Euro currencies.

The company's assets are primarily matched against its liabilities by currency type which mitigates the exchange rate risk. Derivative financial instruments are also used to reduce the company's exposure to fluctuations in currency conversion rates so that the company's net assets are not significantly affected.

The table below summarises the company's exposure to foreign currency exchange rate risk by categorising the assets and liabilities by major currencies.

At 20 February 2015	Assets	Liabilities	Net assets/ (liabilities)	Forward contracts	Net assets/ (liabilities) after forward contracts
Australian Dollars	33,180	(22,078)	11,102	(10,973)	129
Canadian Dollars	45,159	(26,770)	18,389	(18,072)	317
Euro	30,771	(31,108)	(337)	1,004	667
Norwegian Kroner	171	(162)	9	-	9
New Zealand Dollars	9,943	(8,191)	1,752	(1,514)	238
US Dollars	79,234	(82,938)	(3,704)	3,718	14
South African Rand	3,341	(534)	2,807	(1,928)	879
	201,799	(171,781)	30,018	(27,765)	2,253
Sterling	108,258	(77,195)	31,063	27,765	58,828
	310,057	(248,976)	61,081	-	61,081

(All amounts in US $ thousands unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Risk management (continued)

At 31 December 2013	Assets	Liabilities	Net assets/ (liabilities)	Forward contracts	Net assets/ (liabilities) after forward contracts
Australian Dollars	37,752	(25,085)	12,667	(12,619)	48
Canadian Dollars	46,471	(26,774)	19,697	(19,696)	1
Euro	25,667	(28,476)	(2,809)	2,809	-
Norwegian Kroner	226	(226)	-	-	-
New Zealand Dollars	8,906	(8,749)	157	-	157
US Dollars	65,340	(73,820)	(8,480)	8,598	118
South African Rand	2,216	(297)	1,919	(956)	963
	186,578	(163,427)	23,151	(21,864)	1,287
Sterling	91,797	(54,554)	37,243	21,864	59,107
	278,375	(217,981)	60,394	-	60,394

b) ***Interest rate risk***

Interest rate risk is the risk that the fair value or 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 company 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:

	At 20 February 2015	At 31 December 2013
0.5% increase in interest rates	(147)	(321)
0.5% decrease in interest rates	111	352

(All amounts in US $ thousands unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Risk management (continued)

c) Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The company is exposed to price risk on its holdings in debt securities.

The company manages its exposure to price risk by setting constraints on its investments, by limiting its investments in each country, sector and market and by careful and planned use of derivative financial instruments.

The table below shows the company's exposure to sovereign debt and financial institutions' debt securities in European countries by maturity:

	At 20 February 2015			At 31 December 2013		
	Less than Five years	Five to Ten years	Total	Less than Five years	Five to Ten years	Total
Ireland	368	374	742	-	-	-
France	366	286	652	1,201	-	1,201
Germany	698	29	727	1,489	362	1,851
The Netherlands	287	-	287	626	-	626
Denmark	76	-	76	150	-	150
Finland	232	-	232	993	-	993
Norway	147	-	147	64	-	64
Supranational	-	-	-	501	-	501
Italy	102	-	102	-	-	-
Spain	-	-	-	266	-	266
Luxembourg	-	-	-	111	-	111
Romania	-	-	-	-	71	71
Sweden	-	-	-	259	-	259
Switzerland	46	-	46	112	-	112
	2,322	689	3,011	5,772	433	6,205

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

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

	At 20 February 2015	At 31 December 2013
10% increase in equity price	-	587
10% decrease in equity price	-	(587)

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

(All amounts in US $ thousands unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Risk management (continued)

4.6.2 Credit risk

Credit risk is the risk that a counterparty will cause a financial loss for the company by failing to discharge an obligation. This risk arises principally on the company's financial assets.

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.

Maturity dates of the fixed interest debt securities are as follows:

	At 20 February 2015	At 31 December 2013
In up to two years	32,108	39,301
In more than two years but not more than five years	6,509	20,603
In more than five years	4,262	2,001
	42,879	61,905

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

The company employs reinsurance intermediaries that are subject to the regulation and approval of the Financial Conduct 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 company's exposure to credit risk from insurance receivables in respect of 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 policyholder 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.

The following table summarises the company's aggregate credit risk exposure on financial assets with external credit ratings.

Rating	At 20 February 2015 Debt securities	At 20 February 2015 Outward reinsurance debtors	At 31 December 2013 Debt securities	At 31 December 2013 Outward reinsurance debtors
AAA	8,323	-	24,998	-
AA	16,747	9,063	17,671	9,463
A	11,719	1,372	7,394	3,077
BBB	4,385	598	5,463	1,234
BB	1,012	-	2,768	-
B	454	-	2,089	-
CCC - C	-	-	894	-
Not rated	239	62	628	93
Total	42,879	11,095	61,905	13,867

4.6.3 Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting its financial obligations as they fall due. The company's approach to managing liquidity is to monitor its forecast liquidity position by estimating its cash outflows and purchasing investments with similar durations to meet these obligations.

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

At 20 February 2015	No contractual maturity	Less than one year	Total
Derivative financial instruments	-	131	131
Reinsurance payables	-	41,353	41,353
Trade and other payables	-	8,410	8,410
Borrowings	-	-	-
Current tax liability	12	-	12
Total	12	49,894	49,906

At 31 December 2013	No contractual maturity	Less than one year	Total
Derivative financial instruments	-	233	233
Reinsurance payables	-	32,852	32,852
Trade and other payables	-	6,431	6,431
Borrowings	-	2,338	2,338
Current tax liability	203	-	203
Total	203	41,854	42,057

(All amounts in US $ thousands unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Risk management (continued)

4.6.4 Fair value hierarchy

The following tables analyse assets and liabilities held at fair value by level of the fair value hierarchy:

At 20 February 2015	Level 1	Level 2	Level 3	Total fair value
Assets at fair value				
Debt securities at fair value through profit or loss	12,365	30,088	426	42,879
Derivative financial instruments	-	293	-	293
Cash and cash equivalents	47,733	-	-	47,733
Land and buildings	-	-	9,728	9,728
	60,098	30,381	10,154	100,633
Liabilities at fair value				
Derivatives at fair value through profit or loss	-	(131)	-	(131)

At 31 December 2013	Level 1	Level 2	Level 3	Total fair value
Assets at fair value				
Equity securities at fair value through profit or loss	5,870	-	-	5,870
Debt securities at fair value through profit or loss	23,692	37,008	1,205	61,905
Derivatives at fair value through profit or loss	-	803	-	803
Cash and cash equivalents	21,891	-	-	21,891
Land and buildings	-	-	12,610	12,610
	51,453	37,811	13,815	103,079
Liabilities at fair value				
Derivatives at fair value through profit or loss	-	(233)	-	(233)

Level 1 consists of financial assets that are valued according to published quotes in an active market. A financial asset is regarded as quoted in an active market if quoted prices are readily available from a broker, dealer, exchange, pricing service, industry group or regulatory agency. Level 2 assets are similar to level 1 but the pricing of those assets has not been determined in an active market. Level 3 financial assets are assets for which a value cannot be obtained from observable data.

The level of a financial asset or liability in the fair value hierarchy is determined at the reporting date, and any transfers between levels are deemed to have occurred at the reporting date.

Total gains on financial assets recognised in the income statement are included in net fair value gains on assets and shown in note 14. Land and buildings has been written down by US$1,830,000 to fair value at February 2015. The decrease in valuation has been recognised in the revaluation reserve to the extent that it reversed a previous upward valuation, with the excess of US$1,455,000 charged to other gains and losses in the income statement.

