FitchRatings

Insurance

United Kingdom
Full Rating Report

Sunderland Marine Mutual Insurance Company Ltd

Rating

Insurer Financial Strength Rating	A-

Outlook

Insurer Financial Strength Rating	Stable

Financial Data

Sunderland Marine Mutual Insurance Company Ltd

(GBPm)	31 Dec 09	31 Dec 08
Total assets	126.2	129.8
Policyholder funds	44.0	41.3
Operating result	0.9	−1.5
Reported net income	4.3	−11.6

Analysts

Martyn Street
+44 20 7682 7208
martyn.street@fitchratings.com

Chris Waterman
+44 20 7417 6328
chris.waterman@fitchratings.com

Related Research

Applicable Criteria

- *Insurance Rating Methodology (August 2010)*
- *Non-Life Insurance Rating Methodology (March 2010)*

Other Research

- *UK Non-Life Outlook Revised to Stable : Credit Focus Remains on Profitable Underwriting (March 2010)*
- *UK Non-Life Insurance: Earnings Improvement Holds Key to Stability (November 2009)*

Rating Rationale

- The Insurer Financial Strength (IFS) Rating of Sunderland Marine Mutual Insurance Company Ltd (SMMI) was affirmed at 'A–' on 8 July 2010, whilst the rating Outlook was revised to Stable from Negative. The rating affirmation and Outlook revision reflect the stabilisation and marginal improvement in the capital position as assessed by Fitch and a relative recovery in the mutual's earnings, following the reporting of a sizeable net deficit in 2008.
- The rating action also conveys Fitch's expectation that SMMI will exhibit a reduced level of earnings and capital volatility and improving capital strength in the near and medium term. The agency considers the mutual's well-established franchise, high membership retention and experienced senior management team as other positive rating factors.
- Offsetting factors include the earnings pressure that continues to be felt by SMMI due to recessionary effects on members' (policyholders') businesses and their insurance requirements, as well as the competition faced by SMMI in a number of its geographical markets. At the same time, SMMI seeks to mitigate the earnings impact of reduced investment income following the de-risking of its investment portfolio during 2009.
- Fitch notes that SMMI's mutual status means that the generation of significant profits is not a main requirement for the company, with significant surpluses being returned to members through reduced premiums and improved no-claims discounts.
- UK-based SMMI reported a surplus of GBP4.3m in 2009 (2008: deficit of GBP11.6m), and the level of free reserves increased to GBP43.7m from GBP41.0m. The main driver of the result was a recovery in investment income, which stood at GBP5.8m (2008: loss of GBP10.4m). The technical result showed a slight deterioration to record a deficit of GBP0.7m (2008: deficit of GBP0.3m) which was below Fitch's forecast for the year.
- Although a challenging underwriting environment continued to be reflected in SMMI's 2009 technical results, the mutual was able to pass on rate increases in certain key markets through 2009, which should begin to be reflected in the 2010 results. Fitch recognises that a core part of SMMI's earnings strategy to rebuild its financial strength is centred on achieving technical profitability. The agency considers that continued poor technical performance would place downward pressure on the rating.

Key Rating Drivers

- A further deterioration in SMMI's free reserves remains the most likely reason for a rating downgrade.
- Another reported loss at end-2010 would likely place downward pressure on the rating, although Fitch does not expect one at this time.

Key Rating Issues

Capital Position Remains Weak

Fitch considers that a further deterioration in the level of SMMI's free reserve would be the most likely reason for a rating downgrade, although the agency does not expect a material decline in capitalisation in the near term. The significant de-risking of the investment portfolio, which followed a sizeable investment loss at end-2008, is expected to reduce the volatility of capital, something that Fitch views positively. This benefit is in part offset by the likelihood of reduced levels of investment income, which will lower the rate at which the free reserve will accrue.

Improved Technical Results Grow in Importance

Fitch believes that the prospect of reduced levels of investment income following the de-risking of the investment portfolio places greater importance on SMMI achieving better technical results. Whilst the operating environment remained challenging during 2009, the improved pricing that SMMI was able to achieve in key business lines is expected to be reflected in stronger technical results in 2010. The agency maintains a favourable view of SMMI's thorough underwriting process, which is supported by a high level of on-site visits and good knowledge of local markets.