Of the gains and losses recognised in the income statement for level 3 assets, US$18,000 was unrealised (relating to assets still held at the reporting date).

The table below shows the reconciliation of movements in level 3 assets during the period:

	Period ended 20 February 2015			Year ended 31 December 2013		
	Investments	Land and buildings	Total	Investments	Land and buildings	Total
Opening balance	1,205	12,610	13,815	1,238	12,718	13,956
Exchange rate adjustments	(43)	(829)	(872)	-	(176)	(176)
Purchases	240	-	240	1,111	34	1,145
Sales	(994)	-	(994)	(1,215)	-	(1,215)
Revaluations	18	(1,830)	(1,812)	71	242	313
Depreciation	-	(223)	(223)	-	(208)	(208)
Closing balance	426	9,728	10,154	1,205	12,610	13,815

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Risk management (continued)

The majority of the company's investments are valued based on quoted market information or other observable market data. A small percentage (1.0%) of debt securities at February 2015 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.

Land and buildings are included in level 3 in the hierarchy. The method for valuing the land and buildings is explained in more detail in note 6.

4.7 Capital management

The required capital, as measured by the UK Prudential Regulatory Authority's (PRA'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, the United States and Canada, in line with the applicable local regulations. The company has capital management procedures in place to regularly monitor and review solvency coverage at internal management committee meetings. As part of this process the company has, where appropriate, developed its own more robust internal solvency calculations to ensure compliance with the regulatory minima. There have been no reported breachesof the RMM and ECR throughout the period.

The company's capital comprises the capital and reserves of US$61,081,000 shown in the statement of financial position. The company manages capital on an adjusted solo solvency basis as prescribed by the PRA. This core tier one capital was US$63,295,000 at 20 February 2015 (31 December 2013: US$61,424,000) of which a total of US$34,149,000 (31 December 2013: US$35,070,000) was held in local currency to support local solvency requirements in Australia, USA, Canada and New Zealand.

(All amounts in US $ thousands unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. Intangible assets

	Computer software
Period ended 20 February 2015	
Opening net book amount	85
Exchange differences	(3)
Additions	-
Amortisation charge	(23)
Closing net book amount	59
At 20 February 2015	
Cost	413
Accumulated amortisation	(354)
Net book amount	59
Year ended 31 December 2013	
Opening net book amount	180
Exchange differences	(3)
Additions	-
Amortisation charge	(92)
Closing net book amount	85
At 31 December 2013	
Cost	416
Accumulated amortisation	(331)
Net book amount	85

(All amounts in US $ thousands unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Property, plant and equipment

	Land and Buildings	Computer Equipment	Motor Vehicles	Office Equipment and Fittings	Total
Period ended 20 February 2015					
Opening net book amount	12,610	97	103	63	12,873
Additions	-	44	90	2	136
Adjustment due to exchange rates	(829)	(4)	(30)	(7)	(870)
Write-down of land and buildings	(1,830)	-	-	-	(1,830)
Disposals	-	(2)	(34)	-	(36)
Depreciation charge	(223)	(78)	(34)	(24)	(359)
Closing net book amount	**9,728**	**57**	**95**	**34**	**9,914**
At 20 February 2015					
Cost or valuation	9,770	622	154	1,138	11,684
Accumulated depreciation	(42)	(565)	(59)	(1,104)	(1,770)
Net book amount	**9,728**	**57**	**95**	**34**	**9,914**
Year ended 31 December 2013					
Opening net book amount	12,718	106	163	107	13,094
Additions	34	66	31	8	139
Adjustment due to exchange rates	(176)	(1)	(11)	(5)	(193)
Revaluation	242	-	-	-	242
Disposals	-	(8)	(38)	-	(46)
Depreciation charge	(208)	(66)	(42)	(47)	(363)
Closing net book amount	**12,610**	**97**	**103**	**63**	**12,873**
At 31 December 2013					
Cost or valuation	12,623	725	177	676	14,201
Accumulated depreciation	(13)	(628)	(74)	(613)	(1,328)
Net book amount	**12,610**	**97**	**103**	**63**	**12,873**

The fair value of the Durham office has been assessed by the Directors, taking into account a valuation by Bradley Hall Limited, an independent Chartered Surveyor, during November 2013. The directors re-assessed the value of the Durham office and wrote down the value by US$1,830,000 in February 2015 following the decision to re-locate the company's head office to Newcastle.

The fair value of the group's Australian freehold property has been assessed by the Directors, taking into account a valuation by Sutherland Farrelly, during September 2013.

The fair value of the group's New Zealand freehold property has been assessed by the Directors, taking into account a valuation by Duke & Cooke Limited, Valuers & Property Specialists, during August 2010.

The fair value of the group's freehold property in the United States of America has been assessed by the Directors, taking into account a valuation by CBRE Valuation and Advisory Services, during August 2013.

There was no committed capital expenditure at the reporting date.

(All amounts in US $ thousands unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Investment in group undertakings

The company has investments in the following undertakings

Company Name	Nature of business	Incorporated	Holding %
Sunderland Marine (Africa) Limited	Marine insurance	South Africa	100
Salvus Bain Management (USA) LLC	Insurance broker	USA	100
Van Olst de Graaff & Co BV	Insurance broker	Netherlands	82
Harlock Murray Underwriting Limited	Broking and managing general agent	Canada	100
Knighthood Corporate Assurance Services Plc	Insurance Broker	England	100
Salvus Bain Insurance Agencies Inc	Insurance Broker	Canada	100
SM Insurance (Bermuda) Limited	Dormant	Bermuda	100
Salvus Bain (Management) Limited	Dormant	England	100
Aquaculture Risk (Management) Limited	Dormant	England	100

The value of the subsidiary undertakings is as follows:

	Period ended 20 February 2015	Year ended 31 December 2013
Balance brought forward	16,187	28,238
Exchange rate adjustment	(1,026)	3,885
Write-down of investment through income statement	(1,237)	(15,936)
Acquisition	-	4,088
Addition	636	-
Balance carried forward	14,560	16,187

In the year ended 31 December 2013 the company acquired the remaining 51%, which it did not already own, of Knighthood Corporate Assurance Services Plc for a total consideration of US$4,088,000 (including non-cash consideration of US$232,000).

The cost of the investment in Knighthood Corporate Assurance Services was written down during the period (see note 15).

Additional share capital was issued in Sunderland Marine (Africa) Limited to maintain that company's regulatory capital following losses due to high claims costs.

The company established trading relationships with the broker subsidiaries before an investment in these companies was made. The company's results therefore have not been affected materially by the interest in these companies. Note 24 provides information on the activity and balances with related parties.

(All amounts in US $ thousands unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Financial assets and liabilities

Financial assets are summarised by measurement category in the table below. All assets are current assets.

	At 20 February 2015	At 31 December 2013
Fair value through profit or loss - designated at intial recognition	43,172	68,578
Loans and receivables including insurance and reinsurance receivables (note 9)	63,369	50,439
Total financial assets	106,541	119,017

Financial assets at fair value through profit or loss	At 20 February 2015	At 31 December 2013
Equity securities	-	5,870
Debt securities	42,879	61,905
Derivatives	293	803
Total financial assets at fair value through profit or loss	43,172	68,578

Financial liabilities are summarised by measurement category in the table below. All liabilities are current liabilities.