Implementation of a Conservative Investment Strategy

Fitch views positively the action taken by SMMI's senior management team to implement a more conservative investment strategy in the wake of reporting a sizeable investment loss at the end of 2008. The revised strategy includes a reduced appetite for equity and hedge fund investments and an increased holding of corporate bonds. Fitch believes that SMMI is likely to increase risk within the investment portfolio as the mutual's capital base strengthens. However, assuming that Solvency II will introduce more punitive charges for riskier assets and as SMMI's level of investment sophistication increases, the agency believes that SMMI is unlikely to adopt the same level of risk seen within its investment portfolio prior to the credit crisis.

Strength of Reinsurance Programme

Reinsurance coverage remains strong, and the structure of SMMI's reinsurance programme remained largely stable throughout 2009, providing a good level of protection for the company as well as a favourable loss performance for participating reinsurers. SMMI continues to monitor its reinsurance programme to ensure that it represents good value for the company whilst providing a significant level of protection against the risks to which SMMI is exposed.

Management Team

Fitch maintains a favourable view of SMMI's management due to the depth of industry experience and its ability to successfully digest a number of value-adding acquisitions. The size of SMMI's board increased from 13 to 14 during 2009, and the cross-section of board members continued to widen to include those from finance and legal backgrounds. Fitch views these changes positively.

Peer Analysis

It is difficult to compare SMMI's results with those of the members of the International protection and indemnity (P&I) group, which contains 13 P&I clubs. The P&I group focuses on larger vessels (tankers, bulk carriers and cargo), whilst liability business represented only 21% of SMMI's business in 2009 (2008: 18%). SMMI mainly writes liability business on a package rather than a standalone basis, with the small size of vessels insured by the mutual helping to confine the size of losses.

Company Profile

In 1882, a group of ship owners founded the Total Loss Mutual Steamship Insurance Association to pool their marine risks. This organisation subsequently became known as Sunderland Marine Mutual Insurance Company Limited. Since its establishment, through organic growth as well as a series of mergers, SMMI has become a strong niche player in the marine insurance market, with business in more than 55 countries and gross written premiums (GWP) in 2009 of GBP76.8m (2008: GBP67.2m).

SMMI's marine business typically includes small to medium-sized fishing vessels, although for several years it has been diversifying into insurance of smaller non-fishing vessels such as service and pleasure craft. SMMI has a particularly strong franchise in the UK: at end-2009, it insured more than 50% of the full-time commercial fishing fleet. Non-fishing risks accounted for about 29% of total premium volume in the UK and Ireland (2008: 27%), 12% in North America, 21% in Europe, and 9% in Australia and New Zealand.

SMMI offers protection in three main classes of business:

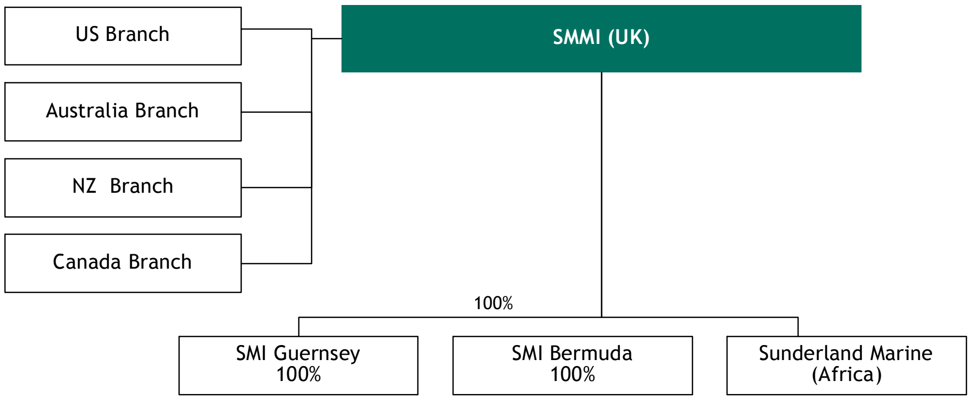
- marine — hull and machinery insurance (i.e. cover against damage to the ship);
- liability — P&I insurance (i.e. cover against legal claims made against the policyholder) and personal accident insurance (i.e. cover against injury while operating the vessel); and
- aquaculture — cover against the loss of fish stock through disease and against damage to machinery and infrastructure.

Ownership Structure

- SMMI is a mutually held organisation, owned by its policyholders and run for their benefit

SMMI is a mutually held organisation, owned by its policyholders and run for their benefit. The insurance business is written either by SMMI in the UK or by its branches in the US, Australia, New Zealand and Canada. SMMI also accepts risks through Sunderland Marine (Africa) in South Africa.

SMMI Group Structure



Source: SMMI internal documentation

In January 2008, SMMI completed the conversion of Verzekeringsmaatschappij Tegen Zeegevaar (VTZ) into a branch, resulting in cost savings of about GBP0.5m per year. SMMI continued to entrench and increase its Canadian premium income in 2009 through its Canadian underwriting joint venture, Harlock Murray Underwriting.

Until 30 June 2009, the day-to-day administration of the business was performed by Salvus Bain Management Ltd (Salvus Bain), a wholly owned subsidiary of SMMI. On 1 July 2009, Salvus Bain was merged with SMMI with no resulting changes to personnel or day-to-day operations.

- Historically, the benefits arising from good operating performance have been passed on to members through lower premiums and increased no-claims bonuses

Products

SMMI benefits significantly from the loyalty of its policyholders. In the UK, for example, it has retention rates of more than 95% in its marine membership. SMMI has fostered this loyalty by aiming to provide stability and continuity to members, while cushioning them from the worst effects of insurance market volatility. Historically, the benefits arising from good operating performance have been passed on to members through lower premiums and increased no-claims bonuses, resulting in a greater degree of premium stability than would be the case for non-mutual insurers.

A further area where SMMI aims to distinguish itself is in the insurance of risks relating to aquaculture, specifically through the active role that the company plays in assisting its aquaculture members with physical risk management. The group has built up a leading franchise, maintaining considerable expertise in this specialised area. All sites are surveyed on an annual basis by surveyors from Aquaculture Risk Management Ltd, a company wholly owned by SMMI. The survey is designed to reduce the loss ratio for SMMI, allowing it to offer more competitive premiums, but it also enhances the company's relationship with the client and encourages loyalty.

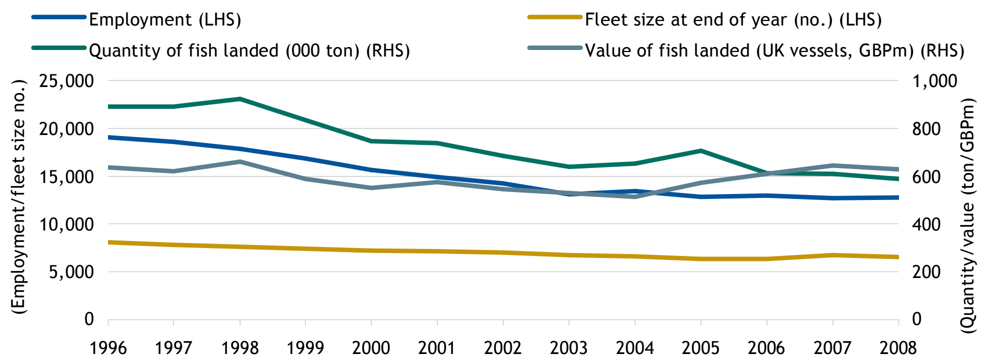
Geographical Analysis of Premiums: 2009

	Gross				
(GBP 000)	Marine	Liability	Aquaculture	Total	(%)
US	8,616	8,085	819	17,520	23
Canada/other	6,490	999	3,957	11,446	15
South America	7,816	919	1,263	9,998	13
UK	8,346	2,080	1,280	11,706	15
Europe	6,674	2,030	1,976	10,680	14
Australia	6,241	1,230	1,325	8,796	12
New Zealand	2,135	136	360	2,631	3
South Africa	1,286	27	55	1,368	2
Pacific	1,708	490	-	2,198	3
Total	**49,312**	**15,996**	**11,035**	**76,343**	
(%)	65	21	14		

Figures shown are based on management accounts and do not include personal accident premiums
Source: SMMI

The UK fishing industry has suffered well-publicised difficulties since the mid-1990s. The number of fishing vessels has declined by 19% since 1996, while the number of people employed in the industry has fallen by 33%; much of this decline has been driven by quota reductions, decommissioning schemes and improvements in technology. However, the overall consumption of fish continues to rise and is expected to increase further in the next few years.