	At 20 February 2015	At 31 December 2013
Fair value through profit or loss - designated at intial recognition	131	233
Financial liabilities at amortised cost	49,775	41,621
Total financial liabilities	49,906	41,854
Financial liabilities at amortised cost		
Reinsurance payables	41,353	32,852
Trade and other payables	8,410	6,431
Borrowings	-	2,338
Current tax liability	12	-
Total financial liabilities at amortised cost	49,775	41,621
Financial assets at fair value through profit or loss	43,172	68,578
Financial liabilities at fair value through profit or loss	(131)	(233)
	43,041	68,345

Assets and liabilities at fair value through profit or loss	Period ended 20 February 2015	Year ended 31 December 2013
Opening balance at 1 January	68,345	30,831
Exchange rate adjustment	(4,401)	341
Additions	99,877	80,027
Disposals (sale and redemptions)	(120,496)	(42,919)
Settlement of derivatives	720	737
Derivative charges	(1,129)	(552)
Fair value net gains / (losses) (excluding net realised gains)	125	(120)
Closing balance at 31 December	43,041	68,345

(All amounts in US $ thousands unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Loans and receivables

	At 20 February 2015	At 31 December 2013
Receivables arising from insurance and reinsurance contracts:		
- due from policyholders	42,703	33,977
- due from reinsurers	11,095	13,867
Other loans and receivables:		
- prepayments and accrued interest	7,631	405
- accrued interest and rent	341	461
- other receivables	1,599	1,729
	63,369	**50,439**

Receivables due from related parties are disclosed in note 24.

10. Cash and cash equivalents

	At 20 February 2015	At 31 December 2013
Cash at bank and in hand	10,360	6,495
Short-term bank deposits	37,373	15,396
	47,733	**21,891**

Cash and bank overdrafts include the following for the purposes of the cash flow statement:

	At 20 February 2015	At 31 December 2013
Cash at bank and in hand	10,360	6,495
Short-term bank deposits	37,373	15,396
	47,733	21,891
Bank overdraft (note 12)	-	(2,338)
Cash and cash equivalents	**47,733**	**19,553**

(All amounts in US $ thousands unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Insurance liabilities and reinsurance assets

	At 20 February 2015	At 31 December 2013
Gross		
Short term insurance contracts:		
- claims reported and loss adjustment expenses	88,843	74,158
- claims incurred but not reported and claims handling reserve	32,454	29,745
Total insurance liabilities, gross	121,297	103,903
Recoverable from reinsurers		
Short term insurance contracts:		
- claims reported and loss adjustment expenses	59,980	41,967
- claims incurred but not reported and claims handling reserve	20,737	17,136
Total reinsurers' share of insurance liabilities	80,717	59,103
Net		
Short term insurance contracts:		
- claims reported and loss adjustment expenses	28,863	32,191
- claims incurred but not reported and claims handling reserve	11,717	12,609
Total insurance liabilities, net	40,580	44,800

Movements in outstanding claims and recoveries

	Period ended 20 February 2015			Year ended 31 December 2013		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Opening balance	103,903	(59,103)	44,800	100,236	(93,255)	6,981
Adjustment due to exchange rate movement	(9,165)	6,060	(3,105)	(2,221)	5,101	2,880
Insurance claims and loss adjustment expenses / recoveries	143,230	(96,345)	46,885	103,615	(88,184)	15,431
Claim payments / recoveries received	(116,671)	68,671	(48,000)	(97,727)	78,499	(19,228)
Transfer from subsidiary	-	-	-	-	38,736	38,736
Outstanding claims at end of year	121,297	(80,717)	40,580	103,903	(59,103)	44,800

Movements in unearned premium and unearned reinsurance premium

	Period ended 20 February 2015			Year ended 31 December 2013		
	Unearned premium	Unearned reinsurance premium	Net	Unearned premium	Unearned reinsurance premium	Net
Opening balance	62,339	(38,443)	23,896	65,101	(59,867)	5,234
Adjustment due to exchange rate movement	(4,669)	2,274	(2,395)	(1,846)	2,988	1,142
Movement during the year	5,492	(4,928)	564	(916)	(8,580)	(9,496)
Transfer from subsidiary	-	-	-	-	27,016	27,016
Closing balance	63,162	(41,097)	22,065	62,339	(38,443)	23,896

Movements in unearned reinsurance commission and deferred acquisition costs

	Period ended 20 February 2015			Year ended 31 December 2013		
	Deferred acquisition costs	Unearned commission	Net	Deferred acquisition costs	Unearned commission	Net
Opening balance	10,312	(8,085)	2,227	10,117	(17,313)	(7,196)
Adjustment due to exchange rate movement	(539)	549	10	(454)	1,026	572
Movement during the year	(579)	(1,726)	(2,305)	649	(3,304)	(2,655)
Transfer from subsidiary	-	-	-	-	11,506	11,506
Closing balance	9,194	(9,262)	(68)	10,312	(8,085)	2,227

The directors have re-evaluated the claims reserves in respect of prior policy year claims. Releases in these reserves are seen as a result of positive claims experience

Policy year analysis (all classes)	Prior years	2012	Policy years 2013	2014	2015	Handling reserve	Total
At 20 February 2015							
Gross outstanding claims	18,105	12,543	28,969	58,706	1,738	1,236	121,297
Reinsurance amount	(7,355)	(10,353)	(22,027)	(40,166)	(816)	-	(80,717)
Net outstanding claims	10,750	2,190	6,942	18,540	922	1,236	40,580
At 31 December 2013							
Gross outstanding claims	40,255	27,352	34,880	-	-	1,416	103,903
Reinsurance amount	(12,250)	(22,702)	(24,151)	-	-	-	(59,103)
Net outstanding claims	28,005	4,650	10,729	-	-	1,416	44,800

(All amounts in US $ thousands unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Insurance liabilities and reinsurance assets (continued)

Over provisions for claims at the beginning of the year compared to payments and provisions at the end of the year in respect of prior years' claims are shown in the table below.

	Period ended 20 February 2015	Year ended 31 December 2013
Releases from claims provisions	4,781	4,760

Sensitivity analysis

The uncertainty surrounding the valuation, timing and cash flows of claims liabilities, the process of claims reserve estimation and the process and assumptions regarding the determination of other claims liability based reserves are set out in note 3.

There are a significant number of variables which lead to the uncertainty surrounding the valuation, timing and cash flows of claims liabilities although management are of the opinion that the accumulated surplus is not materially sensitive to any one variable. The extent to which the accumulated surplus may be sensitive to any individual variable or any groups of variables is best demonstrated by the development of claims liabilities. The development of claims liabilities by policy year is as follows:

The claims development observed between the end of the policy year and the end of the subsequent policy year primarily relates to claims reported on unexpired risks. SMI's policy year runs from 1 January to 31 December each year, with risks attaching throughout the period. Claims incurred after 31 December on policies attaching prior to 31 December will result in the adverse development suggested by the development tables below.