UK Fishing Data



Source: Defra fishing statistics

SMMI has successfully reduced its exposure to these localised difficulties through geographical diversification. In 2009, the UK accounted for 15% of premiums compared with 33% in 2001. Although the UK fishing industry has begun to stabilise, the trends of recent years have demonstrated the importance of geographical diversification to SMMI, because in other regions — such as Australia and Canada — the fishing industry has fared much better than in Europe.

SMMI has a focused strategy for continental Europe that concentrates on the Netherlands, Ireland, Spain and the Mediterranean, where a critical mass of business has been generated. The company has decided not to service other areas.

Despite the challenges facing the fishing industry in the UK and Europe, Fitch believes that SMMI is well insulated against the effects of further declines. Diversification into other markets (eg, non-EU and aquaculture) means that the exposure of the group to localised difficulties is limited; this has particularly been the case following the reduction in exposure to the UK market since 2001.

Aquaculture

- In the coming decades, aquaculture is likely to be the greatest source of increased fish and shellfish production, providing a favourable long-term outlook for the industry

Aquaculture (fish farming) is a relatively new industry, having expanded rapidly over the past 15 to 20 years. Based on the latest available data this accounted for nearly 35% of total annual fish production in 2006 (2005: 34%). Fish farming provides an alternative source of fish to compensate for the long-term decline in the world's sea stocks. According to the Department for Environment Food and Rural Affairs (Defra), in the coming decades aquaculture is likely to be the greatest source of increased fish and shellfish production, providing a favourable long-term outlook for the industry.

SMMI's primary aquaculture customers are salmon, trout and tuna fish operations, which account for more than 75% of total aquaculture premium income. SMMI's interests in the aquaculture and fish-catching industries mean it has the potential to adapt its business mix according to the relative fortunes of the two industries. However, it would be heavily affected by a collapse in overall demand for fish products, which would hit both its marine and aquaculture businesses.

To a lesser degree, the company would also be affected by the relocation of these industries to areas where it has a weak franchise. Nevertheless, revenue from fish (calculated as a proportion of expenditure on food) has remained stable, and it is highly unlikely therefore that demand will collapse.

Where economically viable, SMMI is also actively diversifying its client base and insuring other watercraft, including working river boats and pleasure boats. Such vessels generate less volatility in results and are less costly in terms of claims costs.

Financial Analysis

SMMI publishes its accounts under UK GAAP and does not expect to change this in the foreseeable future.

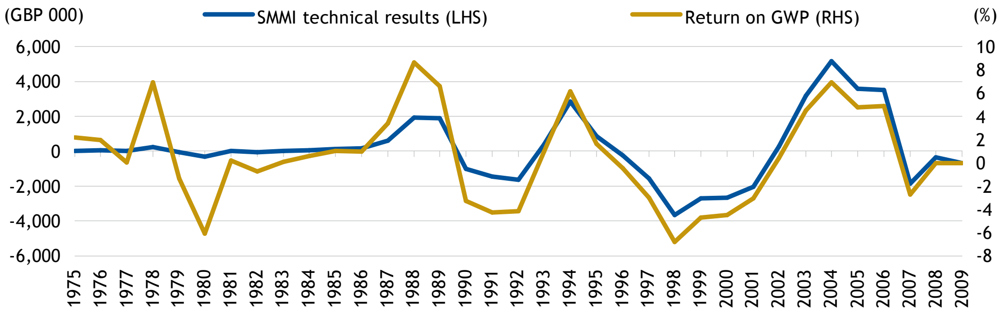
Operating Performance

SMMI continued to face a challenging operating environment in 2009 through a combination of recessionary effects on members' businesses and their insurance requirements, as well as from competition in a number of geographical markets. These factors are reflected in the slight deterioration in the technical result, whilst the recovery of investment markets resulted in an improved investment return.

Fitch expects the de-risking of the investment portfolio to reduce future earnings volatility, but also to place greater importance on SMMI achieving improved technical results. The mutual was able to pass on rate increases in certain key markets through 2009, which the agency expects to improve 2010 results.