Insurance claims development - gross

Policy year	2015	2014	2013	2012	2011	2010
Estimate of ultimate claims cost						
At end of policy year	-	75,412	55,448	54,441	42,595	41,342
One year later	-	-	106,240	93,934	87,354	72,346
Two years later	-	-	-	91,333	81,989	71,188
Three years later	-	-	-	-	80,522	70,326
Four years later	-	-	-	-	-	68,489
Five years later	-	-	-	-	-	-
Six years later	-	-	-	-	-	-
Seven years later	-	-	-	-	-	-
Eight years later	-	-	-	-	-	-
Nine years later	-	-	-	-	-	-
Period to 20th February 2015	1,858	87,617	105,891	91,832	80,641	68,550
Current estimate of cumulative claims	1,858	87,617	105,891	91,832	80,641	68,550
Cumulative payments to date	120	28,911	76,922	79,289	73,082	64,408
Liability recognised in statement of financial position	1,738	58,706	28,969	12,543	7,559	4,142
Total of five years						113,657
Liability in respect of prior policy years						6,404
Claims handling reserve						1,236
Total liability included in statement of financial position						121,297

Insurance claims development - net

Policy year	2015	2014	2013	2012	2011	2010
Estimate of ultimate claims cost						
At end of policy year	-	27,624	20,751	21,597	27,524	23,120
One year later	-	-	35,901	34,623	48,667	45,354
Two years later	-	-	-	34,359	45,572	44,209
Three years later	-	-	-	-	43,896	43,522
Four years later	-	-	-	-	-	42,487
Five years later	-	-	-	-	-	-
Six years later	-	-	-	-	-	-
Seven years later	-	-	-	-	-	-
Eight years later	-	-	-	-	-	-
Nine years later	-	-	-	-	-	-
Period to 20th February 2015	970	31,498	35,572	34,345	43,974	42,530
Current estimate of cumulative claims	970	31,498	35,572	34,345	43,974	42,530
Cumulative payments to date	48	12,958	28,630	32,155	39,703	39,330
Liability recognised in statement of financial position	922	18,540	6,942	2,190	4,271	3,200
Total of five years						36,065
Liability in respect of prior policy years						3,279
Claims handling reserve						1,236
Total liability included in statement of financial position						40,580

(All amounts in US $ thousands unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Trade and other payables

	At 20 February 2015	At 31 December 2013
Amounts arising out of direct insurance operations	3,360	3,386
Other payables	1,324	1,071
Accruals and deferred income	3,726	1,974
Trade payables and accrued expenses	8,410	6,431
Bank overdraft	-	2,338

At 20 February 2015, the unused bank overdraft facility, repayable on demand, amounted to US$10m (31 December 2013 - US$232,000)

All the above amounts were due within twelve months of the reporting date.

13. Investment income

	Period ended 20 February 2015	Year ended 31 December 2013
Interest receivable	649	672
Investment income - unlisted	2,153	12,928
	2,802	13,600

The amount of interest income relating to financial instruments which are not at fair value through the profit or loss is US$649,000 (2013: US$672,000)

14. Net fair value gains on assets and at fair value through profit or loss

	Period ended 20 February 2015	Year ended 31 December 2013
Net fair value gains on financial assets through profit or loss:		
- fair value gains	1,782	1,024
- fair value losses	(127)	(553)
	1,655	471
Net fair value gains on debt securities are as follows:		
Bond interest	1,328	907
Net realised gains / (losses)	68	(386)
Net movement on unrealised gains / (losses)	174	(167)
	1,570	354
Net fair value gains on equity are as follows:		
Equity income	212	59
Net realised (losses) / gains	(78)	11
Net movement on unrealised (losses) / gains	(49)	47
	85	117

All the gains and losses arise from assets designated at fair value through profit or loss at intial recognition.

15. Other gains and losses

	Period ended 20 February 2015	Year ended 31 December 2013
Write-down of land and buildings	(1,455)	-
Write-down of subsidiary undertakings	(1,237)	(15,936)
	(2,692)	(15,936)

The company's (former) head office in Durham has been revalued at 20 February 2015. The resulting decrease in valuation has been recognised in the revaluation reserve to the extent it reversed a previous upwards valuation, with the excess of $1,455,000 charged to the income statement.

The directors consider that the investment in the subsidiary, Knighthood Corporate Assurance Services Plc, is impaired at 20 February 2015 due to a reduction in anticipated profits which is expected to continue for the forseeable future. The write-down of $1,237,000 has been charged in the company's income statement.

A reinsurance arrangement between the company and SM Insurance (Bermuda) Limited (SMIB) ceased on 30th September 2013 following which SMIB paid a dividend to the company of US$12,010,000. After the payment of the dividend the directors considered that the investment in SMIB was impaired at 31 December 2013 and the write-down of US$13,766,000 was charged in the company's income statement.

At 31 December 2013 the directors also considered that the investment in the subsidiary undertakings Harlock Murray Underwriting Limited and Van Olst de Graaff & Co BV were impaired and the write-down of US$586,000 and US$1,584,000 respectively were charged in the company's income statement.

(All amounts in US $ thousands unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. Operating expenses by nature

	Note	Period ended 20 February 2015	Year ended 31 December 2013
Acquisition costs		27,780	22,865
Auditors' remuneration		599	907
Depreciation		359	363
Amortisation		23	92
Staff costs	17	11,218	9,586
Operating lease payments		420	377
Claims handling expenses		(3,347)	(3,107)
Write-down of land and buildings		1,455	-
Write-down of subsidiary investment		1,237	15,936
Purchase of goods and services		8,245	6,336
Expenses for asset services rendered		155	100
Reinsurance commission		(24,353)	(36,483)
Total operating expenses		**23,791**	**16,972**

Auditor remuneration disclosure as required by the Companies Act 2006 is as follows:
Amounts receivable by the Auditor and their associates in respect of :

Audit of these financial statements	319	241
Audit of financial statements of subsidiaries of the company	104	83
Audit related assurance services	280	321
Other tax advisory services	3	-
Corporate finance services	-	303
All other services (principally pensions advice)	-	42

17. Staff costs

The average monthly number of employees (including executive Directors) was:	Period ended 20 February 2015 Number	Year ended 31 December 2013 Number
Number of staff - full time	71	79
Number of staff - part time	8	8
	79	87

Their aggregate remuneration comprised:

	Period ended 20 February 2015	Year ended 31 December 2013
Wages and salaries	9,488	7,453
Social security costs	797	713
Retirement benefit obligations - defined benefit plans	1,102	1,210
Net interest on defined benefit plan	39	65
Settlement gain on defined benefit plan	(819)	-
Retirement benefit obligations - defined contribution plans	179	145
Redundancy provision	432	-
	11,218	9,586

A redundancy provision has been created at 20 February 2015 for staff not wishing to relocate to the company's new head office in Newcastle.

(All amounts in US $ thousands unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. Directors' remuneration

The remuneration of the Directors was as follows:	Period ended 20 February 2015	Year ended 31 December 2013
Short-term employee benefits	1,072	2,064
Pension costs	18	95
	1,090	2,159

Highest paid director
The above amounts for remuneration include the following in respect of the highest paid director:

	Period ended 20 February 2015	Year ended 31 December 2013
Emoluments	802	652

The highest paid director transferred out of the defined benefit pension scheme during the period ended 20 February 2015 therefore the accrued pension entitlement under the company's defined benefit scheme at 20th February was US$nil (2013: US$220,000) and his accrued lump sum was US$nil (2013: US$620,000).

19. Net finance (income) / expense

	Period ended 20 February 2015	Year ended 31 December 2013
Gains on exchange	(2,444)	(1,328)
Derivative charges	1,129	552
Other finance expense	244	241
	(1,071)	(535)

(All amounts in US $ thousands unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. Tax expense

Income tax expense	Period ended 20 February 2015	Year ended 31 December 2013
Current Tax Expense		
Current period	220	524
Adjustment for previous years	(5)	(185)
	215	339
Deferred tax expense		
Origination and reversal of temporary differences	3	(52)
Utilisation of tax losses	-	22
Total tax expense	218	309

The difference between the total tax charge shown and the amount calculated by applying the standard rate of UK corporation tax to the result before tax is as follows:

	Period ended 20 February 2015	Year ended 31 December 2013
(Deficit) / surplus before tax	(4,773)	1,832
Tax on the above at standard UK corporation tax rate of 21.40% / 23.25%	(1,021)	426
Non-taxable income	(520)	(210)
Non-deductible expenses	1,327	514
Effects of different rates of tax	(417)	280
Deferred tax on losses not recognised	1,535	-
Tax losses utilised	(681)	(516)
Adjustment in respect of previous years	(5)	(185)
Total tax	218	309

Recognised deferred tax assets & liabilities

	At 20 February 2015	At 31 December 2013
Assets		
Property and equipment	3	17
Tax losses	-	30
Other timing differences	219	197
	222	244
Liabilities		
Property and equipment	(40)	(40)
Tax losses	-	-
Other timing differences	-	-
	(40)	(40)
Net		
Property and equipment	(37)	(23)
Tax losses	-	30
Other timing differences	219	197
	182	204

The amount of deductible temporary differences and unused tax losses for which no deferred tax asset is recognised amounts to US$ 1,633,000 (31st December 2013: US$ 1,091,000)

(All amounts in US $ thousands unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. Reserves

	Period ended 20 February 2015	Year ended 31 December 2013
Income and expenditure reserve	6,030	17,197
Translation reserve	(754)	(367)
Revaluation reserve	187	585
Reserve fund	55,618	42,979
	61,081	60,394

(a) Income and expenditure reserve

	Period ended 20 February 2015	Year ended 31 December 2013
Opening balance	17,197	15,338
(Deficit) / surplus for the year	(4,991)	1,523
Foreign exchange rate movements	(572)	341
Remeasurement losses on defined benefit plan	(5,604)	(5)
Closing balance	6,030	17,197

(b) Translation reserve

	Period ended 20 February 2015	Year ended 31 December 2013
Opening balance	(367)	-
Exchange rate adjustment	(387)	(367)
Closing balance	(754)	(367)

(c) Revaluation reserve

	Period ended 20 February 2015	Year ended 31 December 2013
Opening balance	585	328
Exchange rate adjustment	(23)	15
Revaluation of properties	(375)	242
Closing balance	187	585

(d) Reserve fund

	Period ended 20 February 2015	Year ended 31 December 2013
Opening balance	42,979	42,274
Exchange rate adjustment	(2,807)	705
Capital from parent company	15,446	-
Closing balance	55,618	42,979

The income and expenditure reserve consists of accumulated surpluses net of transfers to or from the reserve fund.

The translation reserve consists of exchange adjustments arising from translating foreign operations into the company's functional currency since the date of transition to IFRS.

The revaluation reserve consists of revaluation surpluses arising from periodic revaluations of land and buildings.

The reserve fund consists of the accumulated surpluses that have been transferred from the income and expenditure reserve and capital received from the parent company.

(All amounts in US $ thousands unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. Operating leases

At the period end the company had commitments under non-cancellable operating leases as set out below:

	Period ended 20 February 2015		Year ended 31 December 2013	
	Land and buildings	Other	Land and buildings	Other
Within one year	88	158	102	238
Within two to five years	8	216	50	208
	96	374	152	446

23. Guarantees

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

The company benefits from a guarantee from its parent company, The North of England Protecting and Indemnity Association Limited, so that in the event of the company needing capital, The North of England Protecting and Indemnity Association Limited is obliged to provide it.

24. Related party transactions

Key management consists of the directors and other senior managers.

Key management compensation	Period ended 20 February 2015	Year ended 31 December 2013
The remuneration of key management was as follows:		
Wages and salaries	2,086	2,299
Social security costs	277	211
Pension costs	183	147
Other benefits	181	144
	2,727	2,801

(All amounts in US $ thousands unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. Related party transactions (continued)

Other related parties

The company has the following related party relationships

The North of England Protecting and Idemnity Association Limited ('North') (Ultimate Parent)
Knighthood Corporate Assurance Services Plc (Knighthood)
Van Olst de Graaff & Co BV (Van Olst de Graaff)
Harlock Murray Underwriting Limited (HMU)
Canadian and US insurance pools managed by Harlock Murray Underwriting Limited (HMU Pool)
Salvus Bain Management (USA) LLC (SBM LLC)
Sunderland Marine (Africa) Limited (SMA)
SM Insurance (Bermuda) Limited (SMIB)
Salvus Bain Insurance Agencies Inc. (SBIA)
Sunderland Marine Mutual Insurance Company Limited Pension Scheme (SMMI Pension Scheme)

Transactions with related parties have been entered into as follows:

	North	Knighthood	Van Olst de Graaff	HMU	HMU Pool	SBM LLC	SMA	SMIB	SBIA
	Period ended 20 February 2015	Period ended 20 February 2015	Period ended 20 February 2015	Period ended 20 February 2015	Period ended 20 February 2015	Period ended 20 February 2015	Period ended 20 February 2015	Period ended 20 February 2015	Period ended 20 February 2015
Income statement									
Insurance premium earned	-	6,981	8,436	-	23,769	15,983	-	-	-
Acquisition costs	-	(142)	(849)	(922)	(6,976)	-	-	-	-
Reinsurance premium ceded	(17,934)	-	-	-	(14,398)	-	1,040	-	-
Reinsurance commission	805	-	-	-	4,362	-	(26)	-	-
Insurance claims and loss adjustment expenses	-	-	-	-	(18,351)	-	-	-	-
Insurance claims and loss adjustment expenses recovered	19,710	-	-	-	10,964	-	(1,030)	-	-
Expenses for marketing and administration	(1,519)	-	-	(241)	-	(1,727)	178	-	-
Dividend received	-	616	1,049	427	-	-	-	-	-
	At 20 February 2015	At 20 February 2015	At 20 February 2015	At 20 February 2015	At 20 February 2015	At 20 February 2015	At 20 February 2015	At 20 February 2015	At 20 February 2015
Reinsurers' share of technical provisions									
Provision for unearned premium	12,590	-	-	-	4,479	-	(456)	-	-
Claims outstanding	27,230	-	-	-	6,396	-	(550)	-	-
Technical provision									
Provision for unearned premium	-	-	-	-	(7,442)	-	-	-	-
Claims outstanding	-	-	-	-	(11,529)	-	-	-	-
Provision for unearned reinsurance commission	(2,067)	-	-	-	(1,270)	-	99	-	-
Reinsurance payables	(12,529)	-	-	-	-	-	-	(290)	-
Deferred acquisition costs	-	36	-	-	2,078	-	-	-	-
Trade and other payables	(1,440)	(321)	-	-	-	-	-	-	-
Loans and receivables	-	105	2,087	175	1,399	1,279	558	-	83
Capital received from North	(15,446)	-	-	-	-	-	-	-	-
	Year ended 31 December 2013	Year ended 31 December 2013	Year ended 31 December 2013	Year ended 31 December 2013	Year ended 31 December 2013	Year ended 31 December 2013	Year ended 31 December 2013	Year ended 31 December 2013	Year ended 31 December 2013
Income statement									
Insurance premium earned	-	6,738	6,555	-	19,675	12,687	-	-	-
Acquisition costs	-	(77)	(676)	(741)	(5,468)	-	-	-	-
Reinsurance premium ceded	(13,756)	-	-	-	(11,226)	-	848	(36,676)	-
Reinsurance commission	688	-	-	-	3,334	-	(383)	16,285	-
Insurance claims and loss adjustment expenses	-	-	-	-	(9,748)	-	-	-	-
Insurance claims and loss adjustment expenses recovered	15,380	-	-	-	6,260	-	(166)	22,606	-
Expenses for marketing and administration	-	-	-	(100)	-	(1,728)	183	-	-
Dividend received	-	338	518	-	-	-	-	12,010	-
	At 31 December 2013	At 31 December 2013	At 31 December 2013	At 31 December 2013	At 31 December 2013	At 31 December 2013	At 31 December 2013	At 31 December 2013	At 31 December 2013
Reinsurers' share of technical provisions									
Provision for unearned premium	6,151	-	-	-	5,092	-	(471)	-	-
Claims outstanding	19,476	-	-	-	4,487	-	(210)	-	-
Technical provision									
Provision for unearned premium	-	-	-	-	(8,418)	-	-	-	-
Claims outstanding	-	-	-	-	(8,620)	-	-	-	-
Provision for unearned reinsurance commission	-	-	-	-	(1,438)	-	106	-	-
Reinsurance payables	(7,214)	-	-	-	-	-	-	(311)	-
Deferred acquisition costs	-	33	-	-	2,373	-	-	-	-
Trade and other payables	-	(165)	-	-	-	-	-	-	-
Loans and receivables	-	53	1,891	562	1,101	1,243	238	-	93