GWP increased to GBP76.8m in 2009 (+14.3%, or 2.6% at a constant rate of exchange), whilst the technical loss widened slightly to GBP0.7m (2008: GBP0.3m). The recovery in investment markets resulted in a positive non-technical result of GBP5.8m (2008: loss of GBP10.4m), which produced a post-tax surplus of GBP4.3m (2008: loss of GBP11.6m). The SMMI reported combined ratio increased to 104.5% (+1.6%), although this deterioration was entirely down to increased expenses which were largely driven by foreign exchange movements (+2.6%), which more than offset a marginal decline in the loss ratio.

Underwriting Performance



Source: SMMI

- SMMI's mutual status means that profitability is not the primary objective of the business

SMMI's mutual status means that profitability is not the primary objective of the business. Rather, the company is managed to maintain its financial strength while offering policyholders the best possible premium rates. This focus tends to cause operating results to cycle within a fairly consistent range that also closely reflects that of the marine market as a whole.

Through the smoothing of premiums, the group aims to ensure that results swings are less pronounced than those of the market as a whole. Excess surplus is, and will continue to be, returned to policyholders in the form of increased no-claims bonuses. This has the added benefit of improving membership retention.

Marine

Marine insurance remains SMMI's key business, accounting for 85% of 2009 GWP (2008: 89%), including hull and machinery (75% of marine business) and P&I and personal accident (25%). Moderate premium increases of between 2% and 4% were achieved in a number of locations including the UK, the US and Australia, although tough competition in Canada resulted in a marked decrease of nearly 18%.

Whilst the marine insurance market remains competitive, SMMI's longstanding relationship with members has maintained the mutual's high retention rates, which remained well above 90% for all key markets apart from Canada, for which they stood at 82%. SMMI has taken steps to address the deterioration experienced by the business in this market, including the establishment of a local branch, and consequently Fitch expects results to improve.

The agency believes that SMMI's low exposure to commercial shipping, which has been hit hard by the global economic downturn, is likely to have protected the mutual's technical performance to a certain degree. The company continues to diversify its marine book through writing more non-fishing sector business, including pleasure and leisure craft.

Liability

The P&I business produced another poor result in 2009 and remains an area where SMMI can improve performance. A narrowing of the technical deficit to GBP0.3m (2008: GBP3.4m) was only achieved through increased positive development of prior-year reserves totalling GBP2.9m (2008: deficit of GBP0.09m), which offset increased net claims of GBP15.1m (2008: GBP13.9m). Fitch notes that SMMI rarely writes liability as a standalone product, and that this line of business has historically had a more volatile loss ratio.

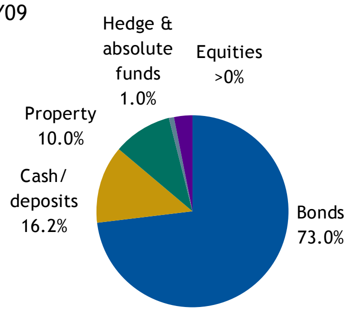
Aquaculture

Earnings diversity continues to come from the aquaculture business, which accounted for 15% of 2009 GWP (2008: 11%). GWP grew 35% at a constant rate of exchange. The general increase masks a large movement in core business, which involved SMMI largely exiting higher-risk markets including Chile, where a near-collapse of the salmon industry was caused by a sudden and rapid increase in the spread of disease and consequential loss of stock. SMMI's timely decision to exit the Chilean market was driven by its concerns regarding the near-term viability of the industry and illustrates the detailed local knowledge that the mutual has developed through operating in a spectrum of markets.

Investments

Investment Mix

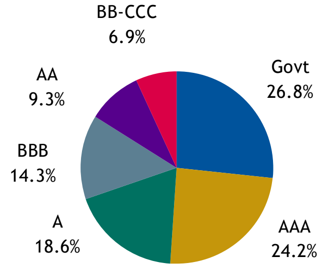
FY09



Source: SMMI

Bond Quality

FY09



Source: SMMI

The most notable change in future asset allocation is a reduced appetite for equities, with corporate bonds being more favoured

SMMI now maintains a relatively conservative investment strategy, and asset quality is considered to be very good. In the wake of a sizeable investment loss reported at the end of 2008, SMMI undertook a complete review of its investment strategy, which has ultimately prompted changes in a number of areas, including risk evaluation and asset allocation. The most notable change in asset allocation has been a reduced appetite for equities and a complete withdrawal from direct equities. Fitch views this action positively and expects future levels of investment income to exhibit a reduced level of volatility.