Transactions with SMMI Pension Scehme are disclosed in note 26.

(All amounts in US $ thousands unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. Cash generated from / (absorbed by) operating activities

	Period ended 20 February 2015	Year ended 31 December 2013
(Deficit) / surplus after taxation	(4,991)	1,523
Adjustments for:		
Tax expense	218	309
Dividend received from joint venture	-	(338)
Dividend received from subsidiary undertakings	(2,091)	(12,527)
Amortisation	23	92
Depreciation	359	363
Write-down of land and buildings	1,455	-
Write-down of investment in subsidiary	1,237	15,936
Profit on sale of property, plant and equipment	(3)	(16)
Unrealised (gains) / losses	(125)	120
(Decrease) / increase in insurance contracts net of reinsurance recoverable	(4,220)	37,819
(Decrease) / increase in unearned premium reserve net of reinsurers' share	(1,831)	18,662
(Increase) / decrease in loans and receivables	(12,930)	10,426
Decrease / (increase) in deferred acquisition costs	1,118	(195)
Decrease / (increase) in derivative financial instruments	408	(185)
Increase / (decrease) in unearned reinsurance commission	1,177	(9,228)
Increase / (decrease) in reinsurance payables	8,501	(35,256)
Increase / (decrease) in trade and other payables	1,979	(1,033)
Defined benefit pension charge	322	1,275
Defined benefit pension contributions	(1,859)	(1,428)
Purchase of equities at fair value through profit or loss	(1,260)	(5,697)
Sale of equities at fair value through profit or loss	6,996	200
Purchase of debt securities at fair value through profit or loss	(98,617)	(74,330)
Sale of debt securities at fair value through profit or loss	113,500	42,719
Foreign exchange losses	3,489	655
Cash generated from / (absorbed by) operating activities	**12,855**	**(10,134)**

(All amounts in US $ thousands unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Retirement benefit scheme

The company operates a defined benefit scheme in the United Kingdom. The scheme is a final salary plan which requires contributions to be made to a separately administered fund. The level of benefits provided depends on the member's length of service and salary at retirement age. The scheme is closed to new members. The scheme is governed by a corporate trustee which consists of a number of employer's and employees' representatives. The most recent full triennial actuarial valuation of the scheme was carried out for the period ended 31 December 2011 by a qualified independent actuary.

Actuarial assumptions for IAS19 – valuing the Scheme liabilities
IAS19 sets out prescribed (qualitative) conditions for selecting the actuarial assumptions used to calculate the pension liabilities and pension costs. A key assumption is the discount rate which is used to determine the value of pension liabilities at the reporting date. The selection of the inflation assumption is also critical as this is relevant for the salary and the pre-retirement revaluation assumptions.

These assumptions are based on market yields at the reporting date, and may not be borne out in practice due to the long-term expected duration of the scheme. Within the prescribed conditions however assumptions must be mutually compatible and lead to the best estimate of the future cash flows in respect of pension liabilities. A summary of relevant considerations is set out below.

Assumption for valuing pension liabilities	**Comments on prescribed conditions**
Discount rate (pre and post retirement)	Based on yields on AA corporate bonds of appropriate duration and currency, *or a suitable proxy.*
Price inflation	Based on the yield differential between index-linked corporate bonds and fixed-interest corporate bonds of similar credit standing (for example, using appropriate UK Government conventional and index-linked stocks).
Salary inflation	Reflecting the rate of price inflation assumed (for example, a fixed margin over the rate of price inflation).
Pension increases	Compatible with the rate of price inflation above taking into account the effects of scheme rules and valid expectations of discretionary increases based on past practice.
Demographic assumptions (for example, rates of mortality and early retirement)	Compatible assumptions that lead to a best estimate of future cash flows.

Actuarial assumptions for IAS19

The key assumptions are:

		Period ended 20 February 2015	Year ended 31 December 2013
Discount rate		3.55%	4.65%
Expected return on plan assets		5.75%	5.75%
Expected return on plan assets at beginning of the period		5.75%	5.75%
Expected rate of salary increases		3.00%	3.00%
Inflation rate	RPI	3.20%	3.65%
	CPI	2.20%	2.95%
Mortality		S2PA Light CMI 2013 +u'pin	S1PACMI + u'pin

Mortality
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 22 years (male) and 24 years (female).

(All amounts in US $ thousands unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Retirement benefit scheme
Defined benefit plan
Changes in the defined benefit obligation and fair value of plan assets

	Defined benefit obligation	Fair value of plan assets	Benefit liability
1st January 2013	41,697	40,013	1,684
Exchange rate adjustment	997	976	21
Service cost			
Past service cost	170		170
Current service cost	1,040		1,040
Net interest	1,887	1,822	65
Sub-total included in income	3,097	1,822	1,275
Return on plan assets			
- excluding amounts included in net interest expense	-	2,311	(2,311)
Actuarial changes			
- arising from changes in demographic assumptions	233	-	233
- arising from changes in financial assumptions	2,155		2,155
Experience adjustments	(72)		(72)
Sub-total included in OCI	2,316	2,311	5
Contributions by employer	-	1,428	(1,428)
Contributions by members	325	325	-
Benefits paid	(439)	(439)	-
At 31 December 2013	47,993	46,436	1,557
Exchange rate adjustment	(3,489)	(3,174)	(315)
Service Cost	1,102		1,102
Settlement cost	(5,889)	(5,070)	(819)
Net interest	2,371	2,332	39
Sub-total included in income	(2,416)	(2,738)	322
Return on plan assets			
- excluding amounts included in net interest expense	-	3,960	(3,960)
Actuarial changes			
- arising from changes in demographic assumptions	1,644	-	1,644
- arising from changes in financial assumptions	7,275	-	7,275
Experience adjustments	645	-	645
Sub-total included in OCI	9,564	3,960	5,604
Contributions by employer	-	1,859	(1,859)
Contributions by members	391	391	-
Benefits paid	(766)	(766)	-
At 20 February 2015	51,277	45,968	5,309

Current and past service cost and net interest are recognised in expenses for marketing and administration.

The company contributed US$408,000 (2013: US$274,000) to the defined pension scheme for administration expenses, insurance premiums for death in service benefits and the pension protection fund levies.