Invested assets decreased marginally to GBP95.3m at end-2009 (−1.8%) and generated investment income of GBP5.8m or 6% (2008: loss of GBP10.4m or −10.7%). The majority of investments are held in corporate (55%) and government bonds (17%), with cash and deposits (13%) and property (9%) being the other notable classes. Higher-risk assets including multi-asset funds (3%) and hedge funds (1%), and a residual amount of equities account for the remainder of the portfolio. The quality of the investment portfolio is considered to be very good, and SMMI has no government bond exposure to Greece, Spain, Portugal, Italy or Ireland.

The revised investment strategy has seen a retrenchment to a largely short-duration (two years, with maximum permitted of three years), bond-only investment mandate, and the investment risk budget has been reduced since 2008.

Fitch expects that as SMMI's capital base continues to strengthen, further risk will be added to the investment portfolio. However, given the more conservative requirements that are expected to come into force under Solvency II, and as SMMI's level of sophistication increases, the agency believes that it is unlikely that SMMI will adopt the same level of investment risk seen prior to the credit crisis.

SMMI's ability to make additional calls on members if premiums are insufficient to cover claims and costs is considered to offer an increased level of financial flexibility

Liquidity

SMMI maintains a good liquidity position. Cash at bank and in hand decreased to GBP17.8m at end-2009 (2008: GBP23.1m), mainly due to the repayment of a GBP6.3m commercial mortgage during the year.

SMMI's ability to make additional calls on members if premiums are insufficient to cover claims and costs is considered to offer an increased level of financial flexibility. SMMI last made a call on its members during the 1950s to help fund an acquisition. In recent years, SMMI has looked to close the policy year at its March meeting, to recognise the unlikely event of a call. The policy year is closed after SMMI's directors have given due consideration to the financial condition of the mutual.

For 2009, in order to maintain greater financial flexibility, the board has reverted to a policy of leaving policy years open until such time as closure is deemed appropriate. This change in approach is not driven by the underwriting performance of the 2009 financial year, which Fitch considered to be disappointing.

Whilst Fitch notes the positive benefit of additional funds that could be raised through a membership call, the agency, together with SMMI, recognises the likely damage that would be caused to the mutual's franchise, meaning that such an action would be seen as a last resort.

Further, Fitch considers that a call on members is likely to be driven by economic factors that would mean members ability to pay would probably also be under pressure. Therefore, the benefit to financial flexibility afforded by this structure is somewhat limited.

Reinsurance Protection and Credit Quality

Reinsurance coverage remains strong, and the structure of SMMI's reinsurance programme saw a couple of changes in 2009 to ensure that it continued to provide a good level of protection for the insurer, as well as favourable loss performance for participating reinsurers.

SMMI's retention remained largely unchanged at a minimum of GBP250,000 and a maximum of GBP1m per claim (aquaculture reduced again from GBP750,000 to GBP500,000). The Hull and Liability cross-class policy was changed to a 25% quota share (previously whole account cross-class included Aquaculture), and a further reinsurer was added to provide 25% of the programme (previously wholly placed with one provider).

Changes to the aquaculture reinsurance programme during 2008 included an overall limit reduction to GBP8.5m (2008: GBP12.75m) as the quota share was increased from 70% to 80%.

The reinsurance programme places business with a diverse range of reinsurers meeting a minimum rating requirement of 'A−'.

SMMI continues to monitor its reinsurance programme to ensure that it represents good value for the company whilst providing a significant level of protection against the risks to which SMMI is exposed.

Reserve Adequacy and Development

Fitch believes that SMMI continues to reserve in a prudent way, holding a meaningful surplus above actuarial best estimate. The agency notes that the level of surplus decreased between 2008 and 2009, although the overall prior-year release for 2009 increased by a corresponding amount from the prior year, suggesting no material adverse development.

A more granular analysis by major line indicates that the majority of back-year releases flowed from the main Direct Hull and P&I classes, with the latter having reported a deficit in 2008. Fitch will continue to monitor deficits for Non-direct Hull and Personal Accident and early aquaculture years, but the agency does not believe these to be material.

Capitalisation

The material weakening of SMMI's capital base in 2008, following the sizeable investment loss, was the key driver behind the Outlook revision in 2009, and a further deterioration in SMMI's free reserve is still considered to be the most likely reason for a rating downgrade. Positively, the recovery in SMMI's earnings in 2009 has led to the growth of free reserve, which has helped to restore SMMI's capital to a level that is supportive of the rating once again, based on the Fitch capital assessment. The de-risking of the investment portfolio during 2009 is also viewed positively and should help to reduce capital volatility.

SMMI's free reserve increased by 6.6% to GBP44.0m at end-2009 (end-2008: GBP41.2m), while the solvency margin (policyholder funds as a percentage of net earned premiums) declined to 72% (end-2008: 73.9%). SMMI's coverage of the required minimum margin remained strong in 2009, increasing to 2.35x (2008: 2.29x), and coverage of the FSA's enhanced capital requirement was also improved.

Coverage of Fitch's target capital requirement improved in 2009 and is adequate for the current rating level. Drivers include the growth in free reserve and reduced risk charge for equities, which together more than offset a reduction in the actuarial reserve surplus. The exiting of equities also results in an improved performance on the Fitch stress test. Fitch expects SMMI's capital to continue to strengthen in 2010 to a level that would provide support to the current rating.

The pension scheme deficit widened to GBP1.3m at end-2009 (end-2008: GBP765,000), with the increase arising from an increase in the value of benefit obligations, which was a result of a decreased discount rate used to calculate the obligation rate due to the narrowing of bond credit spreads. The final salary pension scheme was closed to new entrants in June 2008, and Fitch expects the pension scheme deficit to gradually reduce through additional company contributions over the next few years.

Financial Leverage and Balance Sheet Quality

Total financing and commitments (TFC) and financial leverage remained at low and modest levels, respectively, at end-2009. Financial leverage remained unchanged at 13% at end-2009, with a very marginal increase in financial debt being offset by the increase in free reserves. The TFC ratio stood at the modest level of 14% at end-2009 (end-2008: 15%).

Sunderland Marine Mutual Insurance Company — Balance Sheet

(GBP 000)	2009	2008	2007	2006	2005
Assets					
Investments					
Real estate	8,791	8,146	7,756	7,532	7,492
Shares	3,842	20,598	29,859	25,158	16,688
Affiliates	776	705	390	340	1,072
Bonds	63,687	43,647	45,683	44,707	46,095
Cash & bank deposits	17,774	23,139	14,082	17,821	20,608
Other invested assets	402	758	0	0	0
Total investments	**95,272**	**96,993**	**97,770**	**95,558**	**91,955**
Insurance receivables	17,647	18,789	17,338	16,454	19,129
Reinsurance receivables	2,334	4,177	4,331	2,610	3,874
Other receivables	2,369	2,415	1,695	1,560	81
Goodwill	6,759	5,533	4,612	4,392	466
Accruals	1,168	1,186	1,193	732	744
Other assets	611	705	701	688	2,737
Total assets	**126,160**	**129,798**	**127,640**	**121,994**	**118,520**
Liabilities					
Technical reserves					
Net unearned premium reserve	25,997	25,708	22,791	22,106	25,117
Less deferred acquisition costs	-4,514	-5,013	-4,495	-4,062	-4,698
Net outstanding claims reserve	43,306	49,484	41,125	39,368	43,156
Total technical reserves	**64,789**	**70,179**	**59,421**	**57,412**	**63,575**
Insurance payables	1,915	2,005	1,452	1,558	5,840
Reinsurance payables	2,786	2,808	3,612	2,373	2,623
Provisions for other risks & charges	0	0	28	49	122
Short-term debt	6,365	6,300	3,525	4,700	0
Other creditors	2,623	3,634	2,928	2,427	2,014
Accruals	2,107	1,513	1,867	1,542	393
Pension liability	1,606	2,108	1,601	1,642	0
Total liabilities	**82,191**	**88,547**	**74,434**	**71,703**	**74,567**
Capital and reserves					
Revaluation reserve	335	313	145	0	0
Reserve fund	26,007	26,007	26,007	25,070	25,070
Profit and loss account	17,322	14,657	26,857	24,895	18,883
Minority interests	305	274	197	326	0
Total policyholder funds	**43,969**	**41,251**	**53,206**	**50,291**	**43,953**