The fair value of the major categories of plan assets are as follows:

	At 20 February 2015	At 31 December 2013
Fixed Income	22,275	22,738
Equities	19,954	20,629
Hedge Fund of Funds	2,096	2,839
Cash in Bank	1,643	230
	45,968	46,436

The actual return on plan assets for 2015 amounted to US$6,292,000 (2013 - US$4,133,000)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Retirement benefit scheme

	Impact on retirement benefit liability US$000
Increase / reduce discount rate by 0.25%	(2,780) / 3,010
Increase / reduce real salary growth by 0.25%	n/a
Increase / reduce inflation assumption by 0.25% (assumed affects deferred and pensioner increases and not salary increases)	1,580 / (1,260)
Increase / reduce life expectancy by one year	1,373 / (1,375)

The sensitivites above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occuring at the end of the reporting period.

The amount expected to be contributed into the scheme by the company in 2015/16 is US$495,000 subject to the finalisation of the triennial actuarial report.

The average duration of the defined benefit plan obligation at the end of the reporting period is 25 years (2013: 26 years).

Defined contribution pension schemes
The company also operates a number of defined contribution pension schemes. The total pension cost charge for the period to 20th February 2015 represents contributions payable to the schemes and amounted to US$179,000 (2013 US$145,000). There were no outstanding or prepaid contributions at either the beginning or the end of the period.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27. Explanation of transition to Adopted IFRSs

This is the first period that the company has presented its financial statements under IFRS. The following disclosures are required in the period of transition. The last financial statements under UK GAAP were for the year ended 31 December 2013 and the transition to IFRS was therefore 1 January 2013.

Reconciliation of statement of financial position from UK GAAP to IFRS as at 1st January 2013

	UK GAAP	Error made under a previous GAAP	UK GAAP (restated)	Adjustments 1	2	3	4	5	6	IFRS
Assets										
Investment in group undertakings	28,976		28,976		(738)					28,238
Intangible assets	-		-	180						180
Property, plant and equipment	13,274		13,274	(180)						13,094
Reinsurers' share of technical provision										
Provision for unearned premium	59,867		59,867							59,867
Claims outstanding	93,671	(416)	93,255							93,255
Deferred acquisition costs	10,117		10,117							10,117
Deferred Tax Asset	187		187							187
Current tax receivable	36		36							36
Financial assets										-
Derivatives - at fair value through profit or loss	445		445							445
Equity securities - at fair value through profit or loss	-		-							-
Debt securities - at fair value through profit or loss	30,446		30,446							30,446
Loans and receivables including insurance and reinsurance receivables	60,358	(231)	60,127		738					60,865
Cash and cash equivalents	21,379		21,379							21,379
Total assets	318,756	(647)	318,109	-	-	-	-	-	-	318,109
Accumulated Surplus										
Income and expenditure account	2,844	(2,113)	731			15,969			(1,362)	15,338
Revaluation reserve group undertakings	15,969		15,969			(15,969)				-
Revaluation reserve property	328		328							328
Translation reserve	(1,362)		(1,362)						1,362	-
Other reserves	42,274		42,274							42,274
Total accumulated surplus	60,053	(2,113)	57,940	-	-	-	-	-	-	57,940
Liabilities										
Technical provision										
Provision for unearned premium	65,101		65,101							65,101
Claims outstanding	100,236		100,236							100,236
Provision for unearned reinsurance commission	17,313		17,313							17,313
Derivative financial instruments	60		60							60
Reinsurance payables	66,642	1,466	68,108							68,108
Trade and other payables	7,464		7,464							7,464
Borrowings	-		-							-
Current tax liability	203		203							203
Retirement benefit liability	1,684		1,684							1,684
Total liabilities	258,703	1,466	260,169	-	-	-	-	-	-	260,169
Total accumulated surplus and liabilities	318,756	(647)	318,109	-	-	-	-	-	-	318,109

Reconciliation of statement of financial position from UK GAAP to IFRS as at 31st December 2013

	UK GAAP	Error made under a previous GAAP	UK GAAP (restated)	Adjustments 1	2	3	4	5	6	IFRS
Investment in group undertakings	18,018		18,018		(800)	(1,545)		514		16,187
Intangible assets	-		-	85						85
Property, plant and equipment	12,958		12,958	(85)						12,873
Reinsurers' share of technical provision										
Provision for unearned premium	38,443		38,443							38,443
Claims outstanding	59,103		59,103							59,103
Deferred acquisition costs	10,312		10,312							10,312
Deferred tax asset	244		244							244
Current tax receivable	220		220							220
Financial assets										
Derivatives - at fair value through profit or loss	803		803							803
Equity securities - at fair value through profit or loss	5,870		5,870							5,870
Debt securities - at fair value through profit or loss	61,905		61,905							61,905
Loans and receivables including insurance and reinsurance receivables	49,639		49,639		800					50,439
Cash and cash equivalents	21,891		21,891							21,891
Total assets	279,406	-	279,406	-	-	(1,545)	-	514	-	278,375
Accumulated Surplus										
Income and expenditure account	16,382		16,382			1,431		514	(1,130)	17,197
Revaluation reserve group undertakings	2,976		2,976			(2,976)				-
Revaluation reserve property	585		585							585
Translation reserve	(1,497)		(1,497)						1,130	(367)
Other reserves	42,979		42,979							42,979
Total accumulated surplus	61,425	-	61,425	-	-	(1,545)	-	514	-	60,394
Liabilities										
Technical provision										
Provision for unearned premium	62,339		62,339							62,339
Claims outstanding	103,903		103,903							103,903
Provision for unearned reinsurance commission	8,085		8,085							8,085
Derivative financial instruments	233		233							233
Reinsurance payables	32,852		32,852							32,852
Trade and other payables	6,431		6,431							6,431
Borrowings	2,338		2,338							2,338
Current tax liability	203		203							203
Deferred tax liability	40		40							40
Retirement benefit liability	1,557		1,557							1,557
Total liabilities	217,981	-	217,981	-	-	-	-	-	-	217,981
Total accumulated surplus and liabilities	279,406	-	279,406	-	-	(1,545)	-	514	-	278,375

Sunderland Marine Insurance Company Limited (previously known as Sunderland Marine Mutual Insurance Company Limited)
(All amounts in US $ thousands unless otherwise stated)
20 February 2015

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27. Explanation of transition to Adopted IFRS's (continued)

Reconciliation of total comprehensive income from UK GAAP to IFRS for year ended 31st December 2013