Source: Company Directors' Report and Financial Statements

Sunderland Marine Mutual Insurance Company — Profit & Loss Account

(GBP 000)	2009	2008	2007	2006	2005
Non-life technical account					
Gross written premiums	76,786	67,239	67,884	70,400	75,699
Net written premiums	60,248	54,967	52,252	55,125	59,543
Net premiums earned	**60,750**	**55,449**	**51,830**	**56,370**	**58,712**
Net claims incurred	**-41,028**	**-38,050**	**-35,285**	**-32,762**	**-36,730**
Total underwriting expenses	**-20,399**	**-17,742**	**-18,398**	**-20,110**	**-18,263**
Underwriting result	-677	-343	-1,853	3,498	3,719
Non-technical account					
Net investment income	**1,547**	**-1,201**	**4,258**	**4,120**	**2,675**
Operating result	**870**	**-1,544**	**2,405**	**7,618**	**6,394**
Share of associated undertaking				333	760
Pre-tax income before realised gains	**870**	**-1,544**	**2,405**	**7,951**	**7,154**
Realised capital gains/(losses)				0	-245
Pre-tax income	**870**	**-1,544**	**2,405**	**7,951**	**6,909**
Tax	-635	-763	-1,389	-725	-889
Net income	**235**	**-2,307**	**1,016**	**7,226**	**6,020**
Minority interests	-103	-104	-127	-60	
Unrealised capital gains/(losses)	4,214	-9,164	1,970	-202	3,083
Reported net income	**4,346**	**-11,575**	**2,859**	**6,964**	**9,103**

Source: Company Directors' Report and Financial Statements

Selected Statistics

	2009	2008	2007	2006	2005
Total gross written premiums	76,786	67,239	67,884	70,400	75,699
Annual change (%)	14.2	-1.0	-3.6	-7.0	2.4
Total net written premiums	60,248	54,967	52,252	55,125	59,543
Annual change (%)	9.6	5.2	-5.2	-7.4	3.8
Return on revenue (ex. gains) (%)	1.4	-2.9	4.3	12.9	10.1
Return on assets (incl. gains) (%)	0.2	-1.8	0.8	6.0	5.1
Return on policyholder funds (incl. gains) (%)	0.5	-5.6	1.9	14.4	13.7
Incurred loss ratio (%)	67.5	68.6	68.1	58.1	62.6
Expense ratio (%)	21.1	17.6	21.4	19.9	15.4
Net commission ratio (%)	12.5	14.4	14.1	15.6	15.7
Combined ratio (%)	101.1	100.6	103.6	93.6	93.7
Portfolio performance					
Net investment income	1,547	-1,201	4,258	4,120	2,675
Total yield (incl. unrealised gains) (%)	6	-10.7	6.4	4.2	6.9
Portfolio composition (%)					
Real estate	9.2	8.4	7.9	7.9	8.1
Shares (includes hedge/absolute fund investments)	4	21.2	30.5	25.8	18.1
Affiliates	0.8	0.7	0.4	0.0	1.2
Bonds	66.8	45	46.7	46.8	50.1
Cash and bank deposits	18.7	23.9	14.4	18.6	22.4
Change in policyholder funds (%)	6.6	-22.5	5.8	14.4	24.4
Solvency ratio (surplus/NEP) (%)	72.4	73.9	102.3	88.6	74.7
Non-life technical reserves/non-life NWP (%)	107.5	127.7	113.7	104.1	106.8
Non-life claims reserves/non-life NWP (%)	71.9	90.0	78.7	71.4	72.5
Technical reserves/policyholder funds (%)	147.4	170.1	111.7	114.2	144.6
Invested assets/(policyholder funds + technical reserves) (%)	87.6	87.0	86.8	88.7	85.5
Debt/capital (%)	14.5	13.2	6.2	8.5	0.0

Source: Fitch