	UK GAAP	Error made under a previous GAAP	UK GAAP (restated)	Adjustments 1	2	3	4	5	6	IFRS
Gross insurance premium revenue	142,876		142,876							142,876
Gross insurance premium ceded to reinsurers	(132,743)		(132,743)							(132,743)
Net insurance premium revenue	10,133	-	10,133	-	-	-	-	-	-	10,133
Change in provision for unearned premium	916		916							916
Reinsurers' share of change in unearned premium	8,580		8,580							8,580
Change in the net provision for unearned premium	9,496	-	9,496	-	-	-	-	-	-	9,496
Earned premiums net of reinsurance	19,629	-	19,629	-	-	-	-	-	-	19,629
Investment income	13,964		13,964				(364)			13,600
Net fair value (losses)/gains at fair value through profit or loss	471		471							471
Net income	34,064	-	34,064	-	-	-	(364)	-	-	33,700
Insurance claims and loss adjustment expenses	(103,615)		(103,615)							(103,615)
Insurance claims and loss adjustment expenses recovered from reinsurers	86,151	2,033	88,184							88,184
Net insurance claims	(17,464)	2,033	(15,431)	-	-	-	-	-	-	(15,431)
Expenses for the acquisition of insurance and investment contracts	(22,865)		(22,865)							(22,865)
Expenses for marketing and administration	(16,658)		(16,658)			2,170	(66)			(14,554)
Reinsurance commission	36,483		36,483							36,483
Other gains and losses	-		-			(15,936)				(15,936)
Expenses for asset services rendered	(100)		(100)							(100)
Operating expenses	(3,140)	-	(3,140)	-	-	(13,766)	(66)	-	-	(16,972)
Total expenses	(20,604)	2,033	(18,571)	-	-	(13,766)	(66)	-	-	(32,403)
Results of operating activities	13,460	2,033	15,493	-	-	(13,766)	(430)	-		1,297
Net finance income	49		49					486		535
Surplus before tax	13,509	2,033	15,542	-	-	(13,766)	(430)	486		1,832
Tax expense	(309)		(309)							(309)
Surplus for the year	13,200	2,033	15,233	-	-	(13,766)	(430)	486	-	1,523
STATEMENT OF COMPREHENSIVE INCOME										
Surplus for the year	13,200	2,033	15,233	-	-	(13,766)	(430)	486	-	1,523
Other comprehensive income										
Other comprehensive income to be reclassified to profit or loss in subsequent periods										
Exchange differences on translation of foreign operations	694		694							694
Income tax effect										-
Net other comprehensive income to be reclassified to profit or loss	694	-	694	-	-	-	-	-	-	694
Other comprehensive income not to be reclassified to profit or loss in subsequent periods										
Revaluation of subsidiaries	(12,305)		(12,305)			12,303				-
Revaluation of land and buildings	242		242							242
Remeasurement gains / (losses) on defined benefit plans	(435)		(435)				430			(5)
Net other comprehensive income not to be reclassified to profit or loss	(12,498)	-	(12,498)	-	-	12,305	430	-	-	237
Total comprehensive income for the year, net of tax	1,396	2,033	3,429	-	-	(1,461)	-	486	-	2,454

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27. Explanation of transition to Adopted IFRSs (continued)

Notes to the reconciliation of statement of financial position from UK GAAP to IFRS as at 1st January 2013; the reconciliation of statement of financial position from UK GAAP to IFRS as at 31st December 2013; and the reconciliation of total comprehensive income from UK GAAP to IFRS for year ended 31st December 2013.

Error made under a previous GAAP

In 2012 and prior periods an adjustable feature of one of the company's reinsurance contracts was not accounted for in accordance with the terms of the reinsurance contract and applicable accounting standards. The cumulative effect was corrected as a current year item in 2013 UK GAAP financial statements. For the purposes of the transition to IFRS the original error and its correction has been treated as an error made under a previous GAAP, has been adjusted in restating all periods including as at the date of transition and is shown separately in these transition disclosures. The adjustments as a result of this are:
1) Reinsurers' share of claims outstanding reduced by US$416,000 at 31 December 2012;
2) Reinsurance receivables reduced by US$231,000 at 31 December 2012;
3) Reinsurance payables increased by US$1,466,000 at 31 December 2012;
4) Retained earnings reduced by US$2,113,000 at 31 December 2012;
5) Insurance claims and loss adjustment expenses recovered from reinsurers were increased by US$2,033,000 for the year ended 31 December 2013; and
6) Total comprehensive income for the year, net of tax, was increased by US$2,033,000 for the year ended 31 December 2013.
There is no effect on the statement of financial position as at 31 December 2013.

Adjustment 1 – IAS 38 Intangible Assets

Under UK GAAP, computer software was capitalised and included in property, plant and equipment. Under IAS 38, software assets which are not an integral part of the related hardware must be treated as an intangible asset.

The company has reclassified the carrying value of software assets from property, plant and equipment to intangible assets at the date of transition, and made a corresponding adjustment in the statement of financial position at 31st December 2013.

Adjustments 2, 3 and 5 – IAS 27 Separate Financial Statements

Under UK GAAP, investments in group undertakings were included at current value. Under IAS 27, investments in group undertakings must be included at cost or in accordance with IFRS 9 *Financial Instruments*.

In accordance with the exemption from full retrospective application of IFRS provided in IFRS 1 *First-time adoption of International Financial Reporting Standards* the company has chosen to include investments in group undertakings at deemed cost, being the UK GAAP carrying value of the investments at the transition date.

Adjustment 2

Under UK GAAP, long-term loans to subsidiary company's where repayment was not expected in the foreseeable future were included in investments in group undertakings. Under IAS 27 as applied in conjunction with the exemption in IFRS 1, the deemed cost of the investments in group undertakings excludes the carrying value of those loans at the transition date.

The company has reclassified the carrying value of the long-term loans made to Sunderland Marine (Africa) Limited from investments in group undertakings to loans and receivables including insurance and reinsurance receivables at the date of transition (US$738,000), and made a corresponding adjustment in respect of long-term loans to Sunderland Marine (Africa) Limited and Harlock Murray Underwriting Limited in the statement of financial position at 31st December 2013 (US$800,000).

Adjustment 3

Under UK GAAP the revaluation reserve was used to recognise the revaluation of investments in group undertakings to current value. As investments in group undertakings are now carried at deemed cost on transition to IFRS, the company has reclassified this element of the revaluation reserve to the income and expenditure reserve in the statement of financial position at the date of transition (US$15,969,000), and made a corresponding adjustment in the statement of financial position at 31st December 2013 (US$2,976,000).

Revaluations of investments in group undertakings in the year ended 31 December 2013 under UK GAAP, being a downward revaluation of the investment in SM Insurance (Bermuda) Limited (US$13,766,000), and an upward revaluation of the investment in Knighthood Corporate Assurance Services plc (US$1,461,000), have been removed from other comprehensive income. The downwards revaluation of SM Insurance (Bermuda) Limited is recognised in the income and expenditure account (Other gains and losses) whereas the upwards revaluation of Knighthood Corporate Assurance Services plc is eliminated against investments in group undertakings.

In addition, the company has reclassified the impairment of the investments in Harlock Murray Underwriting Limited and Van Olst de Graaff & Co BV recognised under UK GAAP from expenses for marketing and administration to other gains and losses (US$2,170,000).

Adjustment 5

Under UK GAAP, revaluations to current value included exchange rate movements. As the investments in group undertakings are now held at (deemed) historic cost, they are no longer revalued as a result of exchange rate movements.

The company has removed exchange rate movements recognised under UK GAAP in the statement of total comprehensive income for the year ended 31st December 2013 and in the statement of financial position at 31st December 2013.

Adjustment 4 - IAS 19 Employee Benefits

Under UK GAAP, the interest charge on the defined benefit obligation and the expected return on plan assets were included in the income and expenditure account, and these amounts were presented within investment income. Under IAS 19, the expected return on plan assets are no longer calculated and the entry in the income and expenditure account is the interest charge on the net defined benefit obligation. The company has included the net interest charge within expenses for marketing and administration.

The company has reclassified movements in the net defined benefit obligation that do not relate to current and past service costs or the net interest amount calculated in accordance with IAS 19 from the income and expenditure account to remeasurement gains / (losses) on defined benefit plans in other comprehensive income.

Adjustment 6 – IFRS 1 First-time adoption of International Financial Reporting Standards

The company has taken advantage of the exemption from full retrospective application of IFRS provided in IFRS 1 to deem cumulative translation differences to be zero at the date of transition.

Amounts recognised in the translation reserve under UK GAAP prior to the date of transition to IFRS have been reclassified to the income and expenditure reserve in the statements of financial position at 1 January 2013 and 31 December 2013